

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

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

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

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

Net operating assets are analysed in note 6.

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

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

### 3 Acquisitions

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

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

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

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

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

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

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

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

The principal exceptional items in 1998 were as follows:

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

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

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

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

9 Investment income	1998 £m	1997 £m
Unlisted trade investments	1	19
Listed marketable investments	2	2
	<b>3</b>	<b>21</b>

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

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

Interest payable includes the results of interest rate swap transactions.

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

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

	1998		1997	
	Group £m	Company £m	Group £m	Company £m
<b>Balance sheets</b>				
<b>Assets</b> (notes 21 and 22)				
Debtors – amounts falling due within one year				
Advance corporation tax recoverable	13	9	1	7
Corporation tax recoverable	12	–	12	–
Overseas tax recoverable	5	–	11	–
	<b>30</b>	<b>9</b>	<b>24</b>	<b>7</b>
Debtors – amounts falling due after more than one year				
Advance corporation tax recoverable	–	–	9	8
Deferred taxation on post-retirement healthcare benefits	53	–	55	–
	<b>53</b>	<b>–</b>	<b>64</b>	<b>8</b>
<b>Liabilities</b> (note 24)				
United Kingdom corporation tax	8	1	15	–
United Kingdom advance corporation tax on dividends	13	9	13	11
Overseas taxation	31	–	22	–
	<b>52</b>	<b>10</b>	<b>50</b>	<b>11</b>

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

At 31st March 1998 certain United Kingdom and overseas subsidiary undertakings had accumulated tax losses estimated at £330 million (1997 £307 million) which are available for offset against future taxable profits in those companies. Advance corporation tax written off to date amounts to £27 million (1997 £19 million) and is available for offset against future United Kingdom corporation tax liabilities. The future benefit of these losses and advance corporation tax has not been accounted for in the provision for deferred taxation (note 28).

The taxation credit to profits for the year arising from deferred taxation, calculated on a full liability basis, would amount to £49 million (1997 £26 million).

<b>12 Minority interests (profit and loss account)</b>	<b>1998</b>	1997
	<b>£m</b>	£m
Equity	<b>13</b>	15
Non equity	<b>6</b>	11
	<b>19</b>	26

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

<b>14 Earnings per share</b>	<b>1998</b>	1997
Average number of shares	<b>1,038m</b>	1,031m
	<b>£m</b>	£m
(Loss)/profit for the financial year attributable to shareholders of Pilkington plc	<b>(181)</b>	2
Add exceptional items (note 7)	<b>228</b>	58
Profit for the financial year attributable to shareholders of Pilkington plc after adjusting for exceptional items	<b>47</b>	60
	<b>pence</b>	pence
(Loss)/earnings per share	<b>(17.4)</b>	0.2
Adjusted earnings per share excluding exceptional items	<b>4.5</b>	5.8
<p>The adjusted earnings per share is disclosed as an alternative figure for earnings/(loss) per share. This measurement of earnings per share is considered by the directors to be a more meaningful indication of the Group's underlying performance.</p>		
Loss per share on a nil distribution basis	<b>(16.7)</b>	(0.1)

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

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

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

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

Interest capitalised in 1997 and 1998 was nil.

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

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

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

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

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

Principal subsidiary undertakings are listed on page 46.

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

The Group's principal joint ventures are as follows:

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

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

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

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

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

**17 Investments – joint ventures** *continued*

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

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

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

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

**18 Investments – associates**

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

**18 Investments – associates** continued

The Group's principal associates are as follows:

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

+Audited by a firm other than Coopers & Lybrand.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The factoring charge in the year, in respect of the above transactions, amounted to £1 million (1997 nil).

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

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

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

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

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

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

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

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

\*guaranteed by Pilkington plc

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

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

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

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

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

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

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

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

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

**30 Commitments and contingent liabilities** *continued*

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**(c) Minority interests in German subsidiary undertakings**

Pilkington Deutschland GmbH has made an offer to acquire the minority interests in Flachglas AG and Dahlbusch AG. If the remaining minority shareholders in these companies at 31st March 1998 accept, the cost will be DM 74 million (£24 million) in addition to the DM 280 million (£90 million) paid to shareholders accepting the offer prior to 31st March 1998. Certain minority shareholders have legally challenged the offer as insufficient. The matter is before the German courts who have asked an independent expert to provide valuation opinions. These valuation opinions have been prepared and propose an increase in the offer price in respect of Flachglas AG of approximately 22% and an increase in the offer price in respect of Dahlbusch AG of approximately 19% and an increase in the guaranteed dividend in respect of Flachglas AG of approximately 8% and in respect of Dahlbusch AG of approximately 14%. These valuation opinions do not constitute rulings and are not binding on the courts, who have asked the parties to review and comment on them. There are unlikely to be decisions by the courts in the Flachglas AG case before end-1998 and in the Dahlbusch AG case before end-1999. Any such decisions would be capable of being the subject of an appeal.

**(d) Libbey-Owens-Ford Co minority holding**

In the event of a change of control of Pilkington plc, Nippon Sheet Glass has the option to require Pilkington to buy its 20% shareholding in Libbey-Owens-Ford Co at a price of \$230 million (£138 million).

**(e) Triplex Safety Glass Limited minority holding**

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

**(f) Class action complaints**

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

**(g) Other guarantees and contingent liabilities**

At 31st March 1998 the Group has guaranteed, in the ordinary course of business, secured bank loans of £16 million to third parties (1997 £24 million). The Group had other contingent liabilities incurred in the ordinary course of business arising out of guarantees and other transactions, some of which are the subject of litigation. In the opinion of the directors, the outcome of such litigation will not have a material effect on the Group's consolidated financial position.

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

**(a) Ordinary shares**

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

**(b) Options**

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

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

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

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

**(c) Warrants**

At 31st March 1998 there were 53 million warrants in issue, each warrant entitling the holder to procure up to 4th May 1998 the allotment of one ordinary share in Pilkington plc at a price of 116p. 47 million warrants were exercised on 4th May 1998, which resulted in the issue of 47 million ordinary shares subsequent to the year end. The residual 6 million warrants lapsed.

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

The profit for the year attributable to shareholders of the company was £77 million (1997 £46 million). As permitted by Section 230 of the Companies Act 1985 (as amended), the profit and loss account of the company has not been included in these financial statements.

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

**32 Movements on share premium account and reserves** *continued*

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

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

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

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

**33 Minority interests (balance sheet)**

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

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

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

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

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

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

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

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

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

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

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

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

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

	Cash	Overdrafts	Marketable Investments	Bank and other loans	Finance leases	Net debt
	£m	£m	£m	£m	£m	£m
<b>36 Analysis of changes in net debt</b>						
Balance at the year ended 31st March 1996	174	(81)	42	(742)	(92)	(699)
Net cash movement	(49)	31	1	136	16	135
Subsidiaries sold	-	-	(1)	-	-	(1)
New finance leases undertaken	-	-	-	-	(15)	(15)
Exchange rate adjustments	(10)	6	(3)	61	2	56
Balance at the year ended 31st March 1997	<b>115</b>	<b>(44)</b>	<b>39</b>	<b>(545)</b>	<b>(89)</b>	<b>(524)</b>
Net cash movement	<b>11</b>	<b>(39)</b>	<b>(7)</b>	<b>(1)</b>	<b>15</b>	<b>(21)</b>
Subsidiaries acquired	<b>4</b>	-	-	<b>(45)</b>	-	<b>(41)</b>
Subsidiaries sold	-	-	-	<b>3</b>	-	<b>3</b>
New finance leases undertaken	-	-	-	-	<b>(5)</b>	<b>(5)</b>
Exchange rate adjustments	<b>(10)</b>	<b>2</b>	<b>(1)</b>	<b>36</b>	<b>2</b>	<b>29</b>
<b>Balance at the year ended 31st March 1998</b>	<b>120</b>	<b>(81)</b>	<b>31</b>	<b>(552)</b>	<b>(77)</b>	<b>(559)</b>

Marketable investments are liquid resources and consist of:

- government bonds	<b>8</b>
- other investments	<b>23</b>
	<b>31</b>

### 37 Employee pay and numbers (excluding directors)

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

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

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

### 38 Directors' emoluments

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

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

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

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

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

#### Directors' emoluments, benefits and pension arrangements

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

Andrew Robb's and Roger Leverton's pension arrangements are affected by the Inland Revenue cap on approved pension benefits. Their pension arrangements entitle them to a pension on retirement of two thirds of pensionable salary. They are partly funded through personal plans and the balance is unfunded but fully provided in the financial statements. The aggregate cost of these arrangements was £367,000 of which £138,000 was attributable to Roger Leverton.

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

#### Payments to former directors

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

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

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

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

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

**Directors' options**

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

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

### 39 Directors' interests in share capital and options

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

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

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

#### Options

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

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

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

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

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

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

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

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

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

**Deferred bonus plan**

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

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

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

	Options held at 1st April 1997	<b>Options held at 31st March 1998</b>
Andrew Robb	29,269	<b>29,269</b>

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

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

## 40 Pensions and similar obligations

### Pensions

The Group operates a number of pension schemes throughout the world. The total pension cost for the Group in 1998 was £47 million (1997 £55 million). Almost two-thirds of employees in the United Kingdom are members of the Pilkington Superannuation Scheme or the Pilkington Pension Scheme, both of which are in the nature of defined contribution schemes. The pension cost charge for the year in respect of those schemes amounted to £9 million (1997 £12 million) and represents contributions payable to the funds for the year. The rest of the schemes operated by the Group are generally defined benefit schemes under which benefits are based on employees' years of service and average final remuneration. With the exception of the main schemes in Germany, assets of the schemes are held in separate trustee administered funds. The method of accounting for pensions is set out under the accounting policies on page 14.

Independent actuarial valuations of the Group's main plans are undertaken at least triennially on varying dates. The actuarial assumptions used to calculate the projected benefit obligation of the Group's pension plans vary according to the economic conditions of the country in which they are situated. The actuarial valuations, based on the projected unit method, assume, on a weighted average basis, that the investment return will exceed the increase in the future earnings by 4.9% (1997 – 4.2%). The actuarial value of the fund assets of these plans was sufficient to cover 114% (1997 – 109%) of the benefits that had accrued to members. This surplus is net of a £9 million deficit on the unfunded German pension arrangements, which is being charged over the remaining service lives of the German employees at £1 million per annum. In Germany, the annual charge to the profit and loss account amounted to £8 million (1997 £12 million). The charge is based on an assumed 6% investment return which is fixed by law but salary and pension increase assumptions are not permitted.

The market value of the assets of the major defined benefit plans in the Group at the date of the latest valuations was £429 million (1997 £477 million). Accrued pension costs amounted to £1 million (1997 £1 million) and are included in creditors (note 24). Provisions for the benefit obligation of the unfunded plans mentioned above amounted to £152 million (1997 £173 million) and are included in provisions (note 27).

### Healthcare benefits

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

The Group's obligation for these benefits, principally at Libbey-Owens-Ford Co, was assessed by independent qualified actuaries at 1st April 1997 using the projected unit credit method. The underlying assumptions used in this actuarial review were healthcare costs increasing at 4% per annum and the discount rate to determine the liability of 7.5%.

## 41 Related party transactions

*Transactions with joint ventures and associates were as follows:*

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

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