



PILKINGTON

Directors' Report and Accounts 1999

Financial statements

For the year ended 31st March 1999

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Directors' report

The directors of Pilkington plc present their annual report and the audited financial statements for the year ended 31st March 1999.

The Group profit and loss account for the year is set out on page 20 and in the accompanying notes.

Principal activities

The principal activities and operations of the Group are described on pages 4 to 14 of the Annual Review and Summary Financial Statement. The principal subsidiary undertakings are listed on page 51 and the principal joint ventures and associates in notes 19 and 20 respectively of the notes to the financial statements. Further information, including details of important events affecting the business of the Group, its joint ventures and associates, is given in the Chairman's Statement and the Financial Review.

Results and dividends

Profit on ordinary activities before taxation and exceptional items was £135 million (1998 £120 million). The profit on ordinary activities before taxation but after exceptional items was £118 million (1998 loss £105 million). The profit attributable to shareholders of Pilkington plc was £54 million (1998 loss £186 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, makes a total dividend for the year of 5.0p per ordinary share (1998 – 5.0p). Payment of the recommended final dividend, if approved at the annual general meeting, will be made on 13th August 1999 to shareholders registered on 18th June 1999.

Share capital

At 31st March 1999 there were 1,092 million ordinary shares of 50p each in issue (1998 – 1,042 million shares).

Options were granted in the year to employees and directors under the company's share option schemes in respect of 13 million shares (1998 – 16 million shares).

Further details of changes in the share capital are shown in note 34 to the financial statements.

Substantial shareholdings

At 1st June 1999, the company had been notified of the following interest in its ordinary share capital:

	No of shares (millions)	% of issued share capital
Franklin Resources, Inc.	165	15.1

Research and development

Research and development expenditure for the Group amounted to £39 million for the year to 31st March 1999 (1998 £43 million). Just under half of this expenditure is in the UK, primarily at the Pilkington European Technical Centre at Lathom, Lancashire and the remainder is at the Group's R&D facilities at sites in the USA and Europe.

Employment policy and practice

At 31st March 1999 there were 31,100 people working for the Group worldwide, of whom 18 per cent were employed in the United Kingdom, 45 per cent in the rest of Europe, 21 per cent in North America and 16 per cent in the rest of the world.

Directors' report

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 of 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 UK which services management development programmes. Group companies also have their own training programmes for their employees. Most UK businesses have now achieved the Investors in People standard.

Health and safety

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

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.

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 will be found on pages 14 and 15 of the Annual Review.

Pilkington and the community

During the year Pilkington made donations to charitable organisations in the UK amounting to £137,000 (1998 £177,000). Donations to charitable organisations overseas amounted to £310,000 (1998 £421,000). 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 £4 million are reported in note 26 to the financial statements, and represent 39 days of average daily purchases.

Directors

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

Lord Simpson retired as a director on 30th April 1999, Sir Michael Quinlan is to retire as a director following the annual general meeting and Glen Nightingale will retire as a director at the end of October 1999 on reaching the normal retirement age for executive directors.

William Harrison, James Leng and Oliver Stocken were appointed to the board on 11th September 1998. In accordance with the company's Articles of Association they will offer themselves for election as directors at the annual general meeting.

In accordance with the company's Articles of Association, Glen Nightingale, Andrew Robb and Hans-Peter Keitel 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 the Report on Directors' Remuneration on pages 7 to 11.

Post-balance sheet event

On 26th May 1999 the Group announced its plans to reorganise and streamline its automotive manufacturing operations in North America. This will involve the closure of a plant and the transfer of its production to two other existing facilities in North America. The programme is expected to involve exceptional restructuring costs of approximately £30 million, of which half are expected to be cash costs. No adjustment for this has been made in the financial statements.

Annual general meeting

The notice convening the annual general meeting to be held at the Pilkington European Technical Centre, Hall Lane, Lathom, Nr. Ormskirk, Lancashire L40 5UF on Thursday, 22nd July 1999 at 11.30 am, is sent to shareholders separately with this report, together with an explanation of the items of special business.

Auditors

Coopers & Lybrand merged with Price Waterhouse on 1st July 1998 to form a new firm PricewaterhouseCoopers. Coopers & Lybrand resigned as auditors and the directors appointed the new firm, PricewaterhouseCoopers, as auditors.

PricewaterhouseCoopers 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. Special notice of the intention to propose this resolution was received by the company on 6th May 1999 in accordance with section 379(1) of the Companies Act 1985.

By order of the board,

John McKenna

Secretary

3rd June 1999

Corporate governance

The board's policy is to manage the affairs of the company in accordance with the Combined Code – Principles of Good Governance and Code of Best Practice, which is annexed to the Listing Rules of the London Stock Exchange.

The company has complied with the provisions of Section 1 of the Code of Best Practice throughout the year, except for the formal appointment of a senior independent director and the introduction of one-year notice periods in service contracts for current executive directors, both of which are discussed below.

The board is awaiting detailed guidance as to the scope, extent and nature of the review referred to in Paragraph D.2.1 of the Code of Best Practice. Until such detailed guidance has been published, the company complies with the requirements of Paragraph 12.43A(b) of the Listing Rules by reporting on internal financial controls only as permitted by the London Stock Exchange.

The company's compliance with the Combined Code has been reviewed by the auditors, PricewaterhouseCoopers, to the extent specified by the London Stock Exchange and their report is given on page 52.

The board of directors

The board consists of a non-executive chairman, the chief executive, three executive directors and five non-executive directors. It meets regularly throughout the year and has adopted a schedule of matters reserved for its decision. The board directs and controls the Group and is responsible for strategy and operating performance. All directors have access to the company secretary, and, to enable the board to discharge its duties, all directors have full access to all information. Any director, who, in furtherance of his duties, wishes to take external advice, may do so at the expense of the company.

All directors seek election to the board at the annual general meeting following their appointment and thereafter seek re-election by rotation every three years. Every director receives appropriate training on the first occasion that he is appointed to the board, and subsequently as necessary.

The non-executive directors do not participate in any of the Group's pension schemes or in any of the Group's bonus, share option or other incentive schemes. The board considers that all the non-executive directors are independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement.

The board does not consider it necessary to identify a single senior non-executive director, in addition to the chairman, to whom concerns can be conveyed. The chairmen of the Audit and Remuneration Committees are both non-executive directors and either may be approached in circumstances where shareholders feel it inappropriate to contact the chairman or chief executive.

Board and executive committees

Certain matters are delegated by the board to the following committees:

- **Management Committee.** This committee consists of the executive directors and certain senior managers under the chairmanship of Paolo Scaroni and formulates policy and strategy for the board's approval. This 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. This committee is also responsible for monitoring key research and development programmes and the operation of technology licences to and from the Group. It is responsible for ensuring that the policies of the board are carried out on a Group-wide basis.

- **Audit Committee.** This committee consists of all the non-executive directors under the chairmanship of Sir Michael Quinlan, who will retire following the annual general meeting and will be succeeded by Oliver Stocken. This committee has responsibility for reviewing the Group's internal control systems, its 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.** This committee consists of all the non-executive directors under the chairmanship of James Leng. It is responsible for determining the company's 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.
- **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. It formulates and reviews senior management succession plans, is responsible for the overall direction of the development of the Group's management resources and approves the terms and conditions of employment of the senior management.
- **Nomination Committee.** This committee consists of all the non-executive directors, together with the chief executive, under the chairmanship of Sir Nigel Rudd. It is responsible for nominating candidates for the board as executive and non-executive directors.

Directors' remuneration

The board's report on directors' remuneration is contained on pages 7 to 11. This report details the remuneration policy and particulars of the remuneration of each director. A significant proportion of the remuneration of the executive directors is linked to corporate and individual performance.

Careful consideration has been given to the suggestion in the Combined Code that notice periods in executive directors' service agreements should not generally exceed one year. Following such consideration it has been decided to honour the existing service agreements, which contain a two years' notice provision, but it is the intention that in future the notice period in the standard service agreement to be offered to any new executive director will be one year.

The board has considered whether the circumstances are such that the annual general meeting should be invited to approve the policy set out in the board's report on directors' remuneration, and has decided that it is not necessary to do so this year.

Relations with shareholders

Meetings with principal institutional investors are held on a regular basis. There is an opportunity for individual shareholders to question directors at the annual general meeting and to discuss any issues on an informal basis at the conclusion of that meeting. In addition, a web site containing published information, including press releases, has been created, which can be found at www.pilkington.com.

Internal control

The company 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).

Corporate governance

The board is 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 membership and roles of these committees are described above.

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 to committees of the board, 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 board has 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 directors' report and the financial statements to the extent they consider necessary for expressing their audit opinion.

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

The board intends to report to shareholders on their review of internal controls next year once the necessary guidance as to the scope of such review and the procedures to be undertaken has been issued by the London Stock Exchange.

Report on directors' remuneration

The Remuneration Committee, which consists of all the non-executive directors, determines the terms and conditions of employment of the executive directors and approves suitable performance-related pay formulae and the issue of options under the Group's senior executive share option and bonus schemes. 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 the remuneration policy, full consideration has been given to Schedule B of the Combined Code.

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 country of employment.

All elements of the terms and conditions of employment are reviewed against external 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.

Executive directors' remuneration

The normal remuneration arrangements for executive directors consist of basic salary, benefits which include 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 arrangements can vary according to the individual.

The remuneration of the executive directors was as follows:

	Basic salary £000	Other benefits £000	Annual bonus £000	1999 Total £000	Basic salary £000	Other benefits £000	Annual bonus £000	1998 Total £000
Paolo Scaroni	575	2	110	687	524	1	–	525
Glen Nightingale	270	16	50	336	270	15	–	285
Andrew Robb	270	20	50	340	270	20	–	290
Warren Knowlton*	321	126	112	559	117	9	–	126
Roger Leverton	–	–	–	–	150	4	–	154
Total	1,436	164	322	1,922	1,331	49	–	1,380

*appointed 28th October 1997

Details of pension arrangements are noted below.

It should be noted that:

- Paolo Scaroni was the highest paid director in 1999 and 1998.
- In addition to basic salary, all executive directors 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 director's contribution to it and is payable only if specific profit performance targets are met. These targets are set each year by the Remuneration Committee and payments to executive directors for 1999 were capped at a maximum of 60 per cent of basic salary, except for the arrangement for Warren Knowlton who is also entitled to a bonus based on the profits of the automotive businesses in North America.

The bonus payable to Paolo Scaroni has to be used in connection with the acquisition of shares pursuant to the rules of the deferred bonus plan.

Report on directors' remuneration

In the event that all targets had been fully achieved, the maximum performance bonuses payable to directors would have been £723,000 (1998 £317,000).

- Warren Knowlton moved to the United States of America from 21st June 1998 and his salary has increased to take account of United States conditions. His benefits include expenses arising from his move to the United States of America amounting to £87,000.
- Paolo Scaroni is currently 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 annual contributions as a proportion of salary to the pension scheme of 12½ per cent in April 1998, 18 per cent from May 1998 until 1st August 1998 and 12½ per cent thereafter. The aggregate cost was £38,000 (1998 £81,000).

Andrew Robb's pension arrangements are affected by the Inland Revenue cap on approved pension benefits. These pension arrangements entitle him 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 for in the financial statements. The aggregate cost of these arrangements was £412,000 (1998 £229,000).

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 per cent of salary, plus the related tax liability. In 1999 this amounted to £187,000 (1998 £53,000 from 28th October 1997).

- The increases in annual inflation-adjusted accrued pension entitlements for each of the executive directors participating in 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 settlement, 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 1999 £000	At 31st March 1999 £000	At 31st March 1999 £000	At 31st March 1999 £000
Glen Nightingale	36	–	178		1
Andrew Robb	9	8	91		145

Share options and deferred bonus plan

The Group strongly believes in the value of employee share ownership, in order to align their interests with those of shareholders, and therefore encourages employee participation in share options and share purchase schemes. As a result of such schemes, many of the Group's employees have interests in the company's shares. As an additional emphasis this year all senior executives have been given share ownership targets which they are asked to achieve by 2002. The target for the Group chief executive is 325,000 shares and for each of the other executive directors is 165,000 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 a senior executives' scheme in the United Kingdom and overseas.

The Remuneration Committee, which administers the senior executives' 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 years to exceed the rate of price inflation over that period by at least 6 per cent. The second target requires the total shareholder return on a share in the company over a rolling period of three years to exceed the total shareholder return of the FT-SE Actuaries All Share Index over the same period.

The options held by the executive directors under the share option schemes are detailed below. In order to provide concise disclosure and to accord with the requirements of UITF10, a weighted average exercise price for the options has been calculated, identified separately for these 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 year end designated (ii):

		At 1st April 1998	Senior executives' share options granted	SAYE share options granted	Lapsed during year	At 31st March 1999	Weighted average exercise price	Earliest date from which exercisable	Last expiry date
Paolo Scaroni	(i)	3,859,597	–	8,193	–	3,867,790	132.50p	20.11.99	26.6.07
Glen Nightingale	(i)	554,935	119,088	2,163	(101,828)	574,358	155.17p	10.8.92	24.6.08
Andrew Robb	(i)	517,722	–	–	–	517,722	200.80p	12.1.93	7.7.07
	(ii)	–	61,773	–	–	61,773	65.40p	1.12.01	1.12.08
Warren Knowlton	(i)	468,619	474,979	–	–	943,598	118.69p	16.7.00	24.6.08
		<u>5,400,873</u>	<u>655,840</u>	<u>10,356</u>	<u>(101,828)</u>	<u>5,965,241</u>	<u>137.73p</u>		
<i>Analysis of total</i>									
(i) Exercise price exceeds the market price at 31st March 1999									
		5,400,873	594,067	10,356	(101,828)	5,903,468	138.49p		
(ii) Exercise price is below market price at 31st March 1999									
		–	61,773	–	–	61,773	65.40p		
		<u>5,400,873</u>	<u>655,840</u>	<u>10,356</u>	<u>(101,828)</u>	<u>5,965,241</u>	<u>137.73p</u>		

It should be noted that:

- Options granted under the senior executives' share option scheme to Paolo Scaroni in respect of 3,550,000 shares are exercisable in stages between three and six years after grant and subject to achievement of share price and earnings per share growth targets of 15 per cent per annum. Subsequent to 31st March 1999 Paolo Scaroni has waived his entitlement to exercise such options. Paolo Scaroni continues to be entitled to exercise options under the senior executives' share option scheme in respect of 309,597 shares.
- Options were granted under the senior executives' share option scheme to Glen Nightingale and Warren Knowlton on 24th June 1998 at an exercise price of 117.9p per share and to Andrew Robb on 1st December 1998 at an exercise price of 65.4p per share.
- Options were granted under the savings-related share option scheme to Paolo Scaroni and Glen Nightingale on 3rd July 1998 at an exercise price of 119p per share.

Report on directors' remuneration

- Options in respect of 101,828 shares held by Glen Nightingale under the senior executives' share option scheme lapsed during the year.
- The market price of a share in the company at close of business on 31st March 1999 was 82.5p (1998 – 122p) and the range during 1998/99 was 50.5p to 148p (1998 – 104p to 167p).
- During the year, none of the executive directors exercised any of their share options.

Under the deferred bonus plan, the executive directors and certain senior management were entitled to invest half or all of their performance-related bonus, after tax, in the company's shares which, if deposited with the trustees of the plan for a minimum period of three years, would be matched by the company on a one-for-one basis. Currently the plan will match the shares purchased on a two-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 participant purchases his shares. Paolo Scaroni will participate in the plan from 1999 on the above basis except that all his bonus before tax has to be used in connection with the acquisition of the company's shares and he does not have a cash alternative.

At 1st April 1998 Andrew Robb had an option to acquire at no additional cost 29,269 shares in the company under the plan. On 15th June 1998 Andrew Robb exercised his options over 21,214 shares acquired at nil cost which he has retained. At 31st March 1999 Andrew Robb held options to acquire at no additional cost 8,055 shares in the company under the plan.

Service agreements

Each of the executive directors has a service agreement which is terminable by the company on giving not less than two years' notice. The Remuneration Committee has given careful consideration to the Combined Code on Corporate Governance which suggests that notice periods should not generally exceed one year. Following such consideration it has been decided to honour the existing service agreements, which contain a two years' notice provision, but it is the intention that in future the notice period in the standard service agreement to be offered to any new executive director will be one year.

External appointments

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.

Non-executive directors' remuneration

The fees of the non-executive directors are determined by the board as a whole. They are not eligible for pension scheme membership and do not participate in any of the Group's bonus, share option or other incentive schemes.

Sir Nigel Rudd's remuneration amounted to £200,000 (1998 £153,000), of which £nil (1998 £90,000) was paid to Williams PLC, his employer.

The other non-executive directors received a basic fee of £22,000 per annum (1998 £22,000). With effect from 1st April 1999, this basic fee has been increased by £5,000 to £27,000. The whole of this increase of £5,000 will normally be applied on behalf of such non-executive director in acquiring shares in the company.

The chairman of both the Audit and Remuneration Committees each received an additional fee of £3,000 per annum (1998 £3,000) in respect of their services as chairman of such committees. With effect from 1st April 1999, this chairmanship fee has been increased by £2,000 to £5,000.

Details of the remuneration paid to non-executive directors are as follows:

	Fees £000	Other benefits £000	1999 Total £000	Fees £000	Other benefits £000	1998 Total £000
Sir Nigel Rudd (Chairman)	200	–	200	153	–	153
Sir Michael Quinlan	25	–	25	25	–	25
John Macomber*	7	–	7	22	–	22
Lord Simpson	25	–	25	25	–	25
Hans-Peter Keitel	22	–	22	22	–	22
William Harrison**	12	–	12	–	–	–
James Leng**	12	–	12	–	–	–
Oliver Stocken**	12	–	12	–	–	–
	315	–	315	247	–	247

* Retired 23rd July 1998

**Appointed 11th September 1998

Share interests

The interests of the directors (including holdings, if any, of each director's wife and children under 18) in the share capital of the company at 31st March were:

	1999	1998
Sir Nigel Rudd	556,250	256,250
Paolo Scaroni	400,000	300,000
Glen Nightingale	49,250	35,845
Andrew Robb	146,214	125,000
Warren Knowlton	635,000	90,000
Sir Michael Quinlan	6,073	2,899
John Macomber (retired 23rd July 1998)	–	31,250
Lord Simpson	33,376	32,943
Hans-Peter Keitel	–	–
William Harrison	–	–
James Leng	1,682	1,634*
Oliver Stocken	51,468	50,000*

*At date of appointment

There have been no changes in directors' interests between 31st March 1999 and the announcement of the Group's results on 3rd June 1999.

Financial review

Accounting policies

Five new financial reporting standards, issued by the Accounting Standards Board, have been introduced and are applicable to Pilkington's financial statements this year.

The principal changes arise under FRS 10 and FRS 12, details of which are fully summarised in note 7 to the financial statements.

Acquisitions and divestments

The remaining shares in Floatex Glas AB in Sweden and Pilkington IGP SA in Poland were acquired during the year from the former minority shareholders.

The downstream processing and merchanting Building Products activities in Germany have been either sold or closed with the exception of two businesses that are still to be sold. The effect of these disposals is to reduce turnover for the year by approximately £70 million, but previous lossmakers have been removed from the Group.

Year 2000 compliance

Ensuring Year 2000 compliance remains a top business priority. Last year it was reported that the Group had implemented a worldwide programme to manage the risk that computer systems and equipment with embedded microprocessors were not Year 2000 compliant. This was to mitigate the risk of computers or equipment malfunctioning at the millennium change.

Group companies 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 the implementation of those plans is on schedule with all systems having been assessed and most already converted or replaced. All our major suppliers have been asked to confirm compliance with Year 2000 requirements and provide appropriate warranties.

Although it is impossible to guarantee fault-free performance under any circumstances, every effort has been made to identify and resolve the challenges presented well before the Year 2000. While testing is continuing, the disciplined approach employed will result in the successful identification and resolution of each Year 2000 issue.

As a back up to this programme, the Group is also developing Year 2000 contingency plans to ensure continuity of manufacture and key product delivery, including, where appropriate, an increase in inventory levels for supplies as well as finished products.

The remaining costs still to be incurred are not expected to be material.

Economic and monetary union in Europe

The Pilkington Group has a significant presence in the eurozone with over one third of its sales being generated there. The Group has, therefore, embraced Economic and Monetary Union as part of a single European market and as an opportunity for improving business efficiency and reducing costs.

The first business priority is to meet customer requirements as they pursue their own plans to adopt the euro. Our automotive OE customers have largely converted their purchasing requirements to the euro and, accordingly, the European automotive OE business has now adopted that currency for accounting and sales purposes. Other businesses will follow as market requirements dictate.

The Group has decided that, during the transitional period of stage three of EMU, it will continue reporting its results in sterling. European businesses will adopt the euro as their reporting currency from April 2001 at the latest.

Group systems will be replaced or upgraded and staff trained to handle euro denominated transactions. The Group's businesses have been preparing for EMU since early 1998 through project teams, and from January 1st 1999 the ability to transact in euros with most of our business partners has been in place.

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 in the Group at £2,469 million decreased by 8 per cent at constant exchange rates, due largely to business disposals. Building Products accounted for 48 per cent of turnover, Automotive Products for 45 per cent, Technical Products 6 per cent and others 1 per cent.

Operating profits from continuing operations before exceptional items of £160 million were 23 per cent up on the previous year. Further benefits due to the cost saving from the substantial restructuring programmes in Automotive and Building Products resulted in profits in Europe of £103 million, an increase of 67 per cent on 1998.

In North America, profits of £25 million were down on the previous year due to the impact of the General Motors strike and the Asian and South American recessions.

Profits in the rest of the world of £36 million were adversely affected by the impact of the Brazilian recession, although Australasia reported a strong performance due to the significant savings from the restructuring programme.

Joint ventures and associates contributed £240 million to turnover and £54 million to operating profit. Turnover fell by £50 million following the disposal of shares in Pilkington Optronics Ltd last year. The principal joint venture, Cebrace in Brazil, experienced a fall in profit due to recession, but this was more than compensated by a strong performance from the principal associate, Vitro Plan SA de CV in Mexico.

Exceptional items

Exceptional items totalled a charge of £18 million, being principally the one-off impact of the 35 per cent devaluation of the Brazilian currency (£14 million), plus £4 million of redundancy costs.

Investment income and interest

Interest payable less receivable, net of investment income of £1 million, was £79 million, which has increased from £66 million in the previous year. The interest charge includes the impact on borrowing costs of the devaluation of the Mexican peso and the Polish zloty which totalled £14 million. Net interest costs were covered two and a half times by profit before interest and exceptional items.

Profit before taxation

Profit before taxation and all exceptional items of £135 million represented a 13 per cent increase on the reported result for 1998. In constant currency terms the profit before taxation and exceptional items was equivalent to £154 million, an increase of 28 per cent. The profit before taxation after exceptional items was £118 million (1998 loss £105 million). The tax charge for 1999 of £42 million on profits before exceptional items (1998 £56 million), represented an effective tax rate of 31 per cent (1998 – 47 per cent).

Earnings and dividends

Profit attributable to minorities, before exceptional items, of £22 million was the same as last year.

Earnings per share attributable to shareholders before exceptional items increased to 6.5p from 4.1p in 1998, based on the average number of shares in issue of 1,083 million.

The directors have proposed a final dividend of 3.25p per share, making 5.0p for the year. Dividends are covered once by attributable earnings.

Cash flow and investments

Operating profit, after adding back depreciation and goodwill amortisation, generated an inflow of £314 million, £31 million more than in 1998. The investment in working capital increased by £13 million, as compared to £6 million in 1998. Exceptional restructuring cost £98 million of cash (1998 £100 million).

Cash flow from operations totalled £195 million, an increase of £11 million from 1998. Details are shown in note 37 to the financial statements. Dividends received from joint ventures and associates of £17 million were the same as last year.

Financial review

Returns on investments and servicing of finance were slightly lower at £79 million (1998 £84 million). Taxation paid of £29 million was £13 million less than last year.

Purchase of tangible fixed assets totalled £201 million (1998 £201 million). After taking account of assets acquired under finance leases, capital expenditure totalled £202 million (1998 £206 million). This includes £38 million expenditure on cold repairs of float glass plants at Weiherhammer in Bavaria, and at Rossford in Ohio. More than £73 million of expenditure was directed to the restructuring and expansion of the European automotive business.

Acquisitions cost £9 million, compared with £16 million last year. Proceeds from divestments of businesses and asset disposals totalled £54 million (1998 £98 million).

Net cash outflow before financing and dividends was £58 million, which compared to an outflow of £55 million last year.

Borrowings and shareholders' funds

Borrowings, net of cash and marketable investments, were £610 million at 31st March 1999, an increase of £51 million. Net debt increased by £12 million at 31st March 1999 due to exchange movements. The net debt/total equity ratio was 56 per cent, 1 per cent more than last year.

Shareholders' funds at 31st March 1999, including minority interests, were £1,097 million. The reconciliation of the movement in shareholders' funds set out on page 21 of the financial statements shows a net increase of £82 million, of which £1 million was in respect of the retained loss, including the net exceptional charge of £17 million, £56 million from shares issued and the balance of £27 million due to exchange movements during the year.

Finance and liquidity

The Group finances its operations through a mixture of retained profits, bank facilities, borrowings raised in the capital markets in London and New York and shares held by third parties in subsidiary companies (minority shareholdings). Funding is raised centrally by the Group Treasury function, usually through the Group's finance company, and then lent to operating subsidiaries on commercial terms. In some cases operating subsidiaries have external borrowings but these are supervised and controlled by the Group Treasury function.

Bank debt is principally in the form of committed multi-currency bilateral facilities with a range of maturities from one year to seven years. These are unsecured with the exception of certain project loans. Capital market debt typically has longer maturities averaging ten years or more.

In addition, the Group obtains funding from securitisation programmes under which receivables are sold on a non-recourse basis to banks in the ordinary course of business. The Group is not obliged to support any losses on the non-recourse element of the receivables sold. At the end of March 1999 the total of receivables sold under these programmes was £102 million (1998 £36 million).

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of borrowings with a range of maturities. At any one time the Group aims to maintain committed borrowing facilities approximately 25 per cent in excess of its estimated gross borrowing requirement. At the year end the Group had committed facilities of £982 million, of which £656 million was drawn. It also has access to substantial lines of uncommitted funds which are used principally to manage day-to-day liquidity. Wherever practicable, pooling, netting or concentration techniques are employed to minimise gross debt.

During the year the maturity profile of borrowings was extended through new committed bilateral bank facilities and through the extension of existing bilateral bank facilities. Shortly after the year end, in April 1999, the Group completed a new US private placement facility which raised \$250 million in senior unsecured fixed interest notes with an average life of approximately 11 years and a maximum maturity of 15 years.

Treasury and hedging policies

The Group Treasury function operates as a cost centre and is subject to policies and procedures agreed by the board. Its purpose is to manage the financial risks of the business effectively and to secure finance at minimum cost. Its activities are covered by guidelines, exposure limits and a system of authorities. A treasury report is submitted regularly to the board and performance is monitored closely, with independent reviews undertaken by the Group internal audit function.

The Group is exposed to a variety of market risks, including the effects of changes in foreign currency exchange rates, interest rates and interest spreads. In the normal course of business, the Group also faces risks that are either non-financial or non-quantifiable, including country and credit risk.

Credit risk exposures are minimised by dealing only with a limited number of financial institutions with strong credit ratings and by working within agreed counter party operating limits.

The Group uses interest rate swaps, futures and forward exchange contracts to manage the primary market exposures associated with its underlying assets, liabilities and anticipated transactions.

Speculative use of financial instruments or derivatives is not permitted and none has occurred during the year.

The Group operates an interest rate policy designed to optimise interest cost and reduce volatility. Interest rates are fixed on a proportion of debt for up to 10 years (and, for a relatively small proportion, up to 15 years). This is achieved partly through the fixed rate character of the underlying debt instrument and partly through the use of straightforward derivatives (forward rate agreements and interest rate swaps).

The balance of fixed and floating rate debt is adjusted from time to time to take account of movements in the interest rate environment, although the Group's policy is to keep between 30 per cent and 70 per cent of borrowings at fixed or capped rates of interest. At 31st March 1999, 39 per cent of gross financial liabilities (inclusive of the non-equity minority preference shares) were at fixed rates for an average period of nearly three and a half years.

Currency risk

The Group has transactional currency exposures arising from sales or purchases by an operating unit in currencies other than the unit's functional currency.

Under the Group's foreign exchange policy, such transaction exposures are hedged once they are known, mainly through the use of forward foreign exchange contracts.

The Group has significant investments in overseas operations, particularly in continental Europe, North America, South America and Australasia. As a result, the Group's sterling balance sheet can be significantly affected by movements in exchange rates.

The Group seeks to mitigate the effect of these exposures by borrowing in the same currencies as the functional currencies of the main operating units and by using currency swaps to match the currency of some of its borrowings more closely in proportion to the spread of its assets. The Group aims to match as equally as possible the impact of currency movements on the Group's debt and on shareholders' funds so that balance sheet gearing is relatively unaffected by such movements.

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 28 to the financial statements.

At the end of March 1999, 22 per cent of the Group's borrowings were in sterling, 22 per cent in US dollars, 14 per cent in deutschmarks, 18 per cent in Italian lira and 24 per cent in other currencies. As a consequence of this policy, some 30 per cent of Pilkington's total capital and reserves at the end of 1999 was denominated in sterling.

Financial resources

At 31st March 1999 the Group had available but undrawn committed borrowing facilities totalling £326 million, of which £269 million have a 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.

Accounting policies

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

The Group has adopted the new financial reporting standards (FRS) numbers 10, 11, 12, 13 and 14, which became applicable during the year. Following the adoption of FRS 10 on Goodwill and Intangible Assets, the Group decided to restate prior years by capitalising all goodwill, previously written off to reserves, arising after the introduction of FRS 7, i.e. after 1st April 1995.

The adoption by the Group of the other new accounting standards referred to above has not had a material effect on the Group profit for the year.

Details of the changes in accounting policies are summarised in note 7.

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 results and financial position 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 that control of the undertaking passes to the Group.

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 the company.

2 Goodwill

The Group has adopted FRS 10 on Goodwill and Intangible Assets with effect from 1st April 1998. For all acquisitions since 1st April 1995, any difference between the cost of acquisition of a subsidiary undertaking and the fair value of its separable net assets at acquisition is capitalised as goodwill.

All goodwill arising on acquisitions prior to 1st April 1995 has been written off to reserves.

Where an acquired company is subsequently sold (and where goodwill has been previously written off to reserves and can be identified), the profit or loss on disposal is calculated by including goodwill in the profit and loss account for the year.

Goodwill carried in the balance sheet as an intangible asset is amortised, on a straight line basis, over periods not exceeding 20 years, such periods being chosen to reflect its useful expected life.

3 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:

	1999		1998	
	Average	Year end	Average	Year end
German deutschmark	2.88	2.92	2.91	3.10
US dollar	1.65	1.62	1.64	1.67
Australian dollar	2.66	2.55	2.30	2.53

Exchange differences arising on the translation of the net assets of overseas subsidiary undertakings, joint ventures and associates 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.

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.

4 Financial derivatives

The Group uses currency swaps and forward currency contracts to manage its exposure to foreign currency exchange risks and hedge its investments in overseas subsidiaries and investments designated in foreign currencies. Such financial instruments are treated as hedges against the underlying assets or liabilities, with matching accounting treatments and cash flows. All gains or losses are taken to the statement of total recognised gains and losses until the instrument and the underlying hedged investment is sold, when the profit or loss arising is taken to the profit and loss account as realised. Any instruments no longer designated as hedges are restated at market value and any gains or losses are taken directly to the profit and loss account.

In addition, the Group uses interest rate swaps to manage the balance of its fixed and floating rate debt. Interest differentials and interest rate swap agreements are recognised in the Group's profit and loss account by adjustment of the interest expense over the period of the agreement.

Where there is a legal right of set-off between a deposit and a loan, the two are offset within the financial statements.

The Group excludes all short term debtors and creditors from its derivatives and financial instrument disclosures (other than those on currency risk relating to monetary assets and liabilities).

5 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.

6 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.

7 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.

8 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. 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.

Accounting policies

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 of tangible fixed assets

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 treats investments in undertakings which are jointly controlled as joint ventures. Investments in undertakings where the Group has a participating interest, where the investment is held for the long term and where the Group 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.

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.

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; and
- ii) other timing differences;

to the extent that, in the opinion of the directors, the potential tax liability or asset will become payable or recovery made in the foreseeable future.

A deferred tax asset is fully recognised in respect of the United States post-retirement healthcare benefits.

Group profit and loss account

For the year ended 31st March 1999

	Note	Before exceptional items		Total including exceptional items	
		1999 £m	1998 Restated £m	1999 £m	1998 Restated £m
Turnover					
Group turnover – total continuing operations	1	2,469	2,701	2,469	2,701
Share of joint ventures' and associates' turnover	4	240	290	240	290
Turnover including joint ventures and associates		2,709	2,991	2,709	2,991
Operating profit/(loss)					
Group operating profit/(loss) on continuing operations	1,8,9	160	130	146	(26)
Share of joint ventures' and associates' operating profit	4	54	56	50	56
Operating profit including joint ventures and associates		214	186	196	30
Profit on disposal of fixed assets and investments	8	–	–	–	4
Profit/(loss) on disposal of operations	8	–	–	1	(73)
Profit/(loss) before investment income and interest		214	186	197	(39)
Investment income	10	1	3	1	3
Net interest payable and similar charges	11	(80)	(69)	(80)	(69)
Profit/(loss) on ordinary activities before taxation		135	120	118	(105)
Taxation	12	(42)	(56)	(42)	(62)
Profit/(loss) on ordinary activities after taxation		93	64	76	(167)
Minority interests (including non-equity shares)	13	(22)	(22)	(22)	(19)
Profit/(loss) for the financial year attributable to shareholders of Pilkington plc		71	42	54	(186)
Dividends	14			(55)	(54)
Retained loss of the Group	35			(1)	(240)
Earnings/(loss) per share	15	6.5p	4.1p	5.0p	(18.0)p
Fully diluted earnings/(loss) per share	15	6.5p	4.0p	5.0p	(17.8)p

The exceptional items charged against operating profits totalling £18 million in 1999 comprise the effects of the Brazilian devaluation (£14 million) and redundancy costs incurred (£4 million). In 1998 these items comprised restructuring charges totalling £156 million, more fully described in note 8.

Statement of total recognised gains and losses

For the year ended 31st March 1999

	1999	1998
	£m	Restated £m
Profit/(loss) attributable to shareholders of Pilkington plc (1998 note 7(a))	54	(186)
Other recognised gains/(losses)		
Exchange rate movements on foreign currency net investments:		
– subsidiaries	23	(59)
– joint ventures	3	(2)
– associates	1	(7)
Unrealised surplus on revaluations:		
– associates	–	33
Total other recognised gains/(losses)	27	(35)
Total recognised gains/(losses) relating to the year	81	(221)

Note of historical cost profits and losses

For the year ended 31st March 1999

There were no material differences between the reported profit on ordinary activities before taxation and the retained loss and their historical cost equivalents for the year. Similarly, there were no such differences in respect of 1998.

Reconciliation of movement in shareholders' funds

For the year ended 31st March 1999

	Note	1999	1998
		£m	Restated £m
Profit/(loss) attributable to shareholders of Pilkington plc	7a	54	(186)
Dividends	14	(55)	(54)
Other recognised gains/(losses)		27	(35)
Goodwill written back		–	9
Shares issued	34	25	3
Premium on shares issued	35	31	2
Net increase/(decrease) in shareholders' funds for the year		82	(261)
Shareholders' funds at beginning of the year, as restated		660	921
Shareholders' funds at end of the year		742	660

Balance sheets

As at 31st March 1999

	Note	1999		1998	
		Group £m	Company £m	Group Restated £m	Company £m
ASSETS EMPLOYED					
Fixed assets					
Intangible fixed assets	16	103	–	101	–
Tangible fixed assets	17	1,601	6	1,566	7
Investments – subsidiary undertakings	18	–	1,102	–	1,128
Investments – joint ventures:	19				
– share of gross assets		119	–	119	–
– share of gross liabilities		(35)	–	(44)	–
		84	–	75	–
Investments – associates	20	84	–	78	–
Investments – trade	21	29	–	29	–
Total fixed assets		1,901	1,108	1,849	1,135
Current assets					
Stocks	22	375	–	375	–
Debtors – amounts falling due within one year	23	390	34	469	17
– trade debtors subject to financing arrangements	23	102	–	36	–
– less non-returnable amounts received	23	(83)	–	(33)	–
– total debtors falling due within one year	23	409	34	472	17
Debtors – amounts falling due after more than one year	24	91	–	89	–
Investments – marketable	25	16	5	31	5
Cash at bank and in hand		97	–	120	4
		988	39	1,087	26
Creditors – amounts falling due within one year	26	729	64	820	133
Net current assets/(liabilities)		259	(25)	267	(107)
Total assets less current liabilities		2,160	1,083	2,116	1,028
FINANCED BY					
Creditors – amounts falling due after more than one year	27	526	–	479	–
Provisions for liabilities and charges	30	516	19	612	20
		1,042	19	1,091	20
Deferred income	32	21	12	18	15
Capital and reserves					
Called up share capital	34	546	546	521	521
Share premium account	35	–	–	302	302
Revaluation reserve	35	188	–	67	–
Other reserves (including special reserve)	35	286	374	202	41
Profit and loss account	35	(278)	132	(432)	129
Total equity shareholders' funds		742	1,052	660	993
Minority interests – equity	36	136	–	136	–
– non-equity	36	219	–	211	–
		355	–	347	–
Total		2,160	1,083	2,116	1,028

The financial statements on pages 16 to 51 were approved by the directors on 3rd June 1999.

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

Group cash flow statement

For the year ended 31st March 1999

	Note	1999 £m	1999 £m	1998 £m	1998 £m
Net cash inflow from operating activities	37		195		184
Dividends received from joint ventures			1		7
Dividends received from associates			16		10
Returns on investments and servicing of finance					
Interest – paid (excluding finance leases)		(61)		(65)	
– paid (finance leases)		(5)		(6)	
– received		7		16	
Dividends – received from other investments		1		3	
– paid to minority shareholders		(21)		(32)	
Net cash outflow from returns on investments and servicing of finance			(79)		(84)
Taxation paid			(29)		(42)
Capital expenditure					
Purchase of tangible fixed assets		(201)		(201)	
Disposals of tangible fixed assets		21		15	
Net cash outflow from capital expenditure			(180)		(186)
			(76)		(111)
Acquisitions and disposals					
Purchase of – subsidiary undertakings	38	(9)		(16)	
– joint ventures, associates and other investments	38	(6)		(11)	
Disposal of – subsidiary undertakings	38	29		39	
– joint ventures, associates and other investments	38	4		44	
Net cash inflow from acquisitions and disposals			18		56
Net cash outflow before dividends, management of liquid resources and financing			(58)		(55)
Equity dividends paid by parent company			(35)		(51)
Management of liquid resources – short term deposits	39		16		7
Financing					
Issue of Pilkington plc ordinary shares		56		3	
Issue of preference shares to minorities		-		191	
Repayment of preference shares to minorities		-		(109)	
New loans taken out	39	164		86	
Loans repaid	39	(177)		(85)	
Finance leases repaid	39	(11)		(15)	
Net cash inflow from financing			32		71
Decrease in cash			(45)		(28)

Cash flows of subsidiaries and businesses acquired and discontinued in the year to 31st March 1999 were not material.

Notes on the financial statements

	1999			1998		
	Turnover	Operating profit/(loss)	Net operating assets/(liabilities)	Turnover	Operating profit/(loss)	Net operating assets/(liabilities)
1 Segmental analysis of the Group's continuing operations before exceptional items	£m	£m	£m	£m	Restated £m	Restated £m
Building products	1,176	117	770	1,332	83	777
Automotive products	1,106	45	672	1,186	53	545
Technical products	169	8	120	178	16	112
Group operations and technology management	18	(10)	(8)	5	(22)	(26)
	2,469	160	1,554	2,701	130	1,408
Europe	1,489	109	953	1,544	73	842
North America	629	25	247	729	35	241
Rest of the World	333	36	362	423	44	351
Group operations and technology management	18	(10)	(8)	5	(22)	(26)
	2,469	160	1,554	2,701	130	1,408

The Companies Act 1985 requires the analysis of profit before tax but the analysis of operating profit is considered by the directors to be more meaningful, as the interest charge is managed by the Group Treasury function on a Group-wide basis.

Turnover derived from intra-segmental transactions between building products and automotive products amounted to £76 million in 1999 (1998 £86 million), between automotive products and building products amounted to £5 million (1998 £13 million), and between building products and technical products amounted to £8 million (1998 £12 million). Other intra-segmental turnover is not material.

Net operating assets are analysed in note 6.

2 Discontinued operations

Discontinued operations in 1999 and 1998 were not material and their results have been included within continuing operations in note 1.

3 Acquisitions

Acquisitions in 1999 principally related to acquiring the residual shareholdings from the former minorities in Floatex Glas AB (acquired on 1st April 1998) in Sweden and Pilkington IGP SA (acquired on 15th January 1999) in Poland and as such the results are already consolidated.

Further details regarding acquisitions made in the year are disclosed in note 38.

4 Segmental analysis of the Group's share of joint ventures and associates	1999			1998		
	Turnover	Operating profit	Net assets	Turnover	Operating profit	Net assets
	£m	£m	£m	£m	£m	£m
Joint ventures						
Building products	41	13	76	43	16	68
Automotive products	5	-	7	5	-	6
Technical products	2	-	1	57	3	1
Other trading companies	-	-	-	1	-	-
	48	13	84	106	19	75
Europe	6	-	7	61	3	6
North America	2	-	1	1	-	1
Rest of the World	40	13	76	43	16	68
Other trading companies	-	-	-	1	-	-
	48	13	84	106	19	75
Associates						
Building products	90	23	55	86	22	56
Automotive products	102	18	29	98	15	22
	192	41	84	184	37	78
Europe	-	-	-	4	1	-
North America	192	41	77	171	36	75
Rest of the World	-	-	7	9	-	3
	192	41	84	184	37	78
Total joint ventures and associates	240	54	168	290	56	153

The 1998 associates' turnover and operating profit as split by business line in respect of Vitro Plan SA de CV has been revised to assist comparability with the 1999 figures.

5 Geographical analysis of the Group's turnover by markets	1999		1998	
	Group £m	%	Group £m	%
Continuing operations				
Europe – EU	1,323	54	1,343	50
Europe – Non EU	129	5	138	5
North America	632	25	716	27
Australasia	143	6	197	7
South America	187	8	227	8
Rest of the World	55	2	80	3
	2,469	100	2,701	100

This analysis of turnover shows the markets in which the Group's products are sold, whereas the regional analysis in note 1 relates to the domicile of the Group undertakings making the sales.

Notes on the financial statements

	Continuing operations	
	1999	1998
6 Net operating assets	£m	£m
<i>The net operating assets referred to in note 1 comprise the following:</i>		
Intangible fixed assets	103	101
Tangible fixed assets	1,601	1,566
Stocks	375	375
Debtors – falling due within one year	392	442
Debtors – falling due after more than one year	37	36
Creditors – falling due within one year	(434)	(496)
Creditors – falling due after more than one year	(5)	(5)
Provisions	(515)	(611)
	1,554	1,408

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.

7 Changes in accounting policies

The Group has adopted the new financial reporting standards FRS 10 (Goodwill and Intangible Assets), FRS 11 (Impairment of Fixed Assets and Goodwill), FRS 12 (Provisions, Contingent Liabilities and Contingent Assets), FRS 13 (Derivatives and Other Financial Instruments: Disclosures) and FRS 14 (Earnings per Share). The following summarises the effect of the changes to the Pilkington Group's financial statements:

(a) FRS 10 (Goodwill and Intangible Assets)

In accordance with the standard, Pilkington has restated prior years by capitalising all goodwill, previously written off to reserves, arising after the introduction of FRS 7 (Fair Values in Acquisition Accounting), i.e. after 1st April 1995.

Goodwill at cost amounting to £109 million, less accumulated amortisation of £8 million to 31st March 1998, giving a net book value of £101 million, has been capitalised (note 16) and reserves increased by the same amount (note 35).

The profit and loss account for the year to 31st March 1998 has been restated to reflect an amortisation charge of £5 million. The remaining balance of £241 million on the goodwill reserve at 31st March 1998 has been transferred to the profit and loss reserve (note 35).

(b) FRS 12 (Provisions, Contingent Liabilities and Contingent Assets)

The previous policy of providing for the accrued proportion of the future estimated revenue costs of major glass tank repairs, carried out periodically, has changed in accordance with the new standard and the balance has been released to this year's profit and loss account (note 30(e)). All such revenue costs are now expensed in the period in which the float tanks are repaired.

(c) FRS 13 (Derivatives and Other Financial Instruments: Disclosures)

The financial review on pages 12 to 15 includes the discursive disclosures and notes 28 and 29 include numerical and other information required to be disclosed. As permitted, no restated comparative disclosures have been made except for the additional breakdown of finance leases disclosed in notes 26 and 27.

(d) FRS 14 (Earnings per Share)

Earnings per share and fully diluted earnings per share, as set out in note 15, have been calculated in accordance with the new standard. The amortisation of goodwill referred to under paragraph (a) above has given rise to a restated result on which the earnings per share were calculated for the year ended 31st March 1998 and, therefore, the previously reported earnings per share figures have been restated.

	1999	1998
	Continuing Total £m	Continuing Total £m
8 Exceptional items		
Costs charged to operating profit – Group	(14)	(156)
Costs charged to operating profit – Joint ventures	(4)	–
Profit on disposal of fixed assets and investments (net)	–	4
Profit/(loss) on disposal/termination of operations		
(Loss)/profit on disposal	(49)	6
Provision created in the year	–	(75)
Previous provision utilised	50	5
Goodwill written back	–	(9)
	1	(73)
	(17)	(225)
Taxation (note 12)	–	(6)
Attributable to minority interests	–	3
	(17)	(228)

The principal exceptional items in 1999 were as follows:

- A charge against the Group's operating profit of £10 million arising from the effect of the Brazilian devaluation and £4 million in respect of redundancy costs incurred. In addition, a further £4 million has been charged against operating profits of joint ventures arising from the effect of the Brazilian devaluation.
- Profit on disposal and termination of operations includes a profit of £2 million on the sale of a German subsidiary less the write-off of the goodwill intangible asset of £1 million, arising on the termination of a business in Denmark.

The principal exceptional item in 1998 was a charge against operating profits of £156 million, primarily in respect of rationalisation and redundancy costs, the largest element of which arose in Building Products Europe. The losses on disposal and termination of operations of £73 million included provisions of £75 million created relating to the building products downstream operations in Germany, most of which have been sold in 1998/99.

	1999	1998
	Continuing Total £m	Continuing Total £m
9 Statutory information		
Turnover	2,469	2,701
Cost of sales	(1,801)	(2,059)
Gross profit	668	642
<i>Net operating expenses:</i>		
Distribution costs	(204)	(251)
Administrative expenses	(318)	(417)
Operating profit/(loss)	146	(26)

The 1999 figures for continuing operations include £14 million of exceptional items as detailed in note 8 (1998 £156 million).

	1999	1998
	£m	£m
<i>Profit before taxation is stated after charging/(crediting):</i>		
Depreciation of tangible fixed assets – normal	148	148
– exceptional	–	17
Amortisation of intangible fixed assets	6	5
Net profit on disposal of tangible fixed assets	(4)	(1)
Operating lease costs – plant and machinery	24	26
– property	21	23
Total research and development expenditure	39	43
– financed directly by customers	(3)	(3)
'Year 2000' computer software modification costs	3	3
Costs incurred in respect of the introduction of the euro	2	–
<i>Auditors' remuneration:</i>		
Audit – PricewaterhouseCoopers (Audit of the company £183,000 (1998 £193,000))	2	2
Other services provided by PricewaterhouseCoopers – Overseas (UK – nil in 1999 and 1998)	1	1

Notes on the financial statements

10 Investment income	1999 £m	1998 £m
Unlisted trade investments	-	1
Listed marketable investments	1	2
	1	3

11 Net interest and similar charges	1999 £m	1998 Restated £m
Interest payable on bank loans and overdrafts	32	20
Interest payable on other loans	27	35
Interest payable on finance leases	5	6
Less interest receivable	(8)	(15)
	56	46
Other interest and similar charges	12	10
Share of joint ventures' interest	(2)	4
Share of associates' interest and similar charges	14	9
	80	69

The 1998 figures have been restated to disclose separately other interest and similar charges in order to identify a more accurate borrowing cost to the Group.

Interest payable includes the results of interest rate swap transactions.

12 Taxation	1999 £m	1998 £m
Profit and loss account		
<i>The taxation charge in the Group profit and loss account comprises:</i>		
United Kingdom corporation tax at 31 per cent (1998 – 31 per cent)	32	19
Less double taxation relief	(32)	(17)
	-	2
Overseas taxation	32	37
Deferred taxation	1	-
Advance corporation tax (written back)/written off	(1)	8
	32	47
Over provision in respect of prior years	(2)	-
	30	47
Share of joint ventures' taxation	2	4
Share of associates' taxation	10	11
	42	62

The tax charge includes £nil in respect of tax on exceptional items (1998 £6 million) (note 8).

12 Taxation continued	1999		1998	
	Group £m	Company £m	Group £m	Company £m
Balance sheets				
Assets (notes 23 and 24)				
Debtors – amounts falling due within one year				
Advance corporation tax recoverable	5	5	13	9
Corporation tax recoverable	–	–	12	–
Overseas tax recoverable	12	–	5	–
	17	5	30	9
Debtors – amounts falling due after more than one year				
Deferred taxation on post-retirement healthcare benefits	54	–	53	–
	54	–	53	–
Liabilities (note 26)				
United Kingdom corporation tax	7	–	8	1
United Kingdom advance corporation tax on dividends	–	–	13	9
Overseas taxation	33	–	31	–
	40	–	52	10

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

At 31st March 1999 certain United Kingdom and overseas subsidiary undertakings have accumulated tax losses estimated at £361 million (1998 £330 million) which are available for offset against future taxable profits in those companies. Advance corporation tax written off to date amounts to £26 million (1998 £27 million). The future benefit of these losses and advance corporation tax has not been accounted for in the provision for deferred taxation (note 31).

The taxation credit to profits for the year arising from deferred taxation, calculated on a full liability basis, would amount to £28 million (1998 £49 million).

13 Minority interests (profit and loss account)	1999 £m	1998 £m
Equity	6	13
Non-equity	16	6
	22	19

14 Dividends	Net paid/payable per ordinary share		Net paid/payable	
	1999 pence	1998 pence	1999 £m	1998 £m
<i>Equity shares:</i>				
Interim paid in scrip alternative on 12th February 1999 and paid in cash alternative on 6th April 1999	1.75	1.75	19	18
Final payable on 13th August 1999	3.25	3.25	36	36
	5.00	5.00	55	54

Notes on the financial statements

15 Earnings per share	1999	1998 Restated
Average number of shares for basic earnings per share calculation	1,083m	1,036m
Average number of shares for fully diluted earnings per share calculation	1,088m	1,043m
	£m	£m
Profit/(loss) for the financial year attributable to shareholders of Pilkington plc	54	(186)
Add exceptional items (note 8)	17	228
Profit for the financial year attributable to shareholders of Pilkington plc after adjusting for exceptional items	71	42
	pence	pence
Earnings/(loss) per share	5.0	(18.0)
Fully diluted earnings/(loss) per share	5.0	(17.8)
Adjusted earnings per share excluding exceptional items	6.5	4.1
Fully diluted adjusted earnings per share excluding exceptional items	6.5	4.0

The fully diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares for the dilution arising from the exercise of share options where the exercise price is less than the average market price of the company's ordinary shares during the year.

The adjusted earnings per share are 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.

16 Intangible fixed assets	Goodwill £m
At cost	
At beginning of the year (as restated)	109
Exchange rate adjustments	6
Additions	4
Disposals	(1)
At end of the year	118
Accumulated amortisation	
At beginning of the year (as restated)	8
Exchange rate adjustments	1
Amortisation for the year	6
Disposals	-
At end of the year	15
Written down value at end of the year	103

Details of the restatement in respect of goodwill is described under changes in accounting policies in note 7 (a).

The goodwill arising on the acquisitions in the year, principally the acquisitions of the former minority interests in Floatex Glas AB and Pilkington IGP SA, is being amortised on a straight line basis over two years and ten years respectively.

17 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 the year	789	2,188	2,977	7	4	11
Exchange rate adjustments	30	65	95	-	-	-
Changes in composition of the Group	(10)	(42)	(52)	-	-	-
Additions during the year	9	184	193	1	-	1
Transfer from Group undertaking	-	-	-	-	1	1
Assets sold or scrapped during the year	(18)	(50)	(68)	(2)	-	(2)
At end of the year	800	2,345	3,145	6	5	11
Accumulated depreciation						
At beginning of the year	319	1,092	1,411	2	2	4
Exchange rate adjustments	15	35	50	-	-	-
Changes in composition of the Group	(4)	(34)	(38)	-	-	-
Depreciation for the year	22	126	148	-	1	1
Utilisation of 1998 provision	-	20	20	-	-	-
Transfer from Group undertaking	-	-	-	-	1	1
Assets sold or scrapped during the year	(6)	(41)	(47)	(1)	-	(1)
At end of the year	346	1,198	1,544	1	4	5
Written down value at end of the year	454	1,147	1,601	5	1	6
<i>Cost or valuation at 31st March 1999 represented by:</i>						
Valuations in 1998/99	34	44	78	-	-	-
Cost	420	1,103	1,523	5	1	6
	454	1,147	1,601	5	1	6
<i>Land and buildings at net book value comprises:</i>						
Freehold	435			5		
Long leasehold	4			-		
Short leasehold	15			-		
	454			5		

The utilisation of the 1998 provisions of £20 million in respect of the German downstream operations of Building Products represents impairments of these fixed assets which have been recognised as part of the restructuring and reorganisation in Germany. This amount formed part of the £75 million exceptional provisions charged in the 1998 financial statements.

Tangible fixed assets include the cost of assets in the course of construction and payments on account amounting to £40 million (1998 £39 million).

Plant, machinery and vehicles include items acquired under finance leases comprising cost of £106 million (1998 £110 million), accumulated depreciation of £45 million (1998 £41 million) and written down value of £61 million (1998 £69 million). Depreciation charged in the year on these assets amounted to £7 million (1998 £8 million).

If the revalued tangible fixed assets, totalling a net book value of £78 million (1998 £63 million), all of which were revalued in 1999 by officers of the companies owning the assets, had been accounted for on an historical cost basis, their historical cost would have been £114 million (1998 £91 million), accumulated depreciation £49 million (1998 £38 million) and written down value at 31st March 1999 £65 million (1998 £53 million).

Interest capitalised in 1998 and 1999 was nil. The cumulative interest capitalised and included in the cost of tangible fixed assets over the last 10 years amounted to £12 million.

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

	1999 £m	1998 £m
Building products	48	60
Automotive products	130	131
Technical products	12	16
Group operations and technology management	3	4
	193	211

Notes on the financial statements

18 Investments – subsidiary undertakings (company)	Shares £m	Loans £m	Total £m
Cost			
At beginning of the year	538	590	1,128
Additions	1	–	1
Loans repaid	–	(26)	(26)
Amounts written off in the year	(1)	–	(1)
At end of the year	<u>538</u>	<u>564</u>	<u>1,102</u>

Principal subsidiary undertakings are listed on page 51.

19 Investments – joint ventures	1999 Group £m	1998 Group £m
Cost or valuation		
At beginning of the year	44	52
Exchange rate adjustments	2	(2)
Disposals	–	(3)
Transfer to subsidiary undertakings	–	(2)
Transfer to trade investments	–	(1)
	<u>46</u>	<u>44</u>
Share of post-acquisition profits less losses		
At beginning of the year	31	32
Exchange rate adjustments	1	–
Disposals	–	(6)
Retained profits	6	5
	<u>38</u>	<u>31</u>
At end of the year	<u>84</u>	<u>75</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 (Cebrace)	50%	31.3.99	Glass manufacturing	Brazil
Flovetro SpA	50%	31.12.98	Glass manufacturing	Italy

In addition, there are a further three joint ventures at 31st March 1999.

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

At 31st March 1999 the share of profits less losses retained by joint ventures included within the Group's profit and loss account balance amounted to £38 million (1998 £31 million), of which £5 million (1998 £2 million) is considered to be distributable, the remainder being subject to restriction within the countries in which the joint ventures operate.

19 Investments – joint ventures continued

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

	1999 £m	1998 £m
Fixed assets	99	97
Current assets	20	22
Liabilities due within one year	(20)	(29)
Liabilities due after more than one year	(15)	(15)
	<u>84</u>	<u>75</u>

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

	1999 £m	1998 £m
Turnover	40	44
Profit before taxation	10	13
Taxation	(2)	(4)
Profit after taxation	<u>8</u>	<u>9</u>
Fixed assets	94	91
Current assets	13	16
Liabilities due within one year	(17)	(26)
Liabilities due after more than one year	(14)	(13)
Net assets	<u>76</u>	<u>68</u>

20 Investments – associates

	1999 Group £m	1998 Group £m
Cost or valuation		
At beginning of the year	76	23
Exchange rate adjustments	2	(7)
Additions	4	1
Disposals	-	(3)
Transfer to subsidiary undertakings	-	(19)
Transfer from trade investments	-	48
Other movements	-	33
	<u>82</u>	<u>76</u>
Share of post-acquisition profits less losses		
At beginning of the year	2	2
Exchange rate adjustments	(1)	(1)
Disposals	-	(2)
Retained profits less losses	1	3
	<u>2</u>	<u>2</u>
At end of the year	<u>84</u>	<u>78</u>

Notes on the financial statements

20 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%	31.12.98	Glass manufacturing and processing	Mexico
Wuhan Yaohua Pilkington Safety Glass Co Limited+	46%	31.12.98	Glass processing	China
Holding Concorde SA+	49%	31.12.98	Glass manufacturing	Colombia

+Audited by a firm other than PricewaterhouseCoopers.

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

At 31st March 1999, the share of profits less losses retained by associates included within the Group's profit and loss account balance amounted to £2 million (1998 £2 million), of which £4 million of the profits (1998 £2 million) are considered to be distributable.

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

	1999 £m	1998 £m
Fixed assets	122	116
Current assets	50	48
Liabilities due within one year	(43)	(32)
Liabilities due after more than one year	(45)	(54)
	84	78

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:

	1999 £m	1998 £m
Turnover	192	171
Profit before taxation	28	27
Taxation	(10)	(11)
Profit after taxation	18	16
Fixed assets	115	114
Current assets	50	47
Liabilities due within one year	(43)	(32)
Liabilities due after more than one year	(45)	(54)
Net assets	77	75

	1999 Group £m	1998 Group £m
21 Investments – trade investments		
Cost or valuation		
At beginning of the year	29	72
Exchange rate adjustments	2	(6)
Additions	2	10
Disposals	(4)	(1)
Transfer from subsidiary undertakings	–	1
Transfer from joint ventures	–	1
Transfer to associates	–	(48)
At end of the year	<u>29</u>	<u>29</u>
Trade investments at end of the year		
Listed investments at cost	12	11
Unlisted investments at cost	17	18
	<u>29</u>	<u>29</u>
Historical cost of investments	29	29

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 per cent of this company, held through a subsidiary undertaking. SYP is quoted on the Shanghai Stock Exchange (market value £2 million).

Listed investments also include 2,312,315 shares in Pilkington plc held by an employee trust, of which 2,242,308 shares are held in respect of share options for Paolo Scaroni as referred to in the Report on Directors' Remuneration set out on pages 7 to 11 (1999 nominal value £1 million, market value £2 million). The additional shares are held in respect of share options for Andrew Robb and other senior executives. Subsequent to 31st March 1999 Paolo Scaroni has waived his entitlement to exercise such options and the shares will now be used to meet obligations under the share option or deferred bonus plan. The cost of these shares will be written off over five years.

	1999 Group £m	1998 Group £m
22 Stocks		
Raw materials	72	71
Stores	32	30
Work in progress	44	36
Value of work completed on long term contracts	–	3
Finished goods	227	235
	<u>375</u>	<u>375</u>

Notes on the financial statements

	1999		1998	
	Group £m	Company £m	Group £m	Company £m
23 Debtors – amounts falling due within one year				
Trade debtors	296	–	348	–
Amounts owed by – Group undertakings	–	27	–	5
– Joint ventures	12	–	22	–
Other debtors	52	2	44	3
Advance corporation tax recoverable	5	5	13	9
Corporation tax recoverable	–	–	12	–
Overseas tax recoverable	12	–	5	–
Prepayments and accrued income	13	–	25	–
	390	34	469	17
Trade debtors subject to factoring arrangements	102	–	36	–
Less non-returnable amounts received	(83)	–	(33)	–
Total debtors falling due within one year	409	34	472	17

Certain trade debtors, subject to factoring arrangements, are discounted, whereby 75 per cent or 90 per cent 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 £4 million (1998 £1 million) and is included in other interest and similar charges in note 11.

	1999		1998	
	Group £m	Company £m	Group £m	Company £m
24 Debtors – amounts falling due after more than one year				
Other debtors	37	–	36	–
Deferred taxation	54	–	53	–
	91	–	89	–

Deferred taxation represents the tax relief calculated at a tax rate of 34 per cent (1998 – 34 per cent) on the US post-retirement healthcare benefits.

	1999		1998	
	Group £m	Company £m	Group £m	Company £m
25 Investments – marketable				
<i>Other listed investments at cost:</i>				
– London Stock Exchange	5	5	2	5
– Other Stock Exchanges	4	–	5	–
	9	5	7	5
Unlisted investments at cost and at directors' valuation	7	–	21	–
Short term loans	–	–	3	–
	16	5	31	5

The market value of the listed investments at 31st March 1999 amounted to £10 million (1998 £7 million).

	1999		1998	
	Group £m	Company £m	Group £m	Company £m
26 Creditors – amounts falling due within one year				
Bank overdrafts	102	1	81	–
Current portion of – long term bank loans	75	–	24	–
– other long term loans	15	–	120	73
Loans and overdrafts (note 28)	192	1	225	73
Payments received on account	3	–	7	–
Trade creditors	252	4	274	3
Amounts owed to – Group undertakings	–	4	–	4
– Joint ventures	5	–	4	–
– Associates	–	–	2	–
Social security	17	–	17	–
Pension fund contributions	1	–	1	–
Taxation – on profits	40	–	52	10
– other than on profits	27	–	25	–
Amounts owing under finance leases (note 28)	10	–	11	–
Other creditors	39	2	53	2
Accruals	90	–	113	5
Dividends	53	53	36	36
	537	63	595	60
	729	64	820	133
Amounts secured on certain assets of undertakings in the Group	31	–	46	–

	1999		1998	
	Group £m	Company £m	Group £m	Company £m
27 Creditors – amounts falling due after more than one year				
Bank loans	203	–	124	–
Other loans	261	–	284	–
Loans (note 28)	464	–	408	–
Amounts owing under finance leases – within five years (note 28)	37	–	38	–
– over five years (note 28)	20	–	28	–
Other creditors	5	–	5	–
	62	–	71	–
	526	–	479	–
Amounts secured on certain assets of undertakings in the Group	114	–	123	–

Notes on the financial statements

28 Analysis of the financial liabilities shown in notes 26 and 27	Total £m	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	Fixed rate financial liabilities	
				Weighted average interest rate %	Weighted average period for which rate is fixed Months
Currency					
Sterling	162	150	12	7.06	32
US dollar	159	146	13	8.64	62
Deutschmark	101	78	23	7.21	49
Australian dollar	39	35	4	6.74	64
Italian lira	129	104	25	7.09	52
Swedish kroner	40	31	9	5.42	12
Finnish marks	34	15	19	4.16	12
Euro	9	1	8	10.58	57
Other currencies	50	16	34	17.10	12
Financial liabilities excluding non-equity shares	723	576	147	9.26	35
Non-equity minority shares	219	-	219	6.22	47
	942	576	366	7.44	41

The disclosures made in notes 28 and 29 should be read in conjunction with the finance and liquidity, treasury and hedging policies and currency risk sections of the Financial Review on pages 14 and 15.

The weighted average interest rate on the other currencies' fixed rate financial liabilities has been affected by a short term working capital Brazilian real loan with an interest rate of 35.16 per cent, taken out for a two week period.

The Group has two financial liabilities on which no interest is payable, an Australian dollar loan of \$20,000 and a United States dollar loan of \$251,000.

The financial liabilities, as defined by FRS 13, include the non-equity minority interests of £191 million, which relate to the preference shareholders in Pilkington Channel Islands Limited, who have a right to a fixed dividend of 6.55 per cent per annum, fixed for 47 months. In addition, any proceeds obtained by Pilkington Channel Islands Limited on repayment of a Eurobond of \$369 million (£228 million, 1998 £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 (£228 million) after 4th March 2003. The remaining non-equity minority shares of £28 million relate to Flachglas AG and Dahlbusch AG, who have a right to a dividend of 3.65 per cent and 3.09 per cent respectively. These rates remain fixed in perpetuity and, in consequence, the average periods for which the rates are fixed are excluded from the figures noted in the above table.

The maturity profile of the Group's financial liabilities at 31st March 1999 is as follows:

Loans, overdrafts and finance leases

	1999		1998	
	Group £m	Company £m	Group £m	Company £m
Loans and overdrafts				
Due for repayment within one year or on demand	192	1	225	73
Due for repayment between one and two years	99	-	33	-
Due for repayment between two and five years	246	-	244	-
Due for repayment in more than five years	119	-	131	-
	656	1	633	73
Finance leases				
Due for repayment within one year or on demand	10	-	11	-
Due for repayment between one and two years	11	-	10	-
Due for repayment between two and five years	26	-	28	-
Due for repayment in more than five years	20	-	28	-
	67	-	77	-
Total financial liabilities	723	1	710	73

29 Financial instrument disclosures

£m

(a) Financial assets

The Group held the following financial assets at 31st March 1999

Assets held as part of the financing arrangements of the Group:

Cash and bank balances	97
Marketable investments (held for resale)	5
Deposit account balances	2
	104

The cash and bank balances comprise £87 million in respect of balances earning interest and £10 million in respect of balances which are non-interest earning. The weighted average interest rate on the interest earning cash balances is 3.18 per cent.

The weighted average interest rate on the deposit account balances is 2.08 per cent.

(b) Currency exposures

As explained on page 15 of the Financial Review, the Group's objectives in managing the currency exposures arising from its net overseas investments are to maintain a low cost of borrowing and to ensure that changes in the sterling equivalent of assets and liabilities caused by currency movements do not significantly impact on Group gearing. Gains and losses arising from these currency exposures are recognised in the statement of total recognised gains and losses.

The following summary shows the Group's currency exposures that give rise to currency gains and losses recognised in the profit and loss account, arising from exposures where monetary assets and liabilities of the Group are not denominated in the operating currency of the subsidiary company concerned.

	Sterling £m	US dollar £m	Deutschmark £m	Italian lira £m	Euro £m	Australian dollar £m	Brazilian real £m	Other £m	Total £m
Functional currency of Group operation									
Sterling	-	(4)	(1)	3	1	-	-	(1)	(2)
US dollar	-	-	-	-	-	-	23	5	28
Deutschmark	-	(2)	-	-	(2)*	-	-	-	(4)
Australian dollar	1	-	-	-	-	-	-	2	3
Italian lira	-	(4)	(3)*	-	-	-	-	1	(6)
Other	2	2	3	-	1	-	-	3	11
	3	(8)	(1)	3	-	-	23	10	30

*These currencies are within the euro and, as such, the exposure to currency gains and losses arising in the future is eliminated. In addition, the £23 million in respect of Brazilian reals includes £12 million in respect of balances with the joint venture Cebrace, whose balance with the Group is also recorded in Brazilian reals.

The amounts disclosed above take into account the effect of currency swaps, forward contracts and other derivatives entered into to manage these currency exposures.

(c) Borrowing facilities

The Group has various available borrowing facilities. The undrawn committed facilities available at 31st March 1999 in respect of which all conditions precedent had been met at that date, were as follows:

	£m
Expiring in one year or less	57
Expiring in more than one year but not more than two years	137
Expiring in more than two years	132
	326

On 20th April 1999 the Group completed arrangements to borrow \$250 million (£154 million) redeemable on fixed dates between April 2006 and April 2014 with an average life of 11 years from the balance sheet date at 31st March 1999. This has not been reflected in these financial statements.

Notes on the financial statements

29 Financial instrument disclosures continued

(d) Fair values of financial assets and liabilities

The following summary shows the carrying amounts and fair values of the Group's financial assets and liabilities at 31st March 1999. The book values are included in the Group balance sheet under the indicated headings, with the exception of derivative financial instruments relating to borrowings which are included in debtors or creditors. The fair values of the financial instruments are the amounts at which the instruments could be exchanged in a current transaction between willing parties, other than a forced or liquidation sale.

	Book Value £m	Fair Value £m
Primary financial instruments held or issued to finance the Group's operations:		
Assets		
Cash deposits	97	97
Liabilities		
Short term borrowings and current portion of long term borrowings	(192)	(192)
Long term borrowings	(464)	(470)
Other financial liabilities (finance leases)	(67)	(67)
Derivative financial instruments held to manage the interest rate and currency profile:		
Interest rate swaps	-	1
Currency swaps	-	5
Derivative financial instruments held or issued to hedge the currency exposure on expected future sales:		
Forward foreign currency contracts	-	4
Financial instruments held or issued for trading:		
Assets		
Marketable investments	16	17
	(610)	(605)

Market values have been used to determine the fair value of all swaps, forward foreign currency contracts and all marketable investments. The fair value of all other items has been calculated by discounting expected future cash flows at prevailing interest rates.

(e) Hedges

As explained in the Financial Review on page 15, the Group's policy is to hedge the following exposures:

Interest rate risk – using interest swaps, currency swaps and foreign currency contracts.

Structural and transactional currency exposures, and currency exposures on future expected sales – using forward foreign currency contracts.

Gains or losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised.

Unrecognised gains or losses on instruments used for hedging and the movements therein, are as follows:

	Gains £m	Losses £m	Total net gains £m
Gains and losses arising before 1st April 1998 that were not recognised in 1998/99	5	(3)	2
Gains and losses arising in 1998/99 that were not recognised in that year	8	(3)	5
Unrecognised gains and losses on hedges at 31st March 1999	13	(6)	7
Expected to be recognised in 1999/00	-	-	-
Expected to be recognised in 2000/01 or later	13	(6)	7
	13	(6)	7

	1999 Group £m	1999 Company £m
30 Provisions for liabilities and charges		
(a) Post-retirement healthcare		
At beginning of the year	155	2
Exchange rate adjustments	4	-
Charged to profit and loss account during the year	10	-
Utilised during the year	(13)	-
At end of the year	156	2
Maturity profile:		
Within one year	4	-
Between one and two years	5	-
Between two and five years	20	-
Over five years	127	2
	156	2

Accounting for unfunded post-retirement healthcare and life insurance benefits of approximately 1,700 employees and 7,100 retirees and their dependants of Libbey-Owens-Ford Co in the USA, and 900 employees, retirees and their dependants in the United Kingdom, accords with UITF 6.

The Group's obligation for these benefits at Libbey-Owens-Ford Co was assessed by independent qualified actuaries at 1st April 1998 using the projected unit credit method. The underlying assumptions used in this actuarial review were healthcare costs increasing by 4 per cent per annum and the discount rate to determine the liability of 7.5 per cent.

	1999 Group £m	1999 Company £m
(b) Pensions		
At beginning of the year	152	6
Exchange rate adjustments	7	-
Charged to profit and loss account during the year	7	2
Utilised during the year	(10)	(1)
At end of the year	156	7
Maturity profile:		
Within one year	13	1
Between one and two years	15	-
Between two and five years	44	1
Over five years	84	5
	156	7

Pension provisions principally relate to the pensions payable to employees and former employees of Flachglas AG in Germany and Libbey-Owens-Ford Co in the USA where pensions are ultimately paid from assets held within the companies rather than from separately administered pension funds.

Further details on pensions are disclosed in note 41.

Notes on the financial statements

	1999 Group £m	1999 Company £m
30 Provisions for liabilities and charges continued		
(c) Warranty and litigation		
At beginning of the year	51	5
Exchange rate adjustments	1	-
Charged to profit and loss account during the year	16	4
Released to profit and loss account during the year	(4)	-
Utilised during the year	(4)	-
Changes in composition of the Group	(3)	-
At end of the year	57	9
Maturity profile:		
Within one year	34	9
Between one and two years	17	-
Between two and five years	5	-
Over five years	1	-
	57	9

Warranty provisions are created where the company has given a guarantee to cover the reliability and performance of products over an extended period. Litigation provisions principally include various legal actions.

	1999 Group £m	1999 Company £m
(d) Redundancies and restructuring		
At beginning of the year	174	2
Exchange rate adjustments	6	-
Charged to profit and loss account during the year	4	1
Released to profit and loss account during the year	(2)	-
Utilised during the year	(105)	(3)
At end of the year	77	-
Maturity profile:		
Within one year	60	-
Between one and two years	6	-
Between two and five years	10	-
Over five years	1	-
	77	-

The redundancy and restructuring provisions relate to the ordinary and exceptional provisions set up in the Automotive Products and Building Products businesses, together with the sale and termination provisions set up as exceptional provisions in the year to 31st March 1998 in respect of the Building Products downstream operations in Germany.

	1999 Group £m	1999 Company £m
30 Provisions for liabilities and charges continued		
(e) Other provisions		
At beginning of the year	80	5
Exchange rate adjustments	1	-
Charged to profit and loss account during the year	21	1
Released to profit and loss account during the year	(10)	(2)
Utilised during the year	(22)	(3)
At end of the year	<u>70</u>	<u>1</u>
Maturity profile:		
Within one year	21	1
Between one and two years	5	-
Between two and five years	11	-
Over five years	33	-
	<u>70</u>	<u>1</u>

The closing balance on other provisions at 31st March 1999 principally includes cumulative leave and payroll obligations (£45 million) and environmental provisions (£13 million).

As a result of the introduction of FRS 12, the tank repair provision at 31st March 1998 has been released to the profit and loss account during the year.

	1999 Group £m	1999 Company £m
(f) Total all provisions		
At beginning of the year	612	20
Exchange rate adjustments	19	-
Charged to profit and loss account during the year	58	8
Released to profit and loss account during the year	(16)	(2)
Utilised during the year	(154)	(7)
Changes in composition of the Group	(3)	-
At end of the year	<u>516</u>	<u>19</u>
Maturity profile:		
Within one year	132	11
Between one and two years	48	-
Between two and five years	90	1
Over five years	246	7
	<u>516</u>	<u>19</u>

	1999 Group £m	1998 Group £m
31 Deferred taxation		
<i>The balances included in other provisions (note 30) 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	183	178
Other timing differences	(102)	(69)
	<u>81</u>	<u>109</u>

Notes on the financial statements

	1999		1998	
	Group £m	Company £m	Group £m	Company £m
32 Deferred income				
At beginning of the year	18	15	14	18
Exchange rate adjustments	1	-	(2)	-
Changes in composition of the Group	-	-	1	-
Investment grants receivable	2	-	5	-
	<u>21</u>	<u>15</u>	<u>18</u>	<u>18</u>
<i>Released to profit and loss account in the year:</i>				
Other deferred income	-	(3)	-	(3)
At end of the year	<u>21</u>	<u>12</u>	<u>18</u>	<u>15</u>

	1999		1998	
	Group £m	Company £m	Group £m	Company £m
33 Commitments and contingent liabilities				
(a) Capital expenditure				
Contracts placed but not provided for in the financial statements	37	-	42	-

	1999		1998	
	Property £m	Other £m	Property £m	Other £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	7	2	1	10
Between two and five years	9	11	10	15
After five years	4	12	9	1
	<u>20</u>	<u>25</u>	<u>20</u>	<u>26</u>

(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 1999 accept, the cost will be DM 74 million (£25 million) in addition to the DM 280 million (£96 million) paid to shareholders accepting the offer prior to 31st March 1999. 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 per cent and an increase in the offer price in respect of Dahlbusch AG of approximately 19 per cent, an increase in the guaranteed dividend in respect of Flachglas AG of approximately 8 per cent, and in respect of Dahlbusch AG of approximately 14 per cent. 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 the end of 1999 and in the Dahlbusch AG case before the end of 2000. 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 per cent shareholding in Libbey-Owens-Ford Co at a price of \$230 million (£142 million).

(e) Pilkington Automotive UK 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 per cent shareholding in Pilkington Automotive UK Limited at a price of £13 million.

33 Commitments and contingent liabilities continued

(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 1999 the Group has guaranteed, in the ordinary course of business, secured bank loans of £17 million to third parties (1998 £16 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.

34 Called up share capital

	1999 Company £m	1998 Company £m
Ordinary shares of 50p each		
Authorised – 1,500,000,000 shares (1998 – 1,500,000,000)	750	750
Issued and fully paid		
At beginning of the year – 1,041,598,565 shares (1998 – 1,036,301,473 shares)	521	518
Allotted under share option schemes – 1,028,424 shares (1998 – 4,535,979 shares)	1	2
Allotted in respect of warrants – 46,787,886 shares (1998 nil)	23	–
Allotted in lieu of cash dividends – 2,545,676 shares (1998 – 761,113 shares)	1	1
At end of the year 1,091,960,551 shares (1998 – 1,041,598,565 shares)	546	521

(a) Options

Under the company's savings-related share option schemes, options were outstanding on a total of 9,938,500 ordinary shares at prices between 107p and 159p, exercisable between 1999 and 2005.

Under the company's senior executives' share option schemes, options were outstanding on a total of 31,024,082 ordinary shares at prices between 65.4p and 225.02p, exercisable between 1999 and 2008. There are currently 274 executives with outstanding options, of whom 78 are overseas.

Under the company's worldwide share option scheme, options were outstanding on a total of 3,863,624 ordinary shares at prices between 145.88p and 231.69p, exercisable between 1999 and 2001. There are currently 5,011 employees with these options, of whom 1,952 are overseas.

Of the 44,826,206 options outstanding under the company's various option schemes, 37,757,551 have an exercise price above the share price of 82.5p at 31st March 1999.

(b) Warrants

At 31st March 1998 there were 52,685,430 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. 46,787,886 warrants were exercised on 4th May 1998, which resulted in the issue of 46,787,886 ordinary shares. The residual 5,897,544 warrants lapsed.

Notes on the financial statements

35 Movements on share premium account and reserves	Share premium account £m	Revaluation reserves £m	Other Reserves		Goodwill reserve £m	Profit and loss account £m	Total £m
			Special reserve £m	Other reserves £m			
Group							
At beginning of the year	302	67	-	202	(350)	(183)	38
Prior year adjustment							
– Capitalisation of goodwill	-	-	-	-	109	(8)	101
– Transfer goodwill written off	-	-	-	-	241	(241)	-
At beginning of the year (as restated)	302	67	-	202		(432)	139
Retained loss for the year	-	-	-	-		(1)	(1)
Premium on shares issued	31	-	-	-		-	31
Transfer of share premium account							
to special reserve	(343)	-	343	-		-	-
Transfer of goodwill to special reserve	-	-	(238)	-		238	-
Exchange rate adjustments	-	100	(5)	7		(75)	27
Transfers between reserves	10	21	-	(23)		(8)	-
At end of the year	-	188	100	186		(278)	196
Company							
At beginning of the year	302		-	41		129	472
Retained profit for the year	-		-	-		3	3
Premium on shares issued	31		-	-		-	31
Transfer of share premium account							
to special reserve	(343)		343	-		-	-
Transfers between reserves	10		-	(10)		-	-
At end of the year	-		343	31		132	506

The total of other reserves on the Group's consolidated balance sheet on page 22 comprises the special reserve of £100 million as detailed below, and other reserves of £186 million; and the company's balance sheet on page 22 comprises the special reserve of £343 million and other reserves of £31 million.

The prior year adjustment in respect of the capitalisation of goodwill and the transfer of the balance of the goodwill reserve to the profit and loss reserve is further explained in note 7 (a).

At the extraordinary meeting of shareholders held on 17th December 1998, the shareholders approved the cancellation of the company's share premium account. On 10th February 1999 the High Court approved the cancellation and the transfer of the balance on the share premium account to the special reserve, against which would then be written off the residual balance of goodwill. The cancellation became effective on the filing of the order of the High Court with the Registrar of Companies, which took place on 26th February 1999.

The special reserve at 31st March 1999 in the Group's financial statements is shown net of £243 million of goodwill which arose on acquisitions occurring in the period from 1986 to 1995.

The profit for the year attributable to shareholders of the company was £58 million (1998 £77 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 loss of £11 million (1998 nil).

	1999	1998
	£m	Restated £m
35 Movements on share premium account and reserves continued		
Group		
Analysis of the retained loss for the year		
<i>Retained by:</i>		
Pilkington plc	3	23
Subsidiary undertakings	(11)	(271)
	(8)	(248)
Joint ventures	6	5
Associates	1	3
	(1)	(240)

The distributable reserves of the parent company amount to £132 million. The other reserves of the parent company are not available for distribution to shareholders in normal circumstances. The special reserve will remain undistributable until the company has paid off all its liabilities, guarantees and contingent liabilities as at 26th February 1999, as required by the High Court when it approved the cancellation of the company's share premium account.

	1999	1998
	£m	£m
36 Minority interests (balance sheet)		
Equity minority interests	136	136
Non-equity minority interests	219	211
	355	347

Details of the non-equity minority interests are referred to in note 28.

	1999		1998	
	£m	£m	£m	Restated £m
37 Reconciliation of operating profit to net cash inflow from operating activities				
Operating profit/(loss)		146		(26)
Exceptional items (included in operating profit)		14		156
Operating profit before exceptional items		160		130
Depreciation		148		148
Amortisation of goodwill		6		5
Profit on disposal of tangible fixed assets (included in operating profit)		(3)		(1)
Others (net)		5		4
<i>Cash inflow/(outflow) arising from changes in working capital:</i>				
Stocks and work in progress	6		(7)	
Debtors	43		(13)	
Creditors	(62)	(13)	14	(6)
Provisions		(10)		4
Exceptional costs – restructuring and disposal of operations		(98)		(100)
Net cash inflow from operating activities		195		184

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

Notes on the financial statements

38 Acquisitions and disposals	Acquisitions		Disposals	
	1999 £m	1998 £m	1999 £m	1998 £m
<i>Net assets of subsidiary undertakings comprised:</i>				
Tangible fixed assets	-	(68)	14	20
Stocks	-	(7)	6	9
Debtors	-	(14)	19	5
Marketable investments	-	-	1	-
Loans and finance leases	-	45	-	(3)
Creditors and provisions	-	16	(13)	(6)
Deferred income	-	1	-	-
Minority interest	(5)	12	1	3
	(5)	(15)	28	28
Provisions re disposals	-	-	-	75
Goodwill	(4)	(22)	-	9
Profit/(loss) on disposal	-	-	1	(73)
	(9)	(37)	29	39
Satisfied by – cash	(9)	(16)	29	39
– transfers from joint ventures and associates	-	(21)	-	-
	(9)	(37)	29	39

In 1999 the cash consideration paid was £9 million (1998 £20 million) and cash acquired was nil (1998 £4 million).

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 Germany.

	Acquisitions		Disposals	
	1999 £m	1998 £m	1999 £m	1998 £m
<i>Other investments comprised:</i>				
(Purchased)/sold – joint ventures	-	-	-	11
– associates	(4)	(1)	-	24
– trade investments	(2)	(10)	4	-
	(6)	(11)	4	35
Profit on disposal	-	-	-	30
	(6)	(11)	4	65
Satisfied by – cash	(6)	(11)	4	44
– transfers to subsidiary undertakings	-	-	-	21
	(6)	(11)	4	65

	Cash	Overdrafts	Marketable investments	Bank and other loans	Finance leases	Net debt
	£m	£m	£m	£m	£m	£m
39 Analysis of changes in net debt						
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)
Net cash movement	(25)	(20)	(16)	13	11	(37)
Subsidiaries sold	-	-	(1)	-	-	(1)
New finance leases undertaken	-	-	-	-	(1)	(1)
Exchange rate adjustments	2	(1)	2	(15)	-	(12)
Balance at the year ended 31st March 1999	97	(102)	16	(554)	(67)	(610)

Marketable investments are liquid resources and consist of:

- government bonds	9
- deposit account balances	2
- other investments	5
	16

40 Employee pay and numbers	1999 £m	1998 £m		1999 £m	1998 £m
United Kingdom			Overseas		
<i>Remuneration – aggregate for the year</i>			<i>Remuneration – aggregate for the year</i>		
Wages and salaries	121	142	Wages and salaries	500	560
Social security costs	9	11	Social security costs	87	93
Pension costs	8	9	Pension costs	32	38
	138	162		619	691

Details of directors' emoluments amounting to £2,237,000 (1998 £1,627,000) and pension costs of £637,000 (1998 £501,000) are disclosed in the Report on Directors' Remuneration on pages 7 to 11.

	1999 Number	1998 Number
<i>Location of employees – average number employed</i>		
United Kingdom	5,800	7,100
Europe (excluding United Kingdom)	14,700	16,400
North America	6,700	8,000
Australasia	3,200	3,700
South America	1,900	2,600
	32,300	37,800

At 31st March 1999, total numbers employed were: United Kingdom 5,700 (1998 – 6,000), and overseas 25,400 (1998 – 29,400).

Notes on the financial statements

41 Pensions and similar obligations

The Group operates a number of pension schemes throughout the world. The total pension cost for the Group in 1999 was £40 million (1998 £47 million). Almost two-thirds of employees in the United Kingdom are members of the Pilkington Superannuation Scheme which is in the nature of a defined contribution scheme. The pension cost charge for the year in respect of this scheme amounted to £8 million (1998 £9 million) and represents contributions payable to the fund 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 17.

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 4.8 per cent (1998 – 4.9 per cent). The actuarial value of the fund assets of these plans was sufficient to cover 111 per cent (1998 – 114 per cent) 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 (1998 £8 million). The charge is based on an assumed 6 per cent 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 £421 million (1998 £429 million). Accrued pension costs amounted to £1 million (1998 £1 million) and are included in creditors (note 26). Provisions for the benefit obligation of the unfunded plans mentioned above amounted to £156 million (1998 £152 million) and are included in provisions (note 30(b)).

	1999		1998	
	Joint ventures £m	Associates £m	Joint ventures £m	Associates £m
42 Related party transactions				
Sales by Pilkington Group	2	6	2	1
Purchases by Pilkington Group	33	4	37	8
Interest received by Pilkington Group	–	–	3	–
Interest paid by Pilkington Group	5	–	–	–

Amounts owed by and owing to joint ventures and associates are shown in notes 23 and 26.

43 Post-balance sheet event

On 26th May 1999 the Group announced its plans to reorganise and streamline its automotive manufacturing operations in North America. This will involve the closure of a plant and the transfer of its production to two other existing facilities in North America. The programme is expected to involve exceptional restructuring costs of approximately £30 million, of which half are expected to be cash costs. No adjustment for this has been made in the financial statements.

Principal subsidiaries in the Pilkington Group

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 PricewaterhouseCoopers, and, added to the joint ventures and associates appearing in notes 19 and 20, represent approximately 5 per cent of the Group's assets employed. All subsidiary undertakings account to 31st March 1999.

Subsidiary undertakings	Country of operation and incorporation	% Equity held	Product or activity
Europe			
Pilkington United Kingdom Limited	United Kingdom	100	Glass manufacturing and processing
Pilkington Automotive UK Limited	United Kingdom	80	Safety glass
Flachglas AG	Germany	95	Glass manufacturing and processing
Flachglas Automotive GmbH	Germany	95	Safety glass
Flabeg GmbH	Germany	95	Glass processing
Pilkington EOMAG AG	Austria	100	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 IGP SA	Poland	100	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	100	Glass processing
Blindex Vidros De Seguranca Limitada	Brazil	100	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 Nederland Holdings BV	Netherlands	100	Holding company
Pilkington International Holdings BV	Netherlands	100	Holding company
Pilkington Nederland (No 2) 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

Directors' responsibility in respect of the preparation of financial statements

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

Report of the Auditors to the Members of Pilkington plc

We have audited the financial statements on pages 16 to 51, and the additional disclosures on pages 7 to 11 relating to the remuneration of the directors specified for our review by the London Stock Exchange, which have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and the accounting policies set out on pages 16 to 19.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described above, the financial statements.

Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical standard.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on page 4 reflects the company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange and we report if it does not. We are not required to form an opinion on the effectiveness of the company's or the Group's corporate governance procedures or its internal controls.

Basis of audit 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 misstatement, 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 1999 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London
3rd June 1999

Group financial record

For the years ended 31st March

	1999 £m	1998 £m	1997 £m	1996 £m	1995 £m
Turnover	2,709	2,991	3,096	2,899	2,676
Profits					
Operating profit – group companies	160	130	152	214	170
– joint ventures and associates	54	56	28	–	–
Exceptional items	(17)	(225)	(55)	(157)	(392)
Group profit/(loss) – before taxation and exceptionals	135	120	132	212	144
– before taxation	118	(105)	77	55	(248)
– after taxation	76	(167)	28	(8)	(292)
Group profit/(loss) attributable to shareholders of Pilkington plc	54	(186)	2	(25)	(323)
Dividends	55	54	52	48	34
Assets employed					
Intangible fixed assets	103	101	–	–	–
Tangible fixed assets	1,601	1,566	1,596	1,845	1,659
Investments in joint ventures, associates and other undertakings	197	182	181	200	224
Net current assets	259	267	445	617	330
Total assets less current liabilities	2,160	2,116	2,222	2,662	2,213
Financed by					
Total shareholders' funds	742	660	837	971	826
Minority interests	355	347	286	303	303
Creditors over one year, provisions and deferred income	1,063	1,109	1,099	1,388	1,084
Funds invested	2,160	2,116	2,222	2,662	2,213
Cash flow from					
Operating activities	195	184	288	217	328
Dividends from joint ventures and associates	17	17	13	22	18
Returns on investments and servicing of finance	(79)	(84)	(38)	(81)	(87)
Taxation paid	(29)	(42)	(44)	(67)	(19)
Capital expenditure (net)	(180)	(186)	(130)	(183)	(141)
Acquisitions and disposals	18	56	51	(160)	48
Dividends	(35)	(51)	(50)	(33)	(29)
Liquid resources	16	7	(1)	49	(42)
Financing	32	71	(107)	232	(56)
(Decrease)/increase in cash	(45)	(28)	(18)	(4)	20
Key figures					
Capital expenditure on tangible assets	193	211	186	232	161
Operating profit before exceptional items to turnover	5.9%	4.3%	4.9%	7.4%	6.4%
Earnings/(loss) per share	5.0p	(18.0p)	0.2p	(2.9p)	(40.7p)
Earnings per share excluding exceptional items	6.5p	4.1p	5.8p	14.0p	8.6p
Dividends per share – declared	5.0p	5.0p	5.0p	5.0p	4.2p
Dividend cover	1.0	(3.4)	0.04	(0.5)	(9.5)
Share price – high	148p	167p	219p	222p	207p
– low	50p	104p	120p	161p	143p
– as at 31st March	83p	122p	120p	209p	164p
Warrant price – high		53p	102p	105p	100p
– low		4p	16p	55p	45p
– as at 31st March		9p	16p	93p	59p

The 1998 figures have been amended to reflect the capitalisation of goodwill arising after 1st April 1995. Also the EPS figures have been adjusted in that year and subsequently for FRS 14.

The figures for 1995 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.



PILKINGTON

Pilkington plc
St Helens United Kingdom
<http://www.pilkington.com>
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