



PILKINGTON

DIRECTORS' REPORT AND ACCOUNTS

1998

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The directors of Pilkington plc present their annual report and the audited financial statements for the year ended 31st March 1998.

The Group profit and loss account for the year is set out on page 16 and in the accompanying notes.

Principal activities

The principal activities and operations of the Group are described on pages 5 to 14 of the Annual Review and Summary Financial Statement. The principal subsidiary undertakings are listed on page 46 and the principal joint ventures and associates in notes 17 and 18 respectively of the notes to the financial statements. 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. Details of significant acquisitions and disposals are given in the Financial Review.

Results and dividends

Profit on ordinary activities before taxation and exceptional items was £125 million (1997 £132 million). The loss on ordinary activities before taxation but after exceptional items was £100 million (1997 profit £77 million). The loss attributable to shareholders of Pilkington plc was £181 million (1997 profit £2 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 13th February 1998, makes a total dividend for the year of 5.0p per ordinary share (1997 – 5.0p). Payment of the recommended final dividend, if approved at the Annual General Meeting, will be made on 14th August 1998 to shareholders registered on 10th July 1998. As with the interim dividend, the final dividend will be paid as a Foreign Income Dividend (FID). A scrip dividend alternative cannot be offered to shareholders on this occasion.

Share capital

At 31st March 1998 there were 1,042 million ordinary shares of 50p each in issue (1997 – 1,036 million shares).

Options were granted in the year to employees and directors under the company's share option schemes in respect of 16.4 million shares (1997 – 8.3 million shares).

On 4th May 1998 on the exercise of the warrants, a further 47 million ordinary shares of 50p were issued. The remaining 6 million warrants lapsed. Further details

of changes in the share capital are shown in note 31 to the financial statements.

Substantial shareholdings

At 2nd June 1998, 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 |
|--------------------------|--------------------------------|------------------------------|
| Schroder Investment | | |
| Management Limited | 154.6 | 14.2 |
| Franklin Resources, Inc. | 132.5 | 12.1 |
| Mercury Asset | | |
| Management Limited | 104.0 | 9.5 |

Research and development

Research and development expenditure for the Pilkington Group amounted to £43 million for the year to 31st March 1998 (1997 £51 million). Just under half of this expenditure was in the United Kingdom, primarily at the Pilkington Technology Centre at Lathom, Lancashire, and the remainder was at the Group's R&D facilities at sites in the USA and Europe.

Employment policy and practice

At 31st March 1998 there were 35,400 people working for the Group worldwide. Of these, 17% were employed in the United Kingdom, 46% in the rest of Europe, 20% in North America and 17% 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 Focus*, which communicates the Group's interim and final results and exchanges news on Group businesses.

A European Forum is well established, at which senior management and employee representatives from the Group's European operations meet annually to exchange information and views on the business.

Equal opportunities

Pilkington is committed to a policy of equal opportunities in all its companies and to meeting 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 communicated to all Group companies. The Group has its own training activity in the United Kingdom, which services core management development programmes. Group companies also have their own training programmes for their employees. During the year more operations within the United Kingdom have achieved the Investors in People award. Most United Kingdom businesses have now achieved 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 United Kingdom amounting to £177,000 (1997 £223,000). Donations to charitable organisations overseas amounted to £421,000 (1997 £450,000). 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 32 days of average daily purchases.

Directors

The directors of the company are shown on pages 20 and 21 of the Annual Review and Summary Financial Statement.

Mr John D Macomber is to retire as a director following the Annual General Meeting.

Mr Warren D Knowlton was appointed as an executive director on 28th October 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, Sir Nigel Rudd and Sir Michael Quinlan 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 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 to the financial statements.

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 23rd July 1998 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.

Coopers & Lybrand have informed the directors of their intention to merge their practice with that of Price Waterhouse. Assuming the merger is completed, the directors intend to make the necessary arrangements subsequently to appoint the new firm of PricewaterhouseCoopers.

By order of the Board,

John McKenna
Secretary

4th June 1998

The company complies with the Code of Best Practice incorporated in the Report of the Cadbury Committee on the Financial Aspects of Corporate Governance.

The Code of Best Practice provides for statements of directors' and auditors' responsibilities in respect of the preparation of financial statements. These are to be found on page 12.

The auditors' report concerning the company's compliance with those aspects of the Code specified by the London Stock Exchange for their review, appears on page 6.

The Board of Directors

The Board of Directors, consisting of the chairman, the chief executive, three executive and four experienced independent non-executive directors, meets regularly throughout the year. The board directs and controls the Group and is responsible for strategy and operating performance and, to enable it to discharge its duties all directors have full access to all information. All directors have access to the company secretary, and any director who, in furtherance of his duties, wishes to take external advice may do so at the expense of the company.

Internal control

Pilkington is committed to conducting its business with competence, integrity and to a high ethical standard. All employees are expected to operate within a laid down Code of Conduct (a copy of which may be obtained from the company secretary).

The directors are responsible for the Group's system of internal control which includes internal financial control and also compliance with relevant laws and regulations. The board has put in place an organisational structure, which includes committees of the board, with clearly defined lines of responsibility and delegation of authority. The roles of the committees are explained below.

There are established procedures for planning, capital expenditure control and treasury management and information reporting systems for monitoring the Group's businesses and their performance.

A number of key areas are subject to regular reporting to the board and board committees, including treasury operations and environmental, health and safety and legal matters. This is in addition to the regular reports from the Group's individual businesses which highlight areas of particular business risk or opportunity.

The directors have delegated to executive management the operation of the system of financial control throughout the Group which enables the board to meet its responsibilities for the integrity and accuracy of the accounting records. Such a system can only provide a reasonable and not absolute assurance against material mis-statement or loss.

The internal financial control system is monitored and supported by an internal audit function which reports to management and to the Audit Committee on the Group's operations. The external auditors also review and test the system of internal financial control and the data contained in the report and financial statements to the extent necessary for expressing their audit opinions.

The board continues to review the effectiveness of the internal financial controls operating throughout the Group.

Board and Executive Committees

Certain matters are delegated by the board to committees:

Management Committee

The committee consists of the executive directors and certain senior managers under the chairmanship of Paolo Scaroni. The Management Committee formulates policy and strategy for the board's approval. The committee is responsible for the development of annual budgets and operating plans linked to the management and control of the day to day operations of the Group including the monitoring of performance against those budgets and plans. It approves capital expenditure up to pre-determined limits set by the board. The committee is also responsible for monitoring key research and development programmes and the operation of licences to or from the Group. It is responsible for ensuring that board policies are carried out on a Group-wide basis.

Audit Committee

The Audit Committee consists of all the non-executive directors under the chairmanship of Sir Michael Quinlan. The committee has responsibility for reviewing the Group's internal financial control systems, the accounting policies and the nature and scope of the internal and external audits. The chief executive, finance director and chief internal auditor, together with the external auditors, attend and report as appropriate.

Remuneration Committee

The Remuneration Committee consists of all the non-executive directors under the chairmanship of Lord Simpson. It is responsible for determining the company's overall policy for executive remuneration and, in particular, for approving the terms and conditions of employment of the executive directors. It determines appropriate performance conditions for bonus and executive share option schemes and approves awards and the issue of options in accordance with the terms of those schemes.

The report of the Remuneration Committee is set out on pages 7 and 8.

Senior Executive Development Committee

This committee consists of the executive directors, together with the group director of human resources, under the chairmanship of Paolo Scaroni. The committee formulates and reviews senior management succession plans and is responsible for the overall direction of the development of the Group's management resources.

Nomination Committee

The Nomination Committee comprises the chairman, Sir Nigel Rudd, and up to five other directors. The committee is responsible for nominating candidates for the board as executive and non-executive directors.

Report by the auditors to Pilkington plc on corporate governance matters

In addition to our audit of the financial statements, we have reviewed the directors' statements on pages 5 and 6 concerning the company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v).

Basis of opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control or its corporate governance procedures nor on the ability of the Group or company to continue in operational existence.

Opinion

With respect to the directors' statements on internal financial control on page 5, and going concern on page 11, in our opinion the directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the company, and examination of relevant documents, in our opinion the directors' statement on page 5 appropriately reflects the company's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43(j).

Coopers & Lybrand
Chartered Accountants
London
4th June 1998

The responsibilities of the Remuneration Committee, which consists of all the non-executive directors under the chairmanship of Lord Simpson, are summarised on page 6. 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 on a worldwide basis.

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 normally tailored to the competitive requirements of their 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 United Kingdom, 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

The normal remuneration arrangements for executive directors and senior executives consist of basic salary, benefits including company car, medical insurance and pension entitlement, performance related bonuses and longer term incentive programmes. However, the international composition of the board means that the arrangement for some directors is non-standard. Paolo

Scaroni does not receive a car or pension entitlement, nor does he participate in the annual performance related bonus plan.

Roger Leverton, who resigned as a director on 20th May 1997, was paid compensation in accordance with his contract of service.

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

Bonuses and longer term incentive programmes

In addition to basic salary, executive directors (except Paolo Scaroni) and 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 to executive directors for 1998 were capped at a maximum of 50% of basic salary. No bonuses were paid to directors for 1998 (1997 nil).

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 United Kingdom 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 United Kingdom employees and an executive scheme in the United Kingdom and overseas.

The Remuneration Committee, which administers the executive scheme, 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 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.

Upon his appointment as group chief executive, Paolo Scaroni was granted a series of options in respect of 3,550,000 shares, of which 1,307,692 will be satisfied by new issue shares and 2,242,308 by shares purchased in the market by an employee share trust. The options are exercisable in stages between three and six years after grant and subject to the achievement of share price and earnings per share growth targets of 15% per annum.

Under the deferred bonus plan the company's most senior executives worldwide can 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 years' 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.

Paolo Scaroni is responsible for his own pension arrangements.

Andrew Robb's pension arrangements are affected by the Inland Revenue earnings cap on approved pension benefits. His pension arrangements entitle him to a

pension on retirement of two thirds of pensionable salary. It is partly funded through a personal pension plan and the balance is unfunded but fully provided in the financial statements.

Glen Nightingale is a member of the Pilkington Executive Pension Scheme which entitles him to a pension on retirement of two thirds of pensionable salary. The company pays an annual contribution to the pension scheme of 30% of salary.

Warren Knowlton is a member of the United States based Libbey-Owens-Ford pension schemes which are effectively money purchase arrangements. The company pays an annual contribution to these schemes of 30% of salary, net of tax.

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.

Accounting policies

The new United Kingdom standard, FRS 9, on accounting for associates and joint ventures, has been adopted in the financial statements.

As a result, the profit and loss account now includes Pilkington's proportionate share of turnover, and the results of associates and joint ventures have been included on each line of the profit and loss account. Both the profit and loss account and the balance sheet presentations have been restated to comply with the new standard. Additional disclosures, as required under FRS 9, are made in notes 17 and 18.

Acquisitions and divestments

Additional shares in both Pilkington Sandoglass Sp.z o.o. (Poland) and Changchun Pilkington Safety Glass Co Limited (China) were acquired during the year, converting these former associates into subsidiaries. A technical mirror business based in Birmingham was acquired from the Kenmore Group, and an additional holding was acquired in Santa Lucia Cristal S.A.C.I.F., in Argentina, taking the latter to 100% ownership. The automotive glass replacement businesses in Canada and New Zealand were sold. The net effect of these changes increased turnover for the year by £16 million and increased operating profit by £3 million.

In addition, the Group has made a profit of £20 million from realising its holding of the 'B' class ordinary shares in the joint venture Pilkington Optronics Limited.

Year 2000 compliance

The company has implemented a worldwide programme to manage the risk that computer systems and equipment with embedded microprocessors are Year 2000 compliant. This is to mitigate the risk of computers or equipment malfunctioning at the millennium change.

The Group programme identifies three categories of risk: computer systems supported in-house, systems and equipment not supported in-house, including equipment with embedded microprocessors used in manufacturing process control, and the risk to Pilkington's business of problems encountered by suppliers.

All hardware and software suppliers have been asked to confirm compliance with Year 2000 requirements and to sign appropriate warranties.

Group companies have completed an analysis of their business process and supporting systems to determine the scale of the Year 2000 problems and risks. They have prepared and are now implementing

plans to ensure that there is no disruption to the business. Progress in implementing plans is monitored by Group information systems department and by Group internal audit against identified project milestones.

The resources required to achieve Year 2000 compliance will be provided from normal revenue budgets, if necessary by reallocation of budgeted expenditures.

Since resolving the Year 2000 problem will be partly achieved from planned upgrades or new systems, the total cost of remediation cannot be defined precisely. Excluding new systems developments, it is estimated that approximately £10 million will be spent on conversion of existing systems.

Economic and monetary union in Europe

Pilkington businesses are preparing for the advent of a single currency in Europe in 1999. Around 32% of the Group's turnover is currently denominated in national currencies which are committed to convert to the euro in 2002. Surveys of the requirements of major customers have been undertaken and both internal business and functional working party groups have been developing and directing Pilkington's policies for the introduction of the euro.

Where necessary, business information systems are being upgraded and staff trained to handle euro-denominated transactions, including dual currency transactions in the transition period from 1st January 1999 to 1st January 2002, the latest date for the introduction of euro notes and coins.

The Group's European businesses will adopt the euro as their reporting currency from financial year 2000, although local operating companies will phase in the euro as their functional currency, depending on the speed of transition to the euro in their local economy.

In the short term, the Group does not expect the costs or benefits from the introduction of the euro to have a material effect on trading performance.

Group profit and loss account

Turnover from continuing operations at £2,701 million showed an increase of 2% on the previous year, at constant exchange rates. Sales volumes were 5% up on 1997, though lower selling prices dampened the effect on sales value. Building products accounted for 49% of turnover, automotive products for 44%, and technical products for 7%.

Operating profits from continuing operations before exceptional items of £135 million were 11% down on the

previous year. Flat and safety glass profits in Europe of £78 million were 28% up on 1997, due to sales volume growth and cost savings arising from the substantial restructuring programmes in automotive and building products.

In North America, profits of £35 million were nearly half the previous year's, due to production problems with plant relocations and new product introductions in original equipment automotive products, and due to a change in the mix of customers served in the automotive glass replacement business.

Profits of £44 million in the rest of the world were the same as last year. Strong growth and cost saving measures in Brazil and Argentina offset the impact of increasing competition on profits, though Australia was affected by low priced imports from South East Asia.

Joint ventures and associates

Joint ventures and associates contributed £290 million to turnover and £56 million to operating profits.

The 35% shareholding in Vitro Plan SA de CV, previously accounted for as a trade investment, is now treated as an associate. This recognises the role which Vitro Plan is playing in servicing Pilkington's global automotive glass contracts which require Mexican sourcing.

Exceptional items

An exceptional charge of £225 million, net of profits on disposals of assets and businesses, has been taken partly to cover exceptional contract losses, but, primarily to reduce costs and to improve productivity in manufacturing plants and to cover the rationalisation of the building products downstream glass processing and distribution businesses in the United Kingdom, Germany and Australia. This includes plant closures, the write down of redundant assets and redundancy costs and provision for such costs in Germany. The charge also covers a worldwide programme to reduce the fixed cost base substantially; as a consequence over 7,000 job reductions will take place over the two years to 31st March 1999. Due to the scale of the restructuring, all redundancy costs, totalling £110 million in 1998, have been treated as part of the exceptional charge. In the previous year, redundancy costs, which totalled £13 million, were charged to operating profit, and it is anticipated that the Group will revert to this practice in future.

Investment income and interest

Interest payable less receivable, net of investment income of £3 million, was £66 million, which was very similar to the net charge in the previous year, adjusted for the changed treatment of Vitro Plan. Net interest costs were covered three times by profit before interest and exceptional items.

Profit before taxation

Profit before taxation and all exceptional items of £125 million represented a 5% reduction on the reported result for 1997. The loss before taxation after exceptional items was £100 million (1997 profit £77 million). The tax charge for 1998 of £56 million on profits before exceptional items (1997 £47 million), represented an effective tax rate of 45% (1997 – 36%).

Earnings and dividends

Profit attributable to minorities, before exceptional items, of £22 million fell 10% from last year, due to lower profits in North America.

Earnings per share attributable to shareholders before exceptional items fell from 5.8p in 1997 to 4.5p, based on the average number of shares in issue of 1,038 million.

The directors have proposed a final dividend of 3.25p per share, making 5.0p for the year, unchanged from last year. The final dividend will, like the interim, be paid in FID form. Dividends are covered nearly once by earnings before exceptional items.

Cash flow and investments

Operating profit and depreciation generated £283 million, £14 million less than in 1997. Although sales volume grew by 5%, the investment in working capital increased by only £6 million, as compared to an inflow of £34 million in 1997. Exceptional restructuring cost £100 million of cash (1997 £35 million).

Cash flow from operations totalled £184 million, a reduction of £104 million from 1997. Details are shown in note 34 to the financial statements. Dividends received from joint ventures and associates of £17 million compared with £13 million received last year.

Returns on investments and servicing of finance cost £84 million (1997 £38 million), the change being largely due to a reduction in dividends from investments, and to timing differences in payments to minority shareholders in connection with the purchase of the German

preference shares. Taxation paid of £42 million was slightly less than last year.

Purchase of tangible fixed assets totalled £201 million (1997 £170 million). After taking account of assets acquired under finance leases, capital expenditure totalled £206 million (1997 £186 million). This includes £40 million expenditure on cold repairs of float glass plants at Weiherhammer in Bavaria, and at Rossford in Ohio. More than £50 million of expenditure was directed to the restructuring and expansion of the European automotive business.

Acquisitions in Poland, China, South America and the United Kingdom cost £27 million, compared with £10 million last year. Proceeds from divestments of businesses and asset disposals totalled £98 million (1997 £101 million).

Net cash outflow before financing and dividends was £55 million, which compared to an inflow of £140 million last year.

Funding

During the year, the Group bought in the preference shares in Pilkington Deutschland for £109 million out of the proceeds of a new preference share issue of £191 million issued by a finance subsidiary. Other borrowing facilities were also extended, both in amount and maturity. Following the year end, 47 million of the outstanding warrants, giving shareholders the right to acquire ordinary shares at 116p per share, were exercised, raising £54 million in new equity. The remaining 6 million warrants expired on 4th May 1998.

Borrowings and shareholders' funds

Borrowings, net of cash and marketable investments, were £559 million at 31st March 1998, an increase of £35 million. The strength of sterling reduced net debt by £38 million at 31st March 1998. The net debt/total equity ratio was 62%, up from 47% a year earlier.

Shareholders' funds at 31st March 1998, including minority interests, were £906 million. The reconciliation of the movement in shareholders' funds set out on page 17 of the financial statements shows a net reduction of £278 million, of which £235 million was in respect of retained losses, including the net exceptional charge of £228 million, and the balance was due to the strengthening of sterling during the year of £68 million, net goodwill written off of £13 million, offset by other credits of £38 million.

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 United Kingdom, 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 1998, 65% of gross borrowings were at fixed rates (1997 – 54%).

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 1998 the Group had placed contracts, not provided for in the financial statements, for plant and equipment totalling £42 million, compared with £37 million at 31st March 1997.

Financial resources

At 31st March 1998 the Group had available but undrawn committed borrowing facilities totalling approximately £373 million with maturity in excess of one year.

After making enquiries, the directors have a reasonable expectation that the Group and the 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 6 on the extent of compliance with the Cadbury Code of Best Practice as it relates to going concern.

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 13 to 46.

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 1998 and of the loss, 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
4th June 1998

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 Group has adopted FRS 9 on associates and joint ventures. As a result of the adoption of FRS 9, the Group's profit and loss account and balance sheet for 1997 have been restated to incorporate the extra disclosures required under the new standard (see 13 below).

In addition, the segmental analysis has been restated, as described in note 1 to the financial statements.

A summary of the major Group accounting policies which have been consistently applied, apart from the changes 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 undertakings, joint

ventures and associates, are translated into sterling at year end exchange rates. The results and cash flows of overseas subsidiary undertakings, joint ventures and associates 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:

| | 1998 | | 1997 | |
|---------------|-------------|-------------|---------|----------|
| | Average | Year end | Average | Year end |
| German DM | 2.91 | 3.10 | 2.46 | 2.73 |
| US \$ | 1.64 | 1.67 | 1.59 | 1.63 |
| Australian \$ | 2.30 | 2.53 | 2.01 | 2.08 |

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.

For high inflation countries, the translation from local currencies to sterling makes allowance for the impact of inflation on the local currency results in accordance with UITF 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. Group turnover includes sales by the Group to joint ventures and associates, but excludes sales by joint ventures and associates.

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

(the cost of which is charged against their operating profit), joint ventures and associates.

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 non-United Kingdom 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 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 fixed assets

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

Certain other tangible fixed 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 fixed assets at the date of acquisition is treated as their cost to the Group.

Interest costs relating to major tangible fixed 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 fixed 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 historical cost less any permanent diminution in value.

13 Joint ventures and associates

The Group has adopted the Accounting Standard FRS 9 under which investments in undertakings which are jointly controlled are treated as joint ventures.

Investments in undertakings where Pilkington has a participating interest, where the investment is held for the long term and where Pilkington exercises significant influence, are treated as associates.

The Group's share of turnover and the component elements of the profit and loss account are disclosed separately for both joint ventures and associates in the Group's profit and loss account.

The Group revalues its interest in both joint ventures and associates each year at the underlying net asset value, as shown in the 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 and are disclosed in the statement of total recognised gains and losses.

Joint ventures are disclosed using the gross equity method under which the aggregate gross assets and gross liabilities underlying the net amount included for the investment are disclosed on the balance sheet.

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.

| | Note | Before exceptional items | | Total including exceptional items | |
|--|-------|-----------------------------|------------------------|--------------------------------------|------------------------|
| | | 1998 £m | 1997 Restated £m | 1998 £m | 1997 Restated £m |
| Turnover | | | | | |
| Continuing operations | | 2,656 | | 2,656 | |
| Acquisitions | 3 | 45 | | 45 | |
| Total continuing operations | 1 | 2,701 | 2,878 | 2,701 | 2,878 |
| Discontinued operations | 2 | - | 41 | - | 41 |
| Group turnover | | 2,701 | 2,919 | 2,701 | 2,919 |
| Share of joint ventures' and associates' turnover | 4 | 290 | 177 | 290 | 177 |
| Turnover including joint ventures and associates | | 2,991 | 3,096 | 2,991 | 3,096 |
| Operating profit/(loss) | | | | | |
| Continuing operations | | 129 | | (27) | |
| Acquisitions | 3 | 6 | | 6 | |
| Total continuing operations | 1 & 7 | 135 | 152 | (21) | 112 |
| Discontinued operations | 2 | - | (4) | - | (4) |
| Group operating profit | 8 | 135 | 148 | (21) | 108 |
| Share of joint ventures' and associates' operating profit | 4 | 56 | 28 | 56 | 28 |
| Operating profit including joint ventures and associates | | 191 | 176 | 35 | 136 |
| Profit/(loss) on disposal of fixed assets and investments | 7 | - | - | 4 | (7) |
| Loss on disposal of operations | 7 | - | - | (73) | (8) |
| Profit/(loss) before investment income and interest | | 191 | 176 | (34) | 121 |
| Investment income | 9 | 3 | 21 | 3 | 21 |
| Interest payable less receivable | 10 | (69) | (65) | (69) | (65) |
| Profit/(loss) on ordinary activities before taxation | | 125 | 132 | (100) | 77 |
| Taxation | 11 | (56) | (47) | (62) | (49) |
| Profit/(loss) on ordinary activities after taxation | | 69 | 85 | (162) | 28 |
| Minority interests (including non equity shares) | 12 | (22) | (25) | (19) | (26) |
| Profit/(loss) for the financial year attributable to shareholders of Pilkington plc | | 47 | 60 | (181) | 2 |
| Dividends | 13 | | | (54) | (52) |
| Retained loss of the Group | 32 | | | (235) | (50) |
| Earnings/(loss) per share | 14 | 4.5p | 5.8p | (17.4)p | 0.2p |

The exceptional items charged against operating profits in 1998 were restructuring charges and contract rectification costs totalling £156 million and in 1997 were £40 million in respect of restructuring, more fully described in note 7.

| | 1998 £m | 1997 £m |
|---|--------------|------------|
| (Loss)/profit attributable to shareholders of Pilkington plc | (181) | 2 |
| Other recognised (losses)/gains | | |
| Unrealised exchange rate movements on foreign currency net investments: | | |
| – subsidiaries | (59) | (108) |
| – joint ventures | (2) | (3) |
| – associates | (7) | – |
| Unrealised surplus/(deficit) on revaluations: | | |
| – tangible fixed assets | – | (1) |
| – joint ventures | – | (2) |
| – associates | 33 | – |
| Total other recognised losses | (35) | (114) |
| Total recognised losses relating to the year | (216) | (112) |
| Total losses recognised since last annual report | (216) | (112) |

NOTE OF HISTORICAL COST PROFITS AND LOSSES

For the year ended 31st March 1998

There were no material differences between the reported loss on ordinary activities before taxation and the historical cost loss on ordinary activities before taxation for the year. Similarly, there were no such differences in respect of 1997.

RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

For the year ended 31st March 1998

| | 1998 £m | 1997 £m |
|---|--------------|------------|
| (Loss)/profit attributable to shareholders of Pilkington plc | (181) | 2 |
| Dividends | (54) | (52) |
| Other recognised losses | (35) | (114) |
| Acquisition goodwill written off | (22) | (7) |
| Goodwill written back | 9 | – |
| Shares issued | 3 | 16 |
| Premium on shares issued | 2 | 21 |
| Net decrease in shareholders' funds for the year | (278) | (134) |
| Shareholders' funds at beginning of year, as previously reported | 837 | 971 |
| Shareholders' funds at end of year | 559 | 837 |

| | Note | 1998 | | 1997 | |
|--|------|--------------|--------------|----------------|---------|
| | | Group | Company | Group | Company |
| | | £m | £m | Restated £m | £m |
| ASSETS EMPLOYED | | | | | |
| Fixed assets | | | | | |
| Tangible fixed assets | 15 | 1,566 | 7 | 1,596 | 7 |
| Investments – subsidiary undertakings | 16 | – | 1,128 | – | 1,093 |
| Investments – joint ventures: | 17 | | | | |
| – share of gross assets | | 119 | – | 187 | – |
| – share of gross liabilities | | (44) | – | (103) | – |
| | | 75 | – | 84 | – |
| Investments – associates | 18 | 78 | – | 25 | – |
| Investments – trade investments | 19 | 29 | – | 72 | – |
| Total fixed assets | | 1,748 | 1,135 | 1,777 | 1,100 |
| Current assets | | | | | |
| Stocks | 20 | 375 | – | 398 | – |
| Debtors – amounts falling due within one year | 21 | 469 | 17 | 486 | 12 |
| – trade debtors subject to financing arrangements | 21 | 36 | – | 25 | – |
| – less non-returnable amounts received | 21 | (33) | – | (22) | – |
| – total debtors falling due within one year | 21 | 472 | 17 | 489 | 12 |
| Debtors – amounts falling due after more than one year | 22 | 89 | – | 97 | 8 |
| Investments – marketable | 23 | 31 | 5 | 39 | – |
| Cash at bank and in hand | | 120 | 4 | 115 | 2 |
| | | 1,087 | 26 | 1,138 | 22 |
| Creditors – amounts falling due within one year | 24 | 820 | 133 | 693 | 59 |
| Net current assets/(liabilities) | | 267 | (107) | 445 | (37) |
| Total assets less current liabilities | | 2,015 | 1,028 | 2,222 | 1,063 |
| FINANCED BY | | | | | |
| Creditors – amounts falling due after more than one year | 25 | 479 | – | 573 | 72 |
| Provisions for liabilities and charges | 27 | 612 | 20 | 512 | 13 |
| | | 1,091 | 20 | 1,085 | 85 |
| Deferred income | 29 | 18 | 15 | 14 | 18 |
| Capital and reserves | | | | | |
| Called up share capital | 31 | 521 | 521 | 518 | 518 |
| Share premium account | 32 | 302 | 302 | 296 | 296 |
| Revaluation reserve | 32 | 67 | – | 176 | – |
| Other reserves | 32 | 202 | 41 | 213 | 45 |
| Goodwill reserve | 32 | (350) | – | (377) | (5) |
| Profit and loss account | 32 | (183) | 129 | 11 | 106 |
| Total equity shareholders' funds | | 559 | 993 | 837 | 960 |
| Minority interests – equity | 33 | 136 | – | 122 | – |
| – non equity | 33 | 211 | – | 164 | – |
| | | 347 | – | 286 | – |
| Total | | 2,015 | 1,028 | 2,222 | 1,063 |

The financial statements on pages 13 to 46 were approved by the directors on 4th June 1998.

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

| | Note | 1998 £m | 1998 £m | 1997 Restated £m | 1997 Restated £m |
|---|------|------------|--------------|------------------------|------------------------|
| NET CASH INFLOW FROM OPERATING ACTIVITIES | 34 | | 184 | | 288 |
| Dividends received from joint ventures | | | 7 | | 13 |
| Dividends received from associates | | | 10 | | – |
| Returns on investments and servicing of finance | | | | | |
| Interest – paid (excluding finance leases) | | (65) | | (62) | |
| – paid (finance leases) | | (6) | | (8) | |
| – received | | 16 | | 20 | |
| Dividends – received from other investments | | 3 | | 21 | |
| – paid to minority shareholders | | (32) | | (9) | |
| Net cash outflow from returns on investments and servicing of finance | | | (84) | | (38) |
| Taxation paid | | | (42) | | (44) |
| Capital expenditure | | | | | |
| Tangible fixed assets – purchases | | (201) | | (170) | |
| – disposals | | 15 | | 40 | |
| Net cash outflow from capital expenditure and financial investment | | | (186) | | (130) |
| Cash (outflow)/inflow before acquisitions and financing | | | (111) | | 89 |
| Acquisitions and disposals | | | | | |
| Purchase of – subsidiary undertakings | 35 | (16) | | (8) | |
| – joint ventures, associates and other investments | 35 | (11) | | (2) | |
| Disposal of – subsidiary undertakings | 35 | 39 | | 61 | |
| – joint ventures, associates and other investments | 35 | 44 | | – | |
| Net cash inflow from acquisitions and disposals | | | 56 | | 51 |
| Net cash (outflow)/inflow before financing and dividends | | | (55) | | 140 |
| Equity dividends paid by parent company | | | (51) | | (50) |
| Management of liquid resources – short term deposits | 36 | | 7 | | (1) |
| Financing | | | | | |
| Issue of Pilkington plc ordinary shares | | 3 | | 37 | |
| Issue of preference shares to minorities | | 191 | | 8 | |
| Repayment of preference shares to minorities | | (109) | | – | |
| New loans taken out | 36 | 86 | | 72 | |
| Loans repaid | 36 | (85) | | (208) | |
| Finance leases repaid | 36 | (15) | | (16) | |
| Net cash inflow/(outflow) from financing | | | 71 | | (107) |
| Decrease in cash | | | (28) | | (18) |

Cash flows of subsidiaries and businesses acquired and discontinued in the year

| | Acquisitions | | Discontinued | |
|---|--------------|------------|--------------|------------|
| | 1998 £m | 1997 £m | 1998 £m | 1997 £m |
| Net cash inflow/(outflow) from operating activities | 8 | (2) | – | (3) |
| Net cash outflow from returns on investments and servicing of finance | (2) | – | – | – |
| Net cash outflow from capital expenditure and financial investment | (10) | (5) | – | (3) |
| Net cash inflow/(outflow) from acquisitions and disposals | – | 3 | – | (5) |
| Net cash inflow/(outflow) from financing | 184 | – | – | (1) |
| Increase/(decrease) in cash | 180 | (4) | – | (12) |

| 1 Segmental analysis of the Group's continuing operations before exceptional items | 1998 | | | 1997 | | |
|--|--------------|-------------------------|------------------------------------|--------------|-------------------------|----------------------|
| | Turnover | Operating profit/(loss) | Net operating assets/(liabilities) | Turnover | Operating profit/(loss) | Net operating assets |
| | £m | £m | £m | Restated £m | Restated £m | Restated £m |
| Building products | 1,332 | 86 | 727 | 1,435 | 73 | 915 |
| Automotive products | 1,186 | 55 | 497 | 1,271 | 89 | 449 |
| Technical products | 178 | 16 | 109 | 163 | 9 | 111 |
| Group operations and technology management | 5 | (22) | (26) | 9 | (19) | 2 |
| | 2,701 | 135 | 1,307 | 2,878 | 152 | 1,477 |
| Europe | 1,544 | 78 | 746 | 1,687 | 61 | 900 |
| North America | 729 | 35 | 241 | 750 | 66 | 218 |
| Rest of the World | 423 | 44 | 346 | 432 | 44 | 357 |
| Group operations and technology management | 5 | (22) | (26) | 9 | (19) | 2 |
| | 2,701 | 135 | 1,307 | 2,878 | 152 | 1,477 |

The 1997 figures have been restated and the Group's reported business lines now include technical products as a separate activity in line with management reporting. In 1997 this activity was included within the figures reported for building products except for the aerospace activities in the UK and USA which were included within automotive products. Group operations and technology management include other trading companies.

In addition, as the Group's UK and European operations are managed together, disclosure is now made of these activities under the heading 'Europe' and the 1997 comparative figures have been adjusted in this and subsequent notes.

Turnover derived from intra segmental transactions between building products and automotive products amounted to £86 million in 1998 (1997 £101 million), between automotive products and building products amounted to £13 million (1997 £13 million), and between building products and technical products amounted to £12 million (1997 £14 million). Other intra segmental turnover is not material.

Net operating assets are analysed in note 6.

| 2 Segmental analysis of the Group's discontinued operations before exceptional items | 1998 | | | 1997 | | |
|--|----------|-------------------------|----------------------|----------|-------------------------|----------------------|
| | Turnover | Operating profit/(loss) | Net operating assets | Turnover | Operating profit/(loss) | Net operating assets |
| | £m | £m | £m | £m | £m | £m |
| Other trading companies – Europe | – | – | – | 13 | – | – |
| – North America | – | – | – | 23 | (4) | – |
| – Rest of the World | – | – | – | 5 | – | – |
| | – | – | – | 41 | (4) | – |

Discontinued operations in 1998 were not material and their results have been included within continuing operations in note 1.

3 Acquisitions

The profit and loss account on page 16 discloses the turnover and operating profit before exceptional items arising from acquisitions. Turnover on acquisitions amounted to £45 million (1997 £13 million) and operating profit amounted to £6 million (1997 nil). The principal acquisitions in 1998 were the former associates, which became subsidiaries in the year, namely Pilkington Sandoglass Sp.z o.o. and Changchun Pilkington Safety Glass Co Limited. Further details regarding acquisitions made in the year are disclosed in note 35.

| 4 Segmental analysis of the Group's share of joint ventures and associates | 1998 | | | 1997 | | |
|--|------------|------------------|------------|-------------|------------------|-------------|
| | Turnover | Operating profit | Net assets | Turnover | Operating profit | Net assets |
| | £m | £m | £m | Restated £m | Restated £m | Restated £m |
| Joint ventures | | | | | | |
| Building products | 43 | 16 | 68 | 71 | 24 | 70 |
| Automotive products | 5 | - | 6 | 5 | - | 7 |
| Technical products | 57 | 3 | 1 | 58 | 3 | 7 |
| Other trading companies | 1 | - | - | 1 | - | - |
| | 106 | 19 | 75 | 135 | 27 | 84 |
| Europe | 61 | 3 | 6 | 86 | 4 | 17 |
| North America | 1 | - | 1 | 1 | - | - |
| Rest of the World | 43 | 16 | 68 | 47 | 23 | 67 |
| Other trading companies | 1 | - | - | 1 | - | - |
| | 106 | 19 | 75 | 135 | 27 | 84 |
| Associates | | | | | | |
| Building products | 115 | 24 | 56 | 16 | 1 | 10 |
| Automotive products | 69 | 13 | 22 | 18 | - | 15 |
| Other trading companies | - | - | - | 8 | - | - |
| | 184 | 37 | 78 | 42 | 1 | 25 |
| Europe | 4 | 1 | - | 17 | 1 | 10 |
| North America | 171 | 36 | 75 | 17 | - | - |
| Rest of the World | 9 | - | 3 | - | - | 15 |
| Other trading companies | - | - | - | 8 | - | - |
| | 184 | 37 | 78 | 42 | 1 | 25 |
| Total joint ventures and associates | 290 | 56 | 153 | 177 | 28 | 109 |

The above disclosures arise from the Group's adoption of FRS 9, the new accounting standard on joint ventures and associates.

The figures for 1997 have been restated to comply with FRS 9. Further details of the joint ventures and associates are also given in notes 17 and 18 respectively.

| 5 Geographical analysis of the Group's turnover by markets | 1998 | | 1997 | |
|--|--------------|------------|--------------|------------|
| | Group £m | % | Group £m | % |
| <i>This analysis of turnover shows the markets in which the Group's products are sold, whereas the regional analyses in notes 1 and 2 relate to the domicile of the Group undertakings making the sales.</i> | | | | |
| Continuing operations | | | | |
| Europe – EU | 1,343 | 50 | 1,459 | 51 |
| – Non EU | 138 | 5 | 153 | 5 |
| North America | 716 | 27 | 745 | 26 |
| Australasia | 197 | 7 | 234 | 8 |
| South America | 227 | 8 | 223 | 8 |
| Rest of the World | 80 | 3 | 64 | 2 |
| | 2,701 | 100 | 2,878 | 100 |
| Discontinued operations | | | | |
| Europe – EU | - | - | 13 | 32 |
| North America | - | - | 23 | 56 |
| Australasia | - | - | 2 | 5 |
| Rest of the World | - | - | 3 | 7 |
| | - | - | 41 | 100 |

| | Continuing operations | |
|---|-----------------------|------------|
| | 1998 £m | 1997 £m |
| 6 Net operating assets | | |
| <i>The net operating assets referred to in note 1 comprise the following:</i> | | |
| Tangible fixed assets | 1,566 | 1,596 |
| Stocks | 375 | 398 |
| Debtors – falling due within one year | 442 | 465 |
| – falling due after more than one year | 36 | 33 |
| Creditors – falling due within one year | (496) | (499) |
| – falling due after more than one year | (5) | (5) |
| Provisions | (611) | (511) |
| | 1,307 | 1,477 |

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.

| | 1998 | | | 1997 | | |
|---|------------------|--------------------|--------------|------------------|--------------------|-------------|
| | Continuing £m | Discontinued £m | Total £m | Continuing £m | Discontinued £m | Total £m |
| 7 Exceptional items | | | | | | |
| Restructuring costs charged to operating profits | (156) | – | (156) | (40) | – | (40) |
| Profit/(loss) on disposal of fixed assets and investments (net) | 4 | – | 4 | (7) | – | (7) |
| Loss on disposal/termination of operations | | | | | | |
| Profit/(loss) on disposal | 6 | – | 6 | – | (15) | (15) |
| Provision created in the year | (75) | – | (75) | – | (2) | (2) |
| Previous provision utilised | 5 | – | 5 | – | 9 | 9 |
| Goodwill written back | (9) | – | (9) | – | – | – |
| | (73) | – | (73) | – | (8) | (8) |
| | (225) | – | (225) | (47) | (8) | (55) |
| Taxation (note 11) | | | (6) | | | (2) |
| Attributable to minority interests | | | 3 | | | (1) |
| | | | (228) | | | (58) |

The principal exceptional items in 1998 were as follows:

- A charge against operating profits of £156 million comprising restructuring costs, mainly in building products Europe, totalling £141 million and which covers redundancy (£110 million), write-down of fixed assets (£3 million), other closure costs (£28 million), and exceptional contract rectification costs (£15 million).
- The profit on the disposal of fixed assets and investments includes the profits arising from the realisation of the 'B' class shares in Pilkington Optronics Limited (£20 million) offset against the loss and provision for loss on disposal of certain other fixed assets.
- The profit on the disposal and termination of operations is represented by the profit on the sale of the automotive glass replacement businesses in Canada and New Zealand and the loss on the termination of operations in building products Spain. Provisions of £75 million created in the year relate to the building products downstream operations in Germany, which will be sold in 1998/99.

| 8 Statutory information | 1998 | | | 1997 | | |
|--------------------------------|------------------|--------------------|-------------|------------------|--------------------|-------------|
| | Continuing £m | Acquisitions £m | Total £m | Continuing £m | Discontinued £m | Total £m |
| Turnover | 2,656 | 45 | 2,701 | 2,878 | 41 | 2,919 |
| Cost of sales | (2,027) | (32) | (2,059) | (2,245) | (37) | (2,282) |
| Gross profit | 629 | 13 | 642 | 633 | 4 | 637 |
| <i>Net operating expenses:</i> | | | | | | |
| Distribution costs | (247) | (4) | (251) | (243) | (3) | (246) |
| Administrative expenses | (409) | (3) | (412) | (278) | (5) | (283) |
| Operating (loss)/profit | (27) | 6 | (21) | 112 | (4) | 108 |

The 1998 figures for continuing operations include £156 million in administrative expenses in respect of exceptional items. The 1997 figures include £40 million in cost of sales for exceptional charges on restructuring.

| | 1998 £m | 1997 £m |
|--|------------|------------|
| <i>Operating profit is after charging/(crediting):</i> | | |
| Depreciation of tangible fixed assets – normal | 148 | 149 |
| – exceptional | 17 | 26 |
| Net (profit)/loss on disposal of tangible fixed assets | (1) | 1 |
| Operating lease costs – plant and machinery | 26 | 34 |
| – property | 23 | 21 |
| Total research and development expenditure | 43 | 51 |
| – financed directly by customers | (3) | (2) |
| <i>Auditors' remuneration:</i> | | |
| Audit – Coopers & Lybrand | 2 | 2 |
| Audit of the company £193,000 (1997 £237,000) | | |
| Other services provided by Coopers & Lybrand – UK | – | – |
| Other services provided by Coopers & Lybrand – Overseas | 1 | 1 |
| 'Year 2000' computer software modification costs | 3 | – |
| Costs incurred in respect of the introduction of the 'Euro' currency | – | – |

| 9 Investment income | 1998 £m | 1997 £m |
|-------------------------------|------------|------------|
| Unlisted trade investments | 1 | 19 |
| Listed marketable investments | 2 | 2 |
| | 3 | 21 |

The figure for unlisted trade investment income for 1997 includes dividend income from Vitro Plan SA de CV, which became an associate on 1st April 1997 (note 18).

| 10 Interest payable less receivable | 1998 £m | 1997 £m |
|---|------------|------------|
| Interest payable on – bank loans and overdrafts | 30 | 31 |
| – other loans | 35 | 38 |
| – finance leases | 6 | 6 |
| Less – interest receivable | (15) | (15) |
| | 56 | 60 |
| Share of joint ventures' interest | 4 | 2 |
| Share of associates' interest | 9 | 3 |
| | 69 | 65 |

Interest payable includes the results of interest rate swap transactions.

| 11 Taxation | 1998 £m | 1997 £m |
|--|------------|------------|
| Profit and loss account | | |
| <i>The taxation charge in the Group profit and loss account comprises:</i> | | |
| United Kingdom corporation tax at 31% (1997 – 33%) | 19 | 16 |
| Less double taxation relief | (17) | (1) |
| | 2 | 15 |
| Overseas taxation | 37 | 31 |
| Deferred taxation | – | (1) |
| Advance corporation tax written off/(written back) | 8 | (3) |
| | 47 | 42 |
| Under provision in respect of prior years | – | 3 |
| | 47 | 45 |
| Share of joint ventures' taxation | 4 | 4 |
| Share of associates' taxation | 11 | – |
| | 62 | 49 |

The tax charge includes £6 million in respect of tax on exceptional items (1997 £2 million) (note 7). This tax charge arises in respect of the disposal of businesses and investments and includes an additional tax charge on prior year exceptional items.

| | 1998 | | 1997 | |
|--|-------------|---------------|-------------|---------------|
| | 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 | 13 | 9 | 1 | 7 |
| Corporation tax recoverable | 12 | – | 12 | – |
| Overseas tax recoverable | 5 | – | 11 | – |
| | 30 | 9 | 24 | 7 |
| Debtors – amounts falling due after more than one year | | | | |
| Advance corporation tax recoverable | – | – | 9 | 8 |
| Deferred taxation on post-retirement healthcare benefits | 53 | – | 55 | – |
| | 53 | – | 64 | 8 |
| Liabilities (note 24) | | | | |
| United Kingdom corporation tax | 8 | 1 | 15 | – |
| United Kingdom advance corporation tax on dividends | 13 | 9 | 13 | 11 |
| Overseas taxation | 31 | – | 22 | – |
| | 52 | 10 | 50 | 11 |

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

At 31st March 1998 certain United Kingdom and overseas subsidiary undertakings had accumulated tax losses estimated at £330 million (1997 £307 million) which are available for offset against future taxable profits in those companies. Advance corporation tax written off to date amounts to £27 million (1997 £19 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 the year arising from deferred taxation, calculated on a full liability basis, would amount to £49 million (1997 £26 million).

| 12 Minority interests (profit and loss account) | 1998 | 1997 |
|--|-------------|------|
| | £m | £m |
| Equity | 13 | 15 |
| Non equity | 6 | 11 |
| | 19 | 26 |

| 13 Dividends | Net paid/payable per ordinary share | | Net paid/payable | |
|---------------------------------|--|-------|------------------|------|
| | 1998 | 1997 | 1998 | 1997 |
| | pence | pence | £m | £m |
| <i>Equity shares:</i> | | | | |
| Interim paid 13th February 1998 | 1.75 | 1.75 | 18 | 18 |
| Final payable 14th August 1998 | 3.25 | 3.25 | 36 | 34 |
| | 5.00 | 5.00 | 54 | 52 |

| 14 Earnings per share | 1998 | 1997 |
|--|---------------|--------|
| Average number of shares | 1,038m | 1,031m |
| | £m | £m |
| (Loss)/profit for the financial year attributable to shareholders of Pilkington plc | (181) | 2 |
| Add exceptional items (note 7) | 228 | 58 |
| Profit for the financial year attributable to shareholders of Pilkington plc after adjusting for exceptional items | 47 | 60 |
| | pence | pence |
| (Loss)/earnings per share | (17.4) | 0.2 |
| Adjusted earnings per share excluding exceptional items | 4.5 | 5.8 |
| 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 per share on a nil distribution basis | (16.7) | (0.1) |

| 15 Tangible fixed assets | 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 | 818 | 2,176 | 2,994 | 7 | 4 | 11 |
| Exchange rate adjustments | (65) | (152) | (217) | - | - | - |
| Changes in composition of the Group | 8 | 46 | 54 | - | - | - |
| Additions during year | 29 | 182 | 211 | - | - | - |
| Transfers | 10 | (10) | - | - | - | - |
| Assets sold or scrapped during year | (11) | (54) | (65) | - | - | - |
| At end of year | 789 | 2,188 | 2,977 | 7 | 4 | 11 |
| Accumulated depreciation | | | | | | |
| At beginning of year | 307 | 1,091 | 1,398 | 2 | 2 | 4 |
| Exchange rate adjustments | (26) | (76) | (102) | - | - | - |
| Changes in composition of the Group | (2) | (4) | (6) | - | - | - |
| Depreciation for year | 40 | 125 | 165 | - | - | - |
| Transfers | 2 | (2) | - | - | - | - |
| Assets sold or scrapped during year | (2) | (42) | (44) | - | - | - |
| At end of year | 319 | 1,092 | 1,411 | 2 | 2 | 4 |
| Written down book value at end of year | 470 | 1,096 | 1,566 | 5 | 2 | 7 |
| <i>Cost or valuation at 31st March 1998 represented by:</i> | | | | | | |
| Valuations in 1997/98 | 29 | 34 | 63 | - | - | - |
| Cost | 441 | 1,062 | 1,503 | 5 | 2 | 7 |
| | 470 | 1,096 | 1,566 | 5 | 2 | 7 |
| <i>Land and buildings at net book value comprises:</i> | | | | | | |
| Freehold | 448 | | | 5 | | |
| Long leasehold | 5 | | | - | | |
| Short leasehold | 17 | | | - | | |
| | 470 | | | 5 | | |

Tangible fixed assets include the cost of assets in the course of construction and payments on account amounting to £39 million (1997 £35 million).

Plant, machinery and vehicles include items acquired under finance leases comprising cost of £110 million (1997 £129 million), accumulated depreciation of £41 million (1997 £38 million) and written down value of £69 million (1997 £91 million). Depreciation charged in the year on these assets amounted to £8 million (1997 £8 million).

If the revalued tangible fixed assets, totalling a net book value of £63 million (1997 £70 million), all of which were last revalued in 1998 by officers of the companies owning the assets, had been accounted for on an historical cost basis, their historical cost would have been £91 million (1997 £98 million), accumulated depreciation £38 million (1997 £38 million) and written down value at 31st March 1998 £53 million (1997 £60 million).

Interest capitalised in 1997 and 1998 was nil.

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

| | 1998 £m | 1997 £m |
|--|------------|------------|
| Building products | 60 | 78 |
| Automotive products | 131 | 97 |
| Technical products | 16 | 5 |
| Group operations and technology management | 3 | 2 |
| Other trading companies | 1 | 4 |
| | 211 | 186 |

The depreciation charge for the year amounting to £165 million (1997 £175 million) includes exceptional asset write-downs of £17 million (1997 £26 million).

| 16 Investments – subsidiary undertakings (company) | Shares £m | Loans £m | Total £m |
|--|--------------|-------------|--------------|
| Cost | | | |
| At beginning of year | 537 | 556 | 1,093 |
| Additions/loans advanced | 1 | 60 | 61 |
| Disposals/loans repaid | – | (26) | (26) |
| At end of year | <u>538</u> | <u>590</u> | <u>1,128</u> |

Pilkington plc increased its investment in a wholly owned subsidiary and acquired 100% of the ordinary share capital of Pilkington Channel Islands Holdings Limited, a company registered in England and Wales.

Principal subsidiary undertakings are listed on page 46.

| 17 Investments – joint ventures | 1998 Group £m | 1997 Group Restated £m |
|--|---------------------|---------------------------------|
| Cost or valuation | | |
| At beginning of year | 52 | 61 |
| Exchange rate adjustments | (2) | (3) |
| Disposals | (3) | (4) |
| Transfer to subsidiary undertakings | (2) | – |
| Transfer to trade investments | (1) | – |
| Other movements | – | (2) |
| | <u>44</u> | <u>52</u> |
| Share of post-acquisition profits less losses | | |
| At beginning of year | 32 | 26 |
| Exchange rate adjustments | – | (1) |
| Disposals | (6) | – |
| Retained profits | 5 | 7 |
| | <u>31</u> | <u>32</u> |
| Provisions | | |
| At beginning of year | – | (4) |
| Released on disposal | – | 4 |
| | <u>–</u> | <u>–</u> |
| At end of year | <u>75</u> | <u>84</u> |

The Group's principal joint ventures are as follows:

| | Proportion of issued shares held | Accounting date | Activity | Country of operation and incorporation |
|--------------------------------|--|--------------------|---------------------|--|
| Cebrace Cristal Plano Limitada | 50% | 31.3.98 | Glass manufacturing | Brazil |
| Flovetro SpA | 50% | 31.12.97 | Glass manufacturing | Italy |

Pilkington Optronics Limited (Optronics) has been accounted for as a joint venture until the end of March 1998. At that time Optronics undertook a capital restructuring and Pilkington disposed of its holding of the 'B' class ordinary shares to its joint venture partner. Pilkington retains 50% of the voting rights in the company, and is entitled to limited deferred consideration based on future profits. It is now accounted for as a trade investment (note 19).

In addition, there are a further four joint ventures at 31st March 1998.

No significant additional taxation would be payable if the joint ventures were sold at the carrying value.

At 31st March 1998 the share of profits less losses retained by joint ventures included within the Group's profit and loss account balance amounted to £31 million (1997 £32 million) of which £2 million (1997 £1 million) is considered to be distributable, the remainder being subject to restriction within the countries in which the joint ventures operate.

17 Investments – joint ventures *continued*

The Group's share of the net assets of joint ventures comprises:

| | 1998 £m | 1997 £m |
|--|------------|------------|
| Fixed assets | 97 | 130 |
| Current assets | 22 | 57 |
| Liabilities due within one year | (29) | (82) |
| Liabilities due after more than one year | (15) | (21) |
| | <u>75</u> | <u>84</u> |

Additional disclosures are given in respect of the Group's share of Cebrace which exceeds certain thresholds under FRS 9, as follows:

| | 1998 £m | 1997 £m |
|--|------------|------------|
| Turnover | 58 | 62 |
| Profit before taxation | 13 | 20 |
| Taxation | (4) | (3) |
| Profit after taxation | 9 | 17 |
| Fixed assets | 91 | 99 |
| Current assets | 16 | 15 |
| Liabilities due within one year | (26) | (36) |
| Liabilities due after more than one year | (13) | (11) |
| Net assets | <u>68</u> | <u>67</u> |

18 Investments – associates

| | 1998 Group £m | 1997 Group Restated £m |
|--|---------------------|---------------------------------|
| Cost or valuation | | |
| At beginning of year | 23 | 26 |
| Exchange rate adjustments | (7) | – |
| Additions | 1 | – |
| Disposals | (3) | – |
| Transfer to subsidiary undertakings | (19) | (4) |
| Transfer from trade investments | 48 | 1 |
| Other movements | 33 | – |
| | <u>76</u> | <u>23</u> |
| Share of post-acquisition profits less losses | | |
| At beginning of year | 2 | 4 |
| Exchange rate adjustments | (1) | (1) |
| Disposals | (2) | – |
| Retained profits/(losses) | 3 | (1) |
| | <u>2</u> | <u>2</u> |
| At end of year | <u>78</u> | <u>25</u> |

18 Investments – associates continued

The Group's principal associates are as follows:

| | Proportion of issued shares held | Accounting date | Activity | Country of operation and incorporation |
|--|----------------------------------|-----------------|------------------------------------|--|
| Vitro Plan SA de CV+ | 35% | 31.12.97 | Glass manufacturing and processing | Mexico |
| Wuhan Yaohua Pilkington Safety Glass Limited | 46% | 31.12.97 | Glass processing | China |

+Audited by a firm other than Coopers & Lybrand.

The investment in Vitro Plan SA de CV, formerly treated as a trade investment, is now accounted for as an associate. The directors consider that the co-operation which Vitro Plan SA de CV is providing to enable Pilkington to meet the Mexican contents requirement of certain global automotive customers and the technical support which Pilkington is providing, makes the treatment of this investment as an associate appropriate.

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

At 31st March 1998, the share of profits less losses retained by associates included within the Group's profit and loss account balance amounted to £2 million (1997 £2 million) of which £2 million (1997 £2 million) is considered to be distributable.

The Group's share of net assets of associates comprises:

| | 1998 £m | 1997 £m |
|--|-------------|------------|
| Fixed assets | 116 | 46 |
| Current assets | 48 | 13 |
| Liabilities due within one year | (32) | (13) |
| Liabilities due after more than one year | (54) | (21) |
| | 78 | 25 |

Additional disclosures are given in respect of the Group's share of Vitro Plan SA de CV which exceeds certain thresholds under FRS 9, as follows:

| | 1998 £m |
|--|-------------|
| Turnover | 171 |
| Profit before taxation | 27 |
| Taxation | (11) |
| Profit after taxation | 16 |
| Fixed assets | 114 |
| Current assets | 47 |
| Liabilities due within one year | (32) |
| Liabilities due after more than one year | (54) |
| Net assets | 75 |

| | 1998 Group £m | 1997 Group £m |
|--|---------------------|---------------------|
| 19 Investments – trade investments | | |
| Cost or valuation | | |
| At beginning of year | 72 | 87 |
| Exchange rate adjustments | (6) | (16) |
| Additions | 10 | 2 |
| Disposals | (1) | – |
| Transfer from subsidiary undertakings | 1 | – |
| Transfer from joint ventures | 1 | – |
| Transfer to associates | (48) | (1) |
| At end of year | <u>29</u> | <u>72</u> |
| Trade investments at end of year | | |
| Listed investments at cost | 11 | 9 |
| Unlisted investments at cost | 18 | 11 |
| Unlisted investment at 1985 directors' valuation | – | 52 |
| | <u>29</u> | <u>72</u> |
| Historical cost of investments | 29 | 30 |

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

The Group's principal trade investment is Shanghai Yaohua Pilkington Glass Co Limited (SYP) which operates and is incorporated in China. Pilkington owns 8% of this company, held through a subsidiary undertaking. SYP is quoted on the Shanghai Stock Exchange. (1998 market value £19 million, 1997 £12 million.)

Listed investments also include 2,385,811 shares in Pilkington plc, of which 2,242,308 shares were purchased in the year in the market by an employee trust in respect of share options for Paolo Scaroni (note 39). (1998 nominal value £1 million, market value £3 million.) The other shares are held in respect of share options for Andrew Robb and other senior executives.

Unlisted investments at cost include the Group's interest in the 'C' and 'E' class ordinary shares in Pilkington Optronics Limited, a company registered in England. Optronics' share capital and reserves, as at 31st March 1998, amounted to £30 million and its profit after tax for the year then ended, amounted to £4 million.

| | 1998 Group £m | 1997 Group £m |
|--|---------------------|---------------------|
| 20 Stocks | | |
| Raw materials | 71 | 73 |
| Stores | 30 | 37 |
| Work in progress | 36 | 39 |
| Value of work completed on long term contracts | 3 | 1 |
| Finished goods | 235 | 248 |
| | <u>375</u> | <u>398</u> |

| | 1998 | | 1997 | |
|---|-------------|---------------|-------------|---------------|
| | Group £m | Company £m | Group £m | Company £m |
| 21 Debtors – amounts falling due within one year | | | | |
| Trade debtors | 348 | – | 368 | – |
| Amounts owed by – Group undertakings | – | 5 | – | 3 |
| – Joint ventures | 22 | – | 33 | – |
| – Associates | – | – | 1 | – |
| Other debtors | 44 | 3 | 37 | 2 |
| Advance corporation tax recoverable | 13 | 9 | 1 | 7 |
| Corporation tax recoverable | 12 | – | 12 | – |
| Overseas tax recoverable | 5 | – | 11 | – |
| Prepayments and accrued income | 25 | – | 23 | – |
| | 469 | 17 | 486 | 12 |
| Trade debtors subject to factoring arrangements | 36 | – | 25 | – |
| Less non-returnable amounts received | (33) | – | (22) | – |
| Total debtors falling due within one year | 472 | 17 | 489 | 12 |

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 transactions, amounted to £1 million (1997 nil).

| | 1998 | | 1997 | |
|--|-------------|---------------|-------------|---------------|
| | Group £m | Company £m | Group £m | Company £m |
| 22 Debtors – amounts falling due after more than one year | | | | |
| Other debtors | 36 | – | 33 | – |
| Advance corporation tax recoverable | – | – | 9 | 8 |
| Deferred taxation | 53 | – | 55 | – |
| | 89 | – | 97 | 8 |

Deferred taxation represents the tax relief calculated at a tax rate of 34% (1997 – 34%) on the US post-retirement healthcare benefits.

| | 1998 | | 1997 | |
|--|-------------|---------------|-------------|---------------|
| | Group £m | Company £m | Group £m | Company £m |
| 23 Investments – marketable | | | | |
| <i>Other listed investments at cost:</i> | | | | |
| – London Stock Exchange | 2 | 5 | 17 | – |
| – Other Stock Exchanges | 5 | – | 9 | – |
| | 7 | 5 | 26 | – |
| Unlisted investments at cost and at directors' valuation | 21 | – | 11 | – |
| Short term loans | 3 | – | 2 | – |
| | 31 | 5 | 39 | – |

The market value of the listed investments at 31st March 1998 amounted to £7 million (1997 £26 million).

| | 1998 | | 1997 | |
|--|-------------|---------------|-------------|---------------|
| | Group £m | Company £m | Group £m | Company £m |
| 24 Creditors – amounts falling due within one year | | | | |
| Bank overdrafts | 81 | – | 44 | – |
| Current portion of – long term bank loans | 24 | – | 38 | – |
| – other long term loans | 120 | 73 | 17 | – |
| Loans and overdrafts (note 26) | 225 | 73 | 99 | – |
| Payments received on account | 7 | – | 3 | – |
| Trade creditors | 274 | 3 | 289 | 3 |
| Amounts owed to – Group undertakings | – | 4 | – | 3 |
| – Joint ventures | 4 | – | 6 | – |
| – Associates | 2 | – | – | – |
| Social security | 17 | – | 20 | – |
| Pension fund contributions | 1 | – | 1 | – |
| Taxation – on profits | 52 | 10 | 50 | 11 |
| – other than on profits | 25 | – | 23 | – |
| Amounts owing under finance leases | 11 | – | 11 | – |
| Other creditors | 53 | 2 | 48 | 3 |
| Accruals | 113 | 5 | 109 | 5 |
| Dividends | 36 | 36 | 34 | 34 |
| | 595 | 60 | 594 | 59 |
| | 820 | 133 | 693 | 59 |
| Amounts secured on certain assets of undertakings in the Group | 46 | – | 35 | – |

| | 1998 | | 1997 | |
|--|-------------|---------------|-------------|---------------|
| | Group £m | Company £m | Group £m | Company £m |
| 25 Creditors – amounts falling due after more than one year | | | | |
| Bank loans | 124 | – | 97 | – |
| Other loans | 284 | – | 393 | 72 |
| Loans (note 26) | 408 | – | 490 | 72 |
| Amounts owing under finance leases – within five years | 38 | – | 40 | – |
| – over five years | 28 | – | 38 | – |
| Other creditors | 5 | – | 5 | – |
| | 71 | – | 83 | – |
| | 479 | – | 573 | 72 |
| Amounts secured on certain assets of undertakings in the Group | 123 | – | 124 | – |

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

| Million | | Repayable | 1998 | | 1997 | | |
|-------------------------|----------------|---------------------------------|-------------|---------------|-------------|---------------|----|
| | | | Group £m | Company £m | Group £m | Company £m | |
| Sterling | | unsecured 7.5% bond | 1998 | 73 | 73 | 72 | 72 |
| | | unsecured loans* | 1998/2012 | 1 | - | 1 | - |
| | | unsecured overdrafts | | 26 | - | - | - |
| | | currency swaps* | | 141 | - | 2 | - |
| | | | 241 | 73 | 75 | 72 | |
| US\$ | 300 | unsecured 8.17% to 9.39% loans* | 1998/2012 | 180 | - | 184 | - |
| | 150 | unsecured 9.27% to 9.91% loans* | 2000/2010 | 89 | - | 92 | - |
| | 50 | unsecured 9.95% loan | 1998/2002 | 30 | - | 37 | - |
| | 28 | unsecured loan | 2000 | 17 | - | - | - |
| | 19 | unsecured loan | 1998 | 11 | - | - | - |
| | - | unsecured loans | | - | - | 4 | - |
| | 30 | unsecured variable rate loan | 2003 | 18 | - | 18 | - |
| | (30) | back to back deposit | 2003 | (18) | - | (18) | - |
| | 2 | unsecured loan | | 1 | - | 1 | - |
| | 40 | unsecured overdrafts | | 24 | - | 15 | - |
| | (422) | currency swaps | | (252) | - | (74) | - |
| | | | 100 | - | 259 | - | |
| D Mk | - | unsecured loans | | - | - | 10 | - |
| | 128 | secured loans | 1999/2005 | 42 | - | 11 | - |
| | 9 | unsecured overdrafts | | 3 | - | - | - |
| | 124 | currency swaps* | | 40 | - | 28 | - |
| | | | 85 | - | 49 | - | |
| Aus \$ | 110 | unsecured variable rate loan | 1998 | 43 | - | 53 | - |
| | (110) | back to back currency deposit | 1998 | (43) | - | (53) | - |
| | 27 | unsecured loans* | 1998/2001 | 11 | - | 37 | - |
| | 13 | unsecured overdrafts | | 5 | - | - | - |
| | 15 | currency swaps* | | 6 | - | - | - |
| | | | 22 | - | 37 | - | |
| Italian | - | unsecured variable rate loans | | - | - | 117 | - |
| Lira | - | back to back currency deposit | | - | - | (117) | - |
| | - | secured fixed rate loan | | - | - | 4 | - |
| | - | back to back deposit | | - | - | (4) | - |
| | - | unsecured loans | | - | - | 7 | - |
| | 106,220 | secured loans | 1998/2009 | 35 | - | 42 | - |
| | 7,646 | unsecured overdrafts | | 3 | - | 7 | - |
| | 113,866 | | | 38 | - | 56 | - |
| Other currencies | | unsecured loans (various) | 1998/2000 | 56 | - | 32 | - |
| | | secured loans (various) | 1998/2016 | 10 | - | 14 | - |
| | | secured fixed rate loan | | - | - | 9 | - |
| | | back to back deposit | | - | - | (9) | - |
| | | unsecured overdrafts | | 16 | - | 17 | - |
| | | secured overdrafts | | 4 | - | 3 | - |
| | | currency swaps | | 61 | - | 47 | - |
| | | | | 147 | - | 113 | - |
| | | | 633 | 73 | 589 | 72 | |

*guaranteed by Pilkington plc

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

| 26 Analysis of bank loans, overdrafts and other loans shown in notes 24 and 25 continued | 1998 | | 1997 | |
|---|-------------|---------------|-------------|---------------|
| | Group £m | Company £m | Group £m | Company £m |
| <i>Loans and overdrafts:</i> | | | | |
| Wholly repayable within five years | 335 | 73 | 249 | 72 |
| Repayable by instalments wholly or partly after five years | 296 | - | 335 | - |
| Wholly repayable after five years other than by instalments | 2 | - | 5 | - |
| | 633 | 73 | 589 | 72 |
| <i>Loans and overdrafts:</i> | | | | |
| Due for repayment within one year | 225 | 73 | 99 | - |
| Due for repayment after one year and before two years | 33 | - | 140 | 72 |
| Due for repayment after two years and before five years | 244 | - | 144 | - |
| Due for repayment after five years | 131 | - | 206 | - |
| Total due for repayment after more than one year | 408 | - | 490 | 72 |
| | 633 | 73 | 589 | 72 |

As a result of changes in exchange rates during the year, Group foreign currency borrowings, expressed in sterling, have reduced by £38 million (1997 reduction £67 million).

| 27 Provisions for liabilities and charges | Pensions and similar obligations | Post retirement healthcare benefits | Restructuring and reorganisation costs | Other provisions | Total |
|---|--|--|---|---------------------|------------|
| | £m | £m | £m | £m | £m |
| Group | | | | | |
| At beginning of year | 173 | 161 | 64 | 114 | 512 |
| Exchange rate adjustments | (14) | (4) | (10) | (8) | (36) |
| Provided during year | 6 | 12 | 157 | 53 | 228 |
| Utilised during year | (13) | (14) | (39) | (27) | (93) |
| Changes in composition of the Group | - | - | - | 1 | 1 |
| At end of year | 152 | 155 | 172 | 133 | 612 |
| Company | | | | | |
| At beginning of year | 6 | 2 | - | 5 | 13 |
| Provided during year | - | - | - | 11 | 11 |
| Utilised during year | - | - | - | (4) | (4) |
| At end of year | 6 | 2 | - | 12 | 20 |

Other provisions at 31st March 1998 include £10 million (1997 £17 million) for tank repairs, £17 million (1997 £18 million) for holiday pay, £7 million (1997 £10 million) for insurance claims, £45 million (1997 £22 million) for warranty claims and litigation and £21 million (1997 £25 million) for personnel leaving indemnity re SIV's Italian employees.

| | 1998 | 1997 |
|---|------------|------------|
| | Group | Group |
| | £m | £m |
| 28 Deferred taxation | | |
| <i>The balances included in other provisions (note 27) relate to:</i> | | |
| Capital allowances in excess of related depreciation | <u>1</u> | <u>1</u> |
| <i>Deferred taxation which has not been provided amounted to:</i> | | |
| Capital allowances in excess of related depreciation | 178 | 210 |
| Other timing differences | (69) | (44) |
| | <u>109</u> | <u>166</u> |

| | 1998 | | 1997 | |
|---|-----------|-----------|-----------|-----------|
| | Group | Company | Group | Company |
| | £m | £m | £m | £m |
| 29 Deferred income | | | | |
| At beginning of year | 14 | 18 | 21 | 22 |
| Exchange rate adjustments | (2) | - | (2) | - |
| Changes in composition of the Group | 1 | - | - | - |
| Investment grants receivable | 5 | - | 5 | - |
| | <u>18</u> | <u>18</u> | <u>24</u> | <u>22</u> |
| <i>Released to profit and loss account in the year:</i> | | | | |
| Investment grants | - | - | (5) | - |
| Other deferred income | - | (3) | (5) | (4) |
| | <u>18</u> | <u>15</u> | <u>14</u> | <u>18</u> |

| | 1998 | | 1997 | |
|---|-----------|----------|-----------|----------|
| | Group | Company | Group | Company |
| | £m | £m | £m | £m |
| 30 Commitments and contingent liabilities | | | | |
| (a) Capital expenditure | | | | |
| Contracts placed but not provided for in the financial statements | <u>42</u> | <u>-</u> | <u>37</u> | <u>-</u> |

| | 1998 | | 1997 | |
|---|-----------|-----------|-----------|-----------|
| | Property | Other | Property | Other |
| | £m | £m | £m | £m |
| (b) Operating lease commitments | | | | |
| <i>The Group's operating lease commitments for the following financial year are as follows:</i> | | | | |
| For leases expiring | | | | |
| Within one year | 1 | 10 | 2 | 13 |
| Between two and five years | 10 | 15 | 12 | 12 |
| After five years | 9 | 1 | 10 | 1 |
| | <u>20</u> | <u>26</u> | <u>24</u> | <u>26</u> |

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 1998 accept, the cost will be DM 74 million (£24 million) in addition to the DM 280 million (£90 million) paid to shareholders accepting the offer prior to 31st March 1998. 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 an increase in the offer price 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 end-1998 and in the Dahlbusch AG case before end-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 (£138 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) Class action complaints

Since July 1997, Pilkington and its US operating glass subsidiary, Libbey-Owens-Ford Co, together with four other major glass companies (unrelated to Pilkington), have received class action complaints filed in US Federal, California, Tennessee and Wisconsin state courts alleging violation of the US anti-trust laws by conspiring to fix US float glass prices and to allocate customers amongst themselves, affecting sales after 1985. The complaints give few particulars of the alleged violations and limited guidance as to the evidence on which the allegations are based, nor do they quantify the alleged damages. The Pilkington companies in question deny that they engaged in price fixing or otherwise violated the anti-trust laws. For this reason, and because Pilkington believes that Libbey-Owens-Ford Co and Pilkington have substantial and viable defences to the claims made in these cases, they intend to defend these cases vigorously. Pilkington does not believe that this litigation will have a material adverse effect on the business or financial condition of the Pilkington Group.

(g) Other guarantees and contingent liabilities

At 31st March 1998 the Group has guaranteed, in the ordinary course of business, secured bank loans of £16 million to third parties (1997 £24 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.

| | 1998 Company £m | 1997 Company £m |
|---|-----------------------|-----------------------|
| 31 Called up share capital | | |
| Ordinary shares of 50p each | | |
| Authorised – 1,500 million shares (1997 – 1,500 million) | 750 | 750 |
| Issued and fully paid – 1,042 million shares (1997 – 1,036 million) | 521 | 518 |

(a) Ordinary shares

During the year 1 million ordinary shares were allotted to shareholders in lieu of cash dividends and 5 million ordinary shares were issued to employees under the savings-related, worldwide and senior executives' share option schemes.

(b) Options

Under the company's savings-related share option schemes, options were outstanding on a total of 14 million ordinary shares at prices between 73.42p and 159.00p, exercisable between 1998 and 2004.

Under the company's senior executives' share option schemes, options were outstanding on a total of 25 million ordinary shares at prices between 82.95p and 225.02p, exercisable between 1998 and 2007. There are currently 284 executives with outstanding options, of whom 74 are overseas.

Under the company's worldwide share option scheme, options were outstanding on a total of 4 million ordinary shares at prices between 145.88p and 231.69p, exercisable between 1998 and 2001. There are currently 5,662 employees with these options, of whom 2,064 are overseas.

Of the 43 million options outstanding under the company's various option schemes, 29 million have an exercise price above the share price of 122p at 31st March 1998.

(c) Warrants

At 31st March 1998 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. 47 million warrants were exercised on 4th May 1998, which resulted in the issue of 47 million ordinary shares subsequent to the year end. The residual 6 million warrants lapsed.

| | Share premium account £m | Revaluation reserves £m | Other reserves £m | Goodwill reserve £m | Profit and loss account £m | Total £m |
|---|-----------------------------------|-------------------------------|-------------------------|---------------------------|-------------------------------------|-------------|
| 32 Movements on share premium account and reserves | | | | | | |
| Group | | | | | | |
| At beginning of year | 296 | 176 | 213 | (377) | 11 | 319 |
| Retained loss for year | - | - | - | - | (235) | (235) |
| Premium on shares issued | 2 | - | - | - | - | 2 |
| Revaluations in year | - | 33 | - | - | - | 33 |
| Goodwill written off (note 35) | - | - | - | (22) | - | (22) |
| Goodwill written back (note 7) | - | - | - | 9 | - | 9 |
| Unrealised exchange rate adjustments | - | (127) | (11) | 40 | 30 | (68) |
| Transfers between reserves | 4 | (15) | - | - | 11 | - |
| At end of year | 302 | 67 | 202 | (350) | (183) | 38 |
| Company | | | | | | |
| At beginning of year | 296 | - | 45 | (5) | 106 | 442 |
| Retained profit for year | - | - | - | - | 23 | 23 |
| Goodwill written back | - | - | - | 5 | - | 5 |
| Premium on shares issued | 2 | - | - | - | - | 2 |
| Transfers between reserves | 4 | - | (4) | - | - | - |
| At end of year | 302 | - | 41 | - | 129 | 472 |

The profit for the year attributable to shareholders of the company was £77 million (1997 £46 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.

The net exchange gains and losses on foreign currency borrowings less deposits included within revaluation reserve amounted to a profit of nil (1997 profit £5 million).

32 Movements on share premium account and reserves *continued*

The goodwill reserve represents goodwill on acquisitions arising over the past 12 years. The reserve excludes goodwill on acquisitions made more than 12 years ago and no longer identifiable.

The parent company's goodwill adjustment of £5 million in the year arises from goodwill transferred to Profit and Loss Account, on the transfer of that goodwill to other Pilkington subsidiary companies.

| | 1998 £m | 1997 £m |
|--|------------|------------|
| Group | | |
| Analysis of the retained loss for the year | | |
| <i>Retained by:</i> | | |
| Pilkington plc | 23 | (6) |
| Subsidiary undertakings | (266) | (50) |
| | (243) | (56) |
| Joint ventures | 5 | 7 |
| Associates | 3 | (1) |
| | (235) | (50) |

The distributable reserves of the parent company amount to £129 million. The share premium account and other reserves of the parent company are not available for distribution to shareholders in normal circumstances.

33 Minority interests (balance sheet)

| | 1998 £m | 1997 £m |
|-------------------------------|------------|------------|
| Equity minority interests | 136 | 122 |
| Non equity minority interests | 211 | 164 |
| | 347 | 286 |

The non equity minority interests relate principally to the preference shareholders in Pilkington Channel Islands Limited, who have a right to a dividend of 6.55%. In addition, any proceeds obtained by Pilkington Channel Islands Limited on repayment of a Eurobond of \$369 million (£221 million) issued by Pilkington Finance Limited to Pilkington Channel Islands Limited will be used, inter alia, to redeem these preference shares for \$369 million (£221 million) after 4th March 2003.

During the year 99% of the non equity preference minority interests in Pilkington Deutschland GmbH were acquired by Group companies for £109 million.

34 Reconciliation of operating profit to net cash inflow from operating activities

| | 1998 | | 1997 | |
|---|------|-------|------|------|
| | £m | £m | £m | £m |
| Operating (loss)/profit | | (21) | | 108 |
| Exceptional items (included in operating profit) | | 156 | | 40 |
| Operating profit before exceptional items | | 135 | | 148 |
| Depreciation | | 148 | | 149 |
| Deferred income released less receivable | | - | | (5) |
| (Profit)/loss on disposal of tangible fixed assets (included in operating profit) | | (1) | | 1 |
| Others (net) | | 4 | | (3) |
| <i>Cash (outflow)/inflow arising from changes in working capital:</i> | | | | |
| Stocks and work in progress | (7) | | 19 | |
| Debtors | (13) | | 19 | |
| Creditors | 14 | (6) | (4) | 34 |
| Provisions | | 4 | | (1) |
| Exceptional costs – restructuring and disposal of operations | | (100) | | (35) |
| Net cash inflow from operating activities | | 184 | | 288 |

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 | |
|---|--------------|------------|------------|------------|
| | 1998 £m | 1997 £m | 1998 £m | 1997 £m |
| <i>Net assets of subsidiary undertakings comprised:</i> | | | | |
| Tangible fixed assets | (68) | (8) | 20 | 33 |
| Stocks | (7) | (2) | 9 | 20 |
| Debtors | (14) | (4) | 5 | 26 |
| Loans and finance leases | 45 | 1 | (3) | – |
| Creditors and provisions | 16 | 8 | (6) | (12) |
| Deferred income | 1 | – | – | – |
| Minority interest | 12 | – | 3 | – |
| | (15) | (5) | 28 | 67 |
| Costs incurred on disposals | – | – | – | 9 |
| Provisions re disposals | – | – | 75 | (7) |
| Goodwill | (22) | (7) | 9 | – |
| Loss on disposal | – | – | (73) | (8) |
| | (37) | (12) | 39 | 61 |
| Satisfied by – cash | (16) | (8) | 39 | 61 |
| – transfers from joint ventures and associates | (21) | (4) | – | – |
| | (37) | (12) | 39 | 61 |

In 1998 the cash consideration paid was £20 million and cash acquired was £4 million.

The principal acquisitions were Changchun Pilkington Safety Glass Co Limited (30th June 1997) and Pilkington Sandoglass Sp.z o.o. (31st August 1997), both of which were formerly associates, and the acquisition of shares from the previous minority in Santa Lucia Cristal S.A.C.I.F., in Argentina (30th September 1997). Details of the shareholdings are given on page 46. In addition, further shares were acquired from the minority shareholders of Flachglas AG.

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

The principal disposals were the building products downstream businesses in the United Kingdom (throughout the second half of the year) and the automotive glass replacement businesses in Canada (12th September 1997) and in New Zealand (26th February 1998). Provisions have been created for the building products downstream operations in Germany, which will be sold in 1998/99.

| | Acquisitions | | Disposals | |
|--|--------------|------------|------------|------------|
| | 1998 £m | 1997 £m | 1998 £m | 1997 £m |
| <i>Other investments comprised:</i> | | | | |
| (Purchased)/sold – joint ventures | – | – | 11 | 4 |
| – associates | (1) | – | 24 | – |
| – trade investments | (10) | (2) | – | – |
| | (11) | (2) | 35 | 4 |
| Profit on disposal | – | – | 30 | – |
| | (11) | (2) | 65 | 4 |
| Satisfied by – cash | (11) | (2) | 44 | – |
| – transfers to subsidiary undertakings | – | – | 21 | 4 |
| | (11) | (2) | 65 | 4 |

The principal profit on disposal of investments arises in respect of the realisation of the 'B' class shares in the joint venture Pilkington Optronics Limited.

| | 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 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) |
| Net cash movement | 11 | (39) | (7) | (1) | 15 | (21) |
| Subsidiaries acquired | 4 | - | - | (45) | - | (41) |
| Subsidiaries sold | - | - | - | 3 | - | 3 |
| New finance leases undertaken | - | - | - | - | (5) | (5) |
| Exchange rate adjustments | (10) | 2 | (1) | 36 | 2 | 29 |
| Balance at the year ended 31st March 1998 | 120 | (81) | 31 | (552) | (77) | (559) |

Marketable investments are liquid resources and consist of:

| | |
|---------------------|-----------|
| - government bonds | 8 |
| - other investments | 23 |
| | 31 |

37 Employee pay and numbers (excluding directors)

| | 1998 £m | 1997 £m | | 1998 £m | 1997 £m |
|--|------------|------------|--|------------|------------|
| United Kingdom | | | Overseas | | |
| <i>Remuneration – aggregate for the year</i> | | | <i>Remuneration – aggregate for the year</i> | | |
| Wages and salaries | 142 | 145 | Wages and salaries | 560 | 651 |
| Social security costs | 11 | 11 | Social security costs | 93 | 99 |
| Pension costs | 9 | 12 | Pension costs | 38 | 43 |
| | 162 | 168 | | 691 | 793 |

| | 1998 Number | 1997 Number |
|--|----------------|----------------|
| <i>Location of employees – average number employed</i> | | |
| United Kingdom | 7,100 | 7,900 |
| Europe (excluding United Kingdom) | 16,400 | 16,300 |
| North America | 8,000 | 8,500 |
| Australasia | 3,700 | 3,600 |
| South America | 2,600 | 2,800 |
| | 37,800 | 39,100 |

At 31st March 1998 total numbers employed were: United Kingdom 6,000 (1997 – 7,500), and overseas 29,400 (1997 – 30,700).

38 Directors' emoluments

The basis of executive directors' remuneration is set out in the Report of the Remuneration Committee on pages 7 and 8.

| <i>Directors' emoluments were:</i> | Base salary £000 | Other benefits £000 | 1998 Total £000 | Base salary £000 | Other benefits £000 | 1997 Total £000 |
|------------------------------------|---------------------------------|------------------------------------|--------------------------------|------------------------|---------------------------|-----------------------|
| Executive directors | | | | | | |
| Paolo Scaroni* | 524 | 1 | 525 | - | - | - |
| Glen Nightingale | 270 | 15 | 285 | 260 | 16 | 276 |
| Andrew Robb | 270 | 20 | 290 | 260 | 16 | 276 |
| Warren Knowlton* | 117 | 9 | 126 | - | - | - |
| Roger Leverton** | 150 | 4 | 154 | 416 | 26 | 442 |
| Peter Grunwell | - | - | - | 472 | 10 | 482 |
| Sir Robin Nicholson | - | - | - | 132 | 5 | 137 |
| Non executive directors | | | | | | |
| Sir Nigel Rudd (Chairman) | 153 | - | 153 | 120 | - | 120 |
| Sir Michael Quinlan | 25 | - | 25 | 25 | - | 25 |
| John Macomber | 22 | - | 22 | 22 | - | 22 |
| Lord Simpson | 25 | - | 25 | 25 | - | 25 |
| Hans-Peter Keitel | 22 | - | 22 | 22 | - | 22 |
| Total emoluments | 1,578 | 49 | 1,627 | 1,754 | 73 | 1,827 |
| Pension costs | | | 501 | | | 1,064 |
| | | | 2,128 | | | 2,891 |

*Paolo Scaroni was appointed to the board on 1st April 1997 and became group chief executive on 20th May 1997.

Warren Knowlton was appointed to the board on 28th October 1997 and the emoluments shown are from that date.

**Roger Leverton resigned from the board on 20th May 1997.

Directors' emoluments, benefits and pension arrangements

- Sir Nigel Rudd's remuneration amounted to £153,000 (1997 £120,000) of which £90,000 (1997 £120,000) was paid to Williams PLC, his employer.
- Paolo Scaroni was the highest paid director in 1998 (1997 Roger Leverton).
- Bonuses are payable to all executive directors, except Paolo Scaroni, based on the Group achieving specific profit and cash flow targets. No bonuses were paid in 1998 (1997 nil). In the event that all targets had been fully achieved, the maximum performance bonus payable would have been £317,000 (1997 £509,000).
- Paolo Scaroni is responsible for his own pension arrangements. Only the basic salary of the other executive directors is pensionable. Glen Nightingale is a member of the Pilkington Executive Pension Scheme which entitles him to a pension on retirement of two thirds of pensionable salary. The company paid an annual contribution to the pension scheme of 30% of his salary.

Andrew Robb's and Roger Leverton's pension arrangements are affected by the Inland Revenue cap on approved pension benefits. Their pension arrangements entitle them to a pension on retirement of two thirds of pensionable salary. 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 £367,000 of which £138,000 was attributable to Roger Leverton.

Warren Knowlton is a member of the United States based Libbey-Owens-Ford pension schemes which are effectively money purchase arrangements. The company pays an annual contribution to these schemes of 30% of salary, plus the related tax liability, amounting to £53,000, from 28th October 1997.

Payments to former directors

- Peter Grunwell, following his retirement from the board, retained his chairmanship of Libbey-Owens-Ford Co in the United States until 31st December 1997, for which he was paid £105,000.
- Roger Leverton received £930,000 in respect of compensation for loss of office under the terms of his contract of service, covering a lump sum settlement, the taxable benefit of his company car and life insurance provisions. Provision of £1,004,000 was also made to fund his pension, to which he will become entitled at age 60.

38 Directors' emoluments *continued***Accrued pension entitlements**

The increases in annual accrued pension entitlements for each of the above directors under defined benefit pension schemes, the total annual accrued pension payable at the normal retirement age of 60, and the transfer value of the additional entitlement (representing the capital sum required to fund the additional entitlement, which is calculated in accordance with the advice of independent actuaries on a basis consistent with that used for similar calculations under the Group's pension schemes) are as follows:

| | Years of service | Accrued annual pension payable | | Transfer value of additional entitlement |
|------------------|---------------------|-----------------------------------|-------------------------------|--|
| | | During 1998 £000 | At 31st March 1998 £000 | At 31st March 1998 £000 |
| Glen Nightingale | 35 | 4 | 174 | 64 |
| Andrew Robb | 8 | 10 | 82 | 151 |
| Roger Leverton | 5 | 67 | 219 | 1,142 |

The transfer value of Roger Leverton's additional entitlement at 31st March 1998 of £1,142,000 includes £138,000 in respect of the period he served as a director until 20th May 1997 and £1,004,000 in respect of his compensation for loss of office, as stated above.

Directors' options

The aggregate of the gains made in the year, on the exercise of SAYE share options, by Glen Nightingale and Andrew Robb, amounted to £8,000, as detailed in note 39.

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 | 1998 | 1997 |
|---|---------|---------|
| Personal interests (including holdings, if any, of the director's wife and children under 18) | | |
| Sir Nigel Rudd | 256,250 | 156,250 |
| Paolo Scaroni | 300,000 | – |
| Glen Nightingale | 35,845 | 29,696 |
| Andrew Robb | 125,000 | 75,000 |
| Warren Knowlton | 90,000 | – |
| Sir Michael Quinlan | 2,899 | 2,827 |
| John Macomber | 31,250 | 31,250 |
| Lord Simpson | 32,943 | 26,702 |
| Hans-Peter Keitel | – | – |

There have been no changes in directors' interests between 31st March 1998 and 4th June 1998.

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 1997 | Senior executives' share options granted | Lapsed during year | Exercised during year | At 31st March 1998 | Weighted average exercise price | Earliest date from which exercisable | Last expiry date |
|--|------|-------------------------|---|--------------------------|-----------------------------|--------------------------|--|--|------------------------|
| Paolo Scaroni | (i) | 309,597 | 3,550,000 | – | – | 3,859,597 | 132.50p | 20.11.1999 | 26.6.2007 |
| Glen Nightingale | (i) | 531,552 | 125,467 | (112,279) | – | 544,740 | 172.17p | 15.7.1991 | 9.7.2007 |
| | (ii) | 15,588 | – | – | (5,393) | 10,195 | 102.02p | 10.8.1995 | 10.8.2002 |
| Andrew Robb | (i) | 489,287 | – | (4,541) | – | 484,746 | 206.21p | 12.1.1993 | 1.7.2006 |
| | (ii) | 12,993 | 32,976 | – | (12,993) | 32,976 | 121.30p | 7.7.2000 | 7.7.2007 |
| Warren Knowlton | (ii) | – | 468,619 | – | – | 468,619 | 119.50p | 16.7.2000 | 16.7.2007 |
| | | <u>1,359,017</u> | <u>4,177,062</u> | <u>(116,820)</u> | <u>(18,386)</u> | <u>5,400,873</u> | <u>141.88p</u> | | |
| <i>Analysis of total</i> | | | | | | | | | |
| (i) Exercise price exceeds the market price at 31st March 1998 | | 1,330,436 | 3,675,467 | (116,820) | – | 4,889,083 | 144.25p | | |
| (ii) Exercise price is below market price at 31st March 1998 | | 28,581 | 501,595 | – | (18,386) | 511,790 | 119.27p | | |
| | | <u>1,359,017</u> | <u>4,177,062</u> | <u>(116,820)</u> | <u>(18,386)</u> | <u>5,400,873</u> | <u>141.88p</u> | | |

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

Options were granted under the senior executives' share option scheme to Paolo Scaroni on 26th June 1997 at an exercise price of 130p per share, to Glen Nightingale on 9th July 1997 at an exercise price of 123.8p per share, to Andrew Robb on 7th July 1997 at an exercise price of 121.3p per share and to Warren Knowlton on 16th July 1997 at an exercise price of 119.5p per share.

Glen Nightingale exercised 5,393 options under the SAYE share option scheme on 15th January 1998 at an exercise price of 73.42p per share. The market price on the date of exercise was 117p per share. Andrew Robb exercised 12,993 options under the SAYE share option scheme on 15th January 1998 at an exercise price of 73.42p per share. The market price on the date of exercise was 117p per share.

4,541 options held by Andrew Robb under the SAYE share option scheme lapsed during the year. 112,279 options held by Glen Nightingale under the senior executives' share option scheme lapsed during the year.

Following the resignation of Roger Leverton on 20th May 1997, the exercise period for options granted to him expires on 31st December 1999. 12,477 of Roger Leverton's options lapsed during the year. He retains 238,256 options with a weighted average exercise price of 181.41p, the exercise price of which exceeds the market price at 31st March 1998 and 735,070 options, with a weighted average exercise price of 102.02p, the exercise price of which is below the market price at 31st March 1998.

The market price of a Pilkington share at close of business on 31st March 1998 was 122p (1997 – 120p) and the range during 1997/98 was 104p to 167p (1997 – 120p to 219p).

In relation to the 3,550,000 options granted to Paolo Scaroni during the year, 2,242,308 shares were purchased in the market by an employee share trust (note 19). The options are exercisable in stages between three and six years after grant and subject to the achievement of share price and earnings per share growth targets of 15% per annum.

Deferred bonus plan

Under this plan the 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 director held options to acquire, at no additional cost, the following number of matching shares under the plan:

| | Options held at 1st April 1997 | Options held at 31st March 1998 |
|-------------|--------------------------------------|--|
| Andrew Robb | 29,269 | 29,269 |

The exercise period for the 27,981 options previously granted to Roger Leverton expires on 11th December 1999.

The aggregate cost of the shares purchased by the trustees for the directors' matching shares during the year was nil (1997 £39,000). In accordance with UITF 13, the cost of these shares is charged against profits over the three year option life.

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 1998 was £47 million (1997 £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 £9 million (1997 £12 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 14.

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 4.9% (1997 – 4.2%). The actuarial value of the fund assets of these plans was sufficient to cover 114% (1997 – 109%) 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 £8 million (1997 £12 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 £429 million (1997 £477 million). Accrued pension costs amounted to £1 million (1997 £1 million) and are included in creditors (note 24). Provisions for the benefit obligation of the unfunded plans mentioned above amounted to £152 million (1997 £173 million) and are included in provisions (note 27).

Healthcare benefits

Accounting for unfunded post-retirement healthcare and life insurance benefits of approximately 2,600 employees and 7,300 retirees and their dependants of Libbey-Owens-Ford Co in the USA, and 200 employees and 1,500 retirees and their dependants in the United Kingdom, accords with the requirements of UITF 6.

The Group's obligation for these benefits, principally at Libbey-Owens-Ford Co, was assessed by independent qualified actuaries at 1st April 1997 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 7.5%.

41 Related party transactions

Transactions with joint ventures and associates were as follows:

| | 1998 | | 1997 | |
|---------------------------------------|----------------------|------------------|----------------------|------------------|
| | Joint ventures £m | Associates £m | Joint ventures £m | Associates £m |
| Sales by Pilkington Group | 2 | 1 | 4 | 2 |
| Purchases by Pilkington Group | 37 | 8 | 44 | 9 |
| Interest received by Pilkington Group | 3 | – | 3 | – |

Amounts owed by and owing to joint ventures and associates are shown in notes 21, 22, 24 and 25.

The following list of subsidiary undertakings comprises those companies that principally affect the financial statements of the Group. The percentage beneficial holding in subsidiary undertakings relates to equity shares unless otherwise specified. All holdings are through Pilkington Brothers Limited, a direct subsidiary of the parent company, unless otherwise stated. Undertakings indicated + are audited by professional accountants other than Coopers & Lybrand, and, added to the joint ventures and associates appearing in notes 17 and 18, represent approximately 19% of the Group's assets employed. All subsidiary undertakings account to 31st March 1998.

| Subsidiary undertakings | Country of operation and incorporation | % Equity held | Product or activity |
|--|--|---------------|------------------------------------|
| 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 EOMAG AG | Austria | 95 | Glass processing |
| Pilkington Norge AS | Norway | 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 |
| Pilkington International Glass Poland SA | Poland | 83 | Glass processing |
| Pilkington Sandoglass Sp.z o.o.+ | Poland | 56 | Glass manufacturing |
| SIV SpA | Italy | 100 | Glass manufacturing |
| Pilkington Micronics Limited | United Kingdom | 100 | Glass for data storage and display |
| Pilkington Special Glass Limited | United Kingdom | 100 | Optical and special 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 |
| Rest of the World | | | |
| Pilkington (Australia) Limited | Australia | 100 | Glass manufacturing and processing |
| Vidrieria Argentina SA+ | Argentina | 51 | Glass manufacturing |
| Vidrios Lirquen SA+ | Chile | 26 | Glass manufacturing |
| Santa Lucia Cristal S.A.C.I.F.+ | Argentina | 100 | 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 |
| Changchun Pilkington Safety Glass Co Limited+ | China | 51 | Glass processing |
| 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 Channel Islands Limited (subsidiary of Pilkington plc) | Jersey | 66 | Finance management |
| Pilkington Channel Islands Limited preference shares (held by Pilkington Channel Islands Holdings Limited) | Jersey | 16 | |
| Pilkington Deutschland GmbH | Germany | 100 | Holding company |
| Pilkington Deutschland GmbH preference shares | Germany | 99 | |
| Dahlbusch AG | Germany | 99 | Investment and property company |

| | 1998 | 1997 | 1996 | 1995 | 1994 |
|--|----------------|----------------|--------|---------|-------|
| | £m | Restated £m | £m | £m | £m |
| Turnover | 2,991 | 3,096 | 2,899 | 2,676 | 2,737 |
| Profits | | | | | |
| Operating profit | 135 | 152 | 214 | 170 | 104 |
| Exceptional items | (225) | (55) | (157) | (392) | 25 |
| Group profit/(loss) – before taxation and exceptionals | 125 | 132 | 212 | 144 | 72 |
| – before taxation | (100) | 77 | 55 | (248) | 97 |
| – after taxation | (162) | 28 | (8) | (292) | 65 |
| Group (loss)/profit attributable to shareholders of Pilkington plc | (181) | 2 | (25) | (323) | 40 |
| Dividends | 54 | 52 | 48 | 34 | 32 |
| Assets employed | | | | | |
| Tangible fixed assets | 1,566 | 1,596 | 1,845 | 1,659 | 1,663 |
| Investments in joint ventures, associates and other undertakings | 182 | 181 | 200 | 224 | 225 |
| Net current assets | 267 | 445 | 617 | 330 | 501 |
| Total assets less current liabilities | 2,015 | 2,222 | 2,662 | 2,213 | 2,389 |
| Financed by | | | | | |
| Total shareholders' funds | 559 | 837 | 971 | 826 | 783 |
| Minority interests | 347 | 286 | 303 | 303 | 271 |
| Creditors over one year, provisions and deferred income | 1,109 | 1,099 | 1,388 | 1,084 | 1,335 |
| Funds invested | 2,015 | 2,222 | 2,662 | 2,213 | 2,389 |
| Cash flow from | | | | | |
| Operating activities | 184 | 288 | 217 | 328 | 306 |
| Dividends from joint ventures and associates | 17 | 13 | 22 | 18 | 5 |
| Returns on investments and servicing of finance | (84) | (38) | (81) | (87) | (60) |
| Taxation (paid)/received | (42) | (44) | (67) | (19) | 8 |
| Capital expenditure (net) | (186) | (130) | (183) | (141) | (107) |
| Acquisitions and disposals | 56 | 51 | (160) | 48 | 49 |
| Dividends | (51) | (50) | (33) | (29) | (18) |
| Liquid resources | 7 | (1) | 49 | (42) | (4) |
| Financing | 71 | (107) | 232 | (56) | (140) |
| (Decrease)/increase in cash | (28) | (18) | (4) | 20 | 39 |
| Key figures | | | | | |
| Capital expenditure on tangible assets | 211 | 186 | 232 | 161 | 125 |
| Operating profit before exceptional items to turnover | 4.5% | 4.9% | 7.4% | 6.4% | 3.7% |
| (Loss)/earnings per share | (17.4p) | 0.2p | (2.9p) | (40.7p) | 5.1p |
| Earnings per share excluding exceptional items | 4.5p | 5.8p | 14.0p | 8.6p | 2.0p |
| Dividends per share – declared | 5.0p | 5.0p | 5.0p | 4.2p | 4.0p |
| Dividend cover | (3.4) | 0.04 | (0.5) | (9.5) | 1.2 |
| Share price | | | | | |
| – high | 167p | 219p | 222p | 207p | 203p |
| – low | 104p | 120p | 161p | 143p | 114p |
| – as at 31st March | 122p | 120p | 209p | 164p | 183p |
| Warrant price | | | | | |
| – high | 53p | 102p | 105p | 100p | 96p |
| – low | 4p | 16p | 55p | 45p | 29p |
| – as at 31st March | 9p | 16p | 93p | 59p | 83p |

The figures for 1994 to 1996 inclusive have not been amended to reflect changes to the profit and loss account disclosures of joint ventures and associates following adoption of FRS 9.

Results and cash flow for the year 1994 have not been restated to reflect the use of average exchange rates.