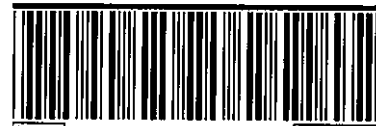


WADDINGTON PLC

173691



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COMPANIES HOUSE 13/8/97

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COMPANIES HOUSE 13/08/97



Waddington is an international packaging and printing company. Its strategy for delivering profitable growth centres on four operating divisions; Food Services, Pharmaceutical Packaging, Cartons and Specialist Printing.

Through consistent investment in its businesses, technologies and people Waddington is continuing to build its operational strengths and niche market positions.

Waddington is committed to establishing market and technical leadership with the clear objective of maximising returns to shareholders.



Key Points of the Year

- The success of our strategy to focus on niche sectors from a leading market position is evident in the strong results for the year.

- Record sales and profits were achieved, with operating profit up 15.6% and growth of 20.6% in earnings per share.

- Our ongoing substantial capital expenditure programme was demonstrably successful in accelerating organic growth.

- The strong balance sheet and much improved cash flow provide a solid base for the future.

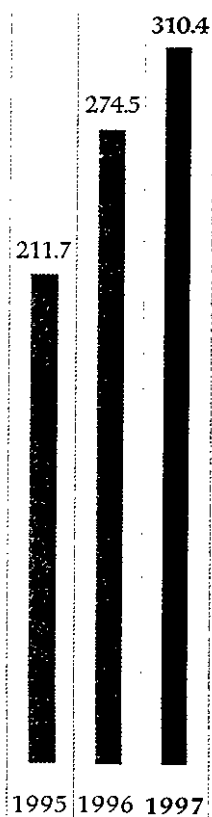
- Dividend growth has continued, increasing by 10.6% to 10.4p per share.

Financial Highlights

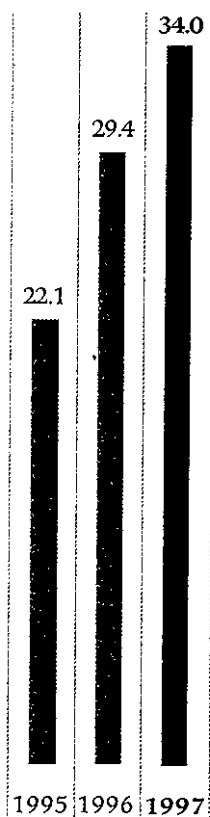
WADDINGTON PLC

	Year to 29 March 1997 £m	Year to 30 March 1996 £m
Turnover from ongoing businesses	310.4	274.5
Operating profit before exceptional items from ongoing businesses	34.0	29.4
Interest payable	1.9	1.3
Profit before taxation	32.1	11.9
Net profit for the financial year	22.6	7.8
Earnings per ordinary share before exceptional items (pence)	21.57p	17.89p
Dividend per ordinary share (pence)	10.40p	9.40p

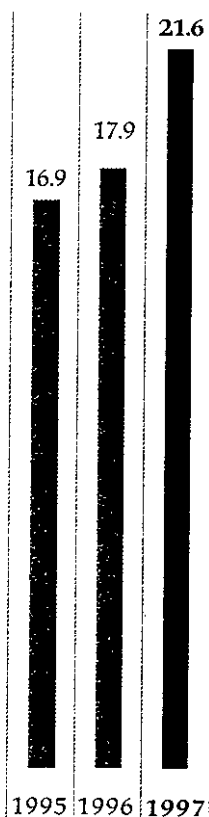
Turnover (£m)
(from ongoing
businesses)



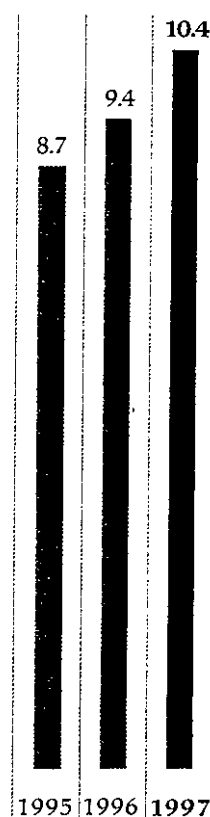
Operating Profit (£m)
(from ongoing
businesses)



Earnings per
Ordinary Share
(pence)



Dividend per
Ordinary Share
(pence)

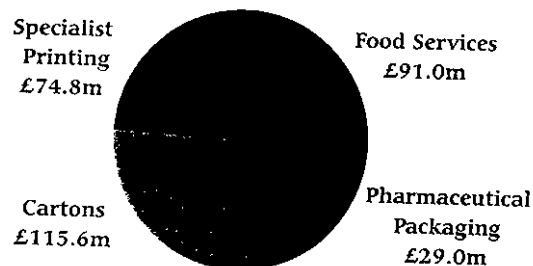


The Company in Brief

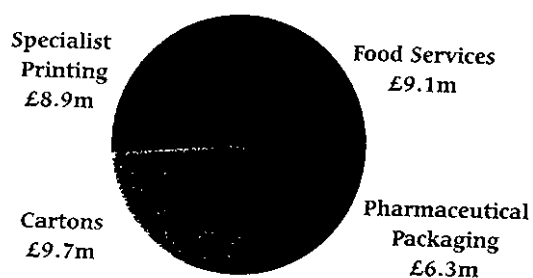
Business Mix

Waddington is a leading manufacturer of packaging and printed products. We are a specialist operator, with a balanced portfolio focused on four carefully selected areas of business. We are major players in each of our niche markets. Each market offers particular growth prospects for Waddington, and we have the competitive positioning and the resources to exploit these opportunities to the full.

Turnover by Business Sector
(ongoing businesses)



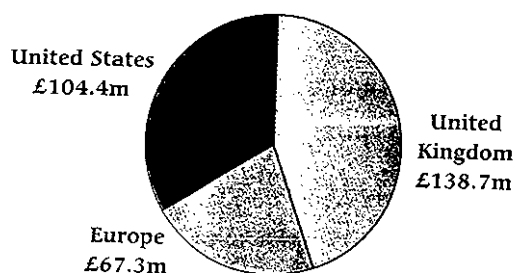
Operating Profit by Business Sector
(ongoing businesses)



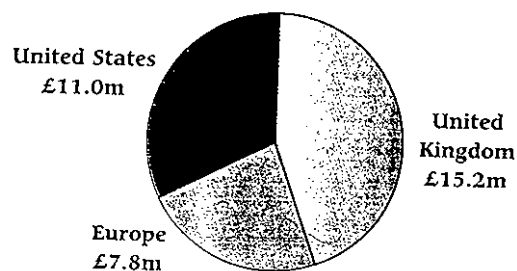
Geographic Mix

Waddington is an international company, with substantial operations in the UK, the US and Continental Europe. Over half of our operating profit is now generated outside the UK, with the US accounting for 32.5% of operating profit and Continental Europe for 22.9%. We have actively developed our activities outside the UK through acquisition and a substantial capital expenditure programme.

Turnover by Geographical Location
(ongoing businesses)



Operating Profit by Geographical Location
(ongoing businesses)



Food Services

Waddington is a leading manufacturer of high quality plastic disposable tableware. This is an attractive niche in the plastic packaging industry, offering a substantial market with strong growth prospects. We specialise in added value products, at the top end of the market. The business is based in the US, where we have five manufacturing sites. Our wide range of products is marketed nationally.

Pharmaceutical Packaging

Waddington has a successful plastic packaging division, manufacturing closures and containers for the pharmaceutical and healthcare industries. These are particularly attractive markets with strong growth potential. We have a substantial presence in carefully selected areas serviced by our UK and US factories.

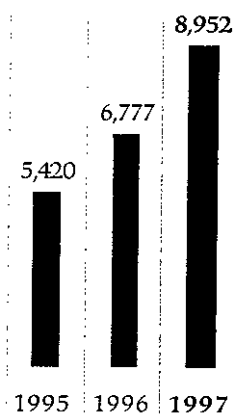
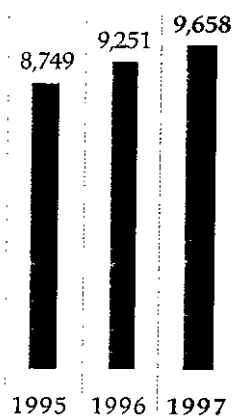
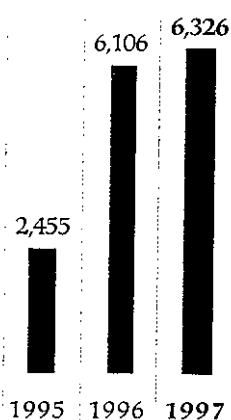
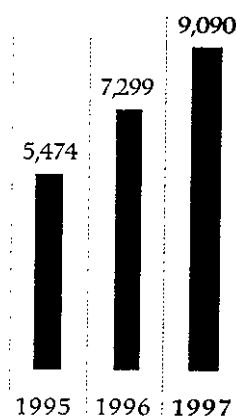
Cartons

Waddington is a leading pan-European manufacturer of cartons. We supply printed folding cartons mainly to blue chip international companies, specialising in the attractive food and drink sector. We have four factories in the UK and Benelux, supplying this important European market. We have substantial capacity from modern equipment.

Specialist Printing

Waddington is a leading player in selected markets in the specialist printing industry. Our successful operation focuses on the high growth direct marketing sector, where we have leading edge technology. We are also leaders in confidential printing, primarily for major financial institutions. Our main business is UK based, with smaller operations in the Benelux.

Operating profit from
ongoing businesses (£000)



Chairman's Statement



David Perry
Chairman

A strong performance in 1997

1997 was a very successful year for Waddington PLC. We reported record sales and profits, and also put in place further building blocks to ensure long term earnings growth. This success is underpinned by two factors: our strategy to focus on niche sectors where we have leading market positions and our substantial capital expenditure programme which provides the bedrock for growth.

Sales for ongoing businesses increased by 13.1% to £310.4m (1996 £274.5m). Growth in operating profit was even stronger, increasing by 15.6% to £34.0m (1996 £29.4m). Group operating margins remained high at 11.0% (1996 10.7%). Earnings per share growth was particularly strong, increasing by 20.6% to 21.57p (1996 17.89p).

The Board has recommended an enhanced final dividend of 6.0p per share (1996 5.4p), giving a dividend for the year of 10.4p (1996 9.4p). This represents a 10.6% increase on last year, in line with our progressive dividend policy.

Competitive trading conditions

Our excellent performance has been achieved in a trading environment which has grown even more competitive and where pricing and performance pressures continue to intensify.

We have successfully positioned our operations to deal with these situations and continue to seek niche markets where our abilities can produce attractive returns.

The strength of sterling in the second half of the year affected reported profits. The impact was however limited to translation losses, as exports do not play a significant role in our operations. This resulted in sales reduced by £8.0m and operating profit by £0.9m on translation of foreign operations' results into sterling.

We have benefited from more stable raw material prices in this financial year, following two years of rapid price changes. On the whole, raw material prices have been stable during the year for both plastic resin and paper and board. Our expectations are for relative stability for the year ahead.

A Group transformed

It gives me great pleasure to see the transformation of the Group in recent years. We have restructured our business to four sizeable operations in niche growth markets. We have moved from a UK orientation to international operations, with over 50% of our profits generated outside our domestic market. To achieve this we have completed a significant acquisition and disposal programme in order to position the Group for strong future profit growth. The success of this is evident in this year's results.

We are now big enough to win major contracts and benefit from economies of scale. We are focused on markets which can deliver profit growth, and we have a strong awareness of our customers' needs. We have also invested heavily to upgrade our production facilities, giving us the firepower to compete effectively, as well as the capacity necessary for future growth.

The Group has the financial resources to continue this growth, with a strong balance sheet, much improved cash flow and a strengthened Board which has proved that it can achieve excellent results.

I am consequently very positive about the future for Waddington.

Board changes

I announced in February 1997 that I planned to retire from the Board at the AGM in July 1997. It was always my intention to retire when I reached sixty.

I will be succeeded as Chairman by Michael Orr, who was appointed a non-executive director of Waddington PLC in April 1997. Michael's career has spanned both the City and industry, and he is currently Chairman of Molins PLC and a non-executive director of several other companies including Granada Group PLC, Lazard Brothers & Co Ltd, and W H Smith plc.

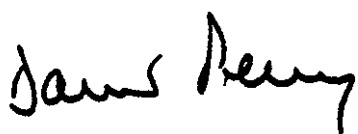
I have spent sixteen very happy years at Waddington. I am delighted that I shall hand over as Chairman at a time when the Group's increasing successes are beginning to be appreciated.

Alan Reeve also retires at this year's AGM and I wish to record the Board's thanks for his sterling service during the past eleven years.

Management and staff

Major change does not come easily. I would like to thank my colleagues on the Board, as well as management and staff for all the hard work, long hours and dedication they have put in to transform Waddington into the success it is today. We have a dedicated team of people who have responded well in difficult times. Their commitment and enthusiasm provides a strong base for the future.

I am confident of Waddington's ability to continue to deliver ever increasing value to its shareholders.



DAVID PERRY
Chairman

Chief Executive's Review of Operations



Martin Buckley
Chief Executive

A Group on the move

Waddington has again delivered a strong result. The excellent growth in operating profit for ongoing businesses of 15.6% in 1997 is particularly pleasing following on from a strong performance last year, when we achieved growth of 33.2%. Nearly all this year's profit growth is organic, a testament to our substantial capital expenditure programme which has demonstrably improved growth Group wide.

We have continued to focus our efforts and investment in attractive sectors of growing markets where we hold a leading position, and this has proved to be successful.

A strong portfolio

Results for the year were in line with our expectations, and reflect good performances in all areas of business except for our Cartons operation in the UK. The strength of our balanced portfolio now allows us to absorb isolated disappointments.

We reported particularly strong performances in the Food Services and Specialist Printing divisions, both of which delivered another year of excellent growth. These results reflect our success in the positioning of our operations in carefully selected niches within broader markets. We successfully relocated our US Pharmaceutical Packaging operation to new state-of-the-art premises, a move which opens up significant new opportunities for us, and underpins the long-term growth potential of this division. As expected, the relocation had a short-term adverse impact on profits in the year under review.

Selected highlights for 1997

Specific successes are highlighted in my review of each of our divisions. However, some items stand out in a year in which we have many achievements to report.

In Food Services we won our first contract with Boston Market, the leading national home meal replacement restaurant chain. This sector of the market is growing quickly and offers the added benefit of high volumes from long-term contracts.

The relocation of the US Pharmaceutical Packaging business has positioned us to take full advantage of the unique modular mould technology which we own, as well as the strong growth in two very attractive markets, pharmaceuticals and healthcare.

We achieved excellent growth in our Continental European Cartons operation, providing sound evidence that it is possible to generate high returns in this sector.

In Specialist Printing we benefited from the high level of activity in the financial services sector, winning prestigious contracts with leading financial institutions.

Investment for long term growth

We have continued our strategy of investing substantial amounts across the Group. This investment was aimed at increasing capacity to meet market demand as well as retaining our position at the leading edge of technology, giving us a competitive advantage. We continue to invest to improve productivity, and are working towards becoming a low cost operator in all our markets.

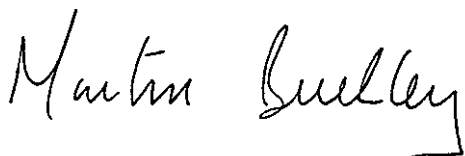
In 1997 we invested £38.4m in fixed assets (1996 £30.3m). Of this, £8m was invested in the new facilities for the US Pharmaceutical Packaging business, and £6m for the Boston Market food services contract. We plan to invest a further £30m in capital equipment in the new financial year, particularly in support of growth opportunities in Pharmaceutical Packaging and Specialist Printing.

A sound base for the future

As a Group we are now big enough to fund the capital expenditure necessary to stay ahead of our competitors, but small enough to be flexible and responsive to ever changing markets. We have four substantial divisions, each of which enjoys critical mass in its area of business. Our geographic diversification in sophisticated, well developed and stable countries means we have spread our risks, yet are well positioned to take advantage of their attractive forecast growth rates.

The risk profile of the Group is markedly different to the past. We operate largely in mature markets which are unlikely to fluctuate wildly. In terms of technology we are involved in only a small number of processes, in which we are expert. Similarly we buy only a small number of raw materials, and each year's growth gives us increased buying power.

This combination of ever-increasing opportunities for profit growth combined with a lower risk profile provides attractive future prospects. We expect to continue to move forward with an increasing level of control over our destiny and a determination to differentiate Waddington from its competitors.



MARTIN BUCKLEY

Chief Executive

Financial Review



Geoffrey Gibson
Finance Director

Accounting policies

The 1997 accounts of the Group have been prepared in accordance with all applicable accounting standards including FRS 1 (Cash Flow Statements), which was revised in October 1996.

Group financial statements

Comparisons between the 1997 results and those of last year are reasonably straightforward but need to take account of last year's acquisitions and disposals.

Results for this year include a full year's contribution from IP Jaycare, our US pharmaceutical and healthcare business, and Prom' Imprim, our small direct marketing business based in Belgium, as opposed to a nine month contribution from these businesses last year. There is also a full year's contribution from WNA Cups Illustrated, our small souvenir cup business bought at the end of the last financial year. Last year's results also included losses from the Plastona and Questa businesses sold around last year end.

Profit and loss account

Group performance continued to improve. Sales increased by 3.9% to £310.4m (1996 £298.6m) and profit before tax and exceptional items increased by 25.4% to £32.1m, which compares favourably with £25.6m last year.

Last year's exceptional items related to the loss on sale of businesses.

Net interest costs rose to £1.9m (1996 £1.3m) as a result of slightly higher average net borrowings during the year. Interest cover, based on operating profits before exceptional items, remains very healthy at 17 times (1996 20 times).

The Group's tax charge before exceptional items is at an effective rate of 29.5% (1996 27.2%). The increase reflects the higher effective rate on profits generated overseas. We anticipate a similar tax charge next year, based on our tax structure and capital plans for the two years ahead.

Earnings per share excluding exceptional items increased by 20.6% to 21.57p (1996 17.89p). The dividend for the year has been improved by 10.6% to 10.4p (1996 9.4p) reflecting our intention to raise our annual dividend cover. The dividend is now twice covered.

Cash flow and net debt

Operating cash flow was much improved as a result of the stronger trading performance of the Group. There was, however, a net increase in debt over the period of £8.3m which reflects a substantial capital expenditure programme and an increase in working capital to fund organic growth.

The depreciation charge is lower than last year's, because that year included £2.0m in respect of businesses sold at the year end.

Capital investment for the year amounted to £38.4m (1996 £30.3m) which was spread across

the Group. We plan to spend a further £30m on capital equipment during the new financial year particularly in support of growth opportunities in Pharmaceutical Packaging and Specialist Printing.

In May 1996 we sold The House of Questa, a specialist printing business, for £2.3m. We also received deferred consideration of £1m from the sale of Plastona, which was sold in March 1996.

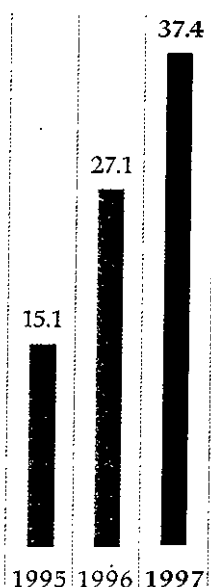
Balance sheet

The balance sheet remains healthy. Gearing levels have increased slightly, as a result of our heavy investment in capital items over the last two years. Net debt at the year end amounted to £37.0m (1996 £28.7m) and gearing now stands at 37.9% (1996 33.5%). This gearing level is some 8% better than we anticipated. This is largely due to translation and the fact that most of our borrowings are in foreign currencies.

Capital expenditure (£m)



Operating cash flow (£m)



Treasury policy

The Group's treasury policy seeks to ensure that adequate resources are provided for our businesses while minimising risks. The Group does not engage in speculative transactions. The Group's policy in respect of the major areas of treasury activity is described below.

Currency translation

In common with most international companies, the results of the Group's foreign subsidiaries are translated into sterling at the average exchange rate for the period concerned. The balance sheets of foreign subsidiaries are translated into sterling at the closing exchange rates. The gains and losses from this translation of foreign subsidiaries' net assets are recorded in reserves where they are offset by losses and gains on borrowings taken out in the same currencies to hedge the net

Financial Review (continued)

assets of subsidiaries. The Group aims to match a reasonable proportion of its assets with borrowings in the same currency.

Currency transaction exposure

Currency transaction exposure relates to sales and purchases made by the Group's subsidiaries in currencies other than their domestic operating currency. Most of the Group's businesses both sell their products and source raw materials within their local markets in their domestic currency and therefore have no currency transaction exposure. In order to mitigate the impact of currency transaction exposure where applicable, the Group's policy is to cover individual transactions in currencies other than its subsidiaries' own domestic currency, as soon as these are committed. To cover these transactions the Group makes use of forward currency contracts and occasionally currency options, to manage its transaction exposures.

Funding and deposits

The Group currently borrows the majority of its debt on a variable interest rate basis and on relatively short-term instruments. In this way the Group is able to select the lowest cost method of borrowing whilst maintaining the greatest flexibility with regard to its operations and cash flows. To support these funding methods the Group has committed medium and short-term facilities as well as surplus funds.

Surplus funds are placed for short periods in investments that carry low credit risk and which are readily realisable.

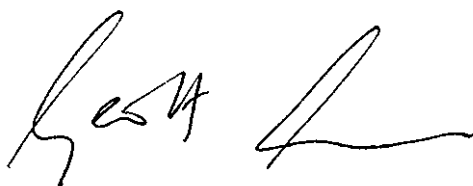
Counter party risk

The Group monitors the distribution of its cash assets, borrowings and other financial instruments against pre-determined limits so as to control exposure to any territory or institution.

Interest rate risk

The Group's policy is to borrow on a floating rate basis and to manage the debt maturity profile to minimise its cost of borrowing. Notwithstanding the above, the Group has retained a small proportion of its debt as fixed rate borrowings when interest rates have been particularly advantageous.

If appropriate the Group fixes interest rates on a portion of its debt by the use of forward rate or interest rate swap arrangements. Such transactions are approved by the Board.



GEOFFREY GIBSON

Finance Director

Corporate Directory

Directors

David G. Perry (Non-Executive Chairman)
Michael D. Abrahams CBE (Non-Executive)
Martin H. Buckley FCA (Chief Executive)
Janet Cohen MA (Non-Executive)
Michael G. Evans
Geoffrey Gibson FCA (Finance Director)
Michael Mitchell
Michael Orr MA (Non-Executive)
Alan B. Reeve BSc
David F. L. Sykes BA (Non-Executive)

Secretary

Martin K. Young LLB, CA

Registered Office

Wakefield Road
Leeds LS10 1DU
Telephone 0113 277 0202
Fax 0113 271 3503
Registration No. 173691

Registrars

Independent Registrars Group
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU

Solicitors

Eversheds
Cloth Hall Court
Infirmary Street
Leeds LS1 2JB

Auditors

Price Waterhouse
9 Bond Court
Leeds LS1 2SN

Merchant Bankers

Schroders
120 Cheapside
London EC2V 6DS

Stockbrokers

Cazenove & Co
12 Tokenhouse Yard
London EC2R 7AN

Principal Bankers

National Westminster Bank PLC
Midland Bank plc
BankBoston, N.A.
Fleet National Bank

Board of Directors

1 **David Perry** *Age 59*

Joined the Board in 1981 and became Chairman in 1993.

Chairman of Anglian Group PLC and a non-executive director of Dewhirst Group plc and Yorkshire Water plc.

Member of the Remuneration Committee.

2 **Martin Buckley** *Age 51*

Appointed to the Board in 1987 and became Chief Executive in 1992. Also a non-executive director of St. James's and Seacroft University Hospitals NHS Trust.

3 **Michael Abrahams** *Age 59*

Joined the Board as a non-executive director in 1984. Chairman of the Audit Committee and serves on the Remuneration Committee. Also Chairman of Cavaghan & Gray Group PLC, Deputy Chairman of Prudential Corporation plc, a non-executive director of Drummond Group PLC and Chairman of The London Clinic.

4 **Janet Cohen** *Age 56*

Appointed to the Board as a non-executive director in 1994. Member of the Audit and Remuneration Committees. Also a Governor of the BBC, Vice-Chairman of the Yorkshire Building Society and a non-executive director of Charterhouse Bank Limited and BPP Holdings plc.

5 **Michael Evans** *Age 42*

Appointed to the Board in January 1996. Responsible for the Group's US Food Services activities. Joined the Group in 1978.

6 **Geoffrey Gibson** *Age 47*

Joined Waddington from Price Waterhouse in 1985 and appointed to the Board as Finance Director in 1987.

7 **Michael Mitchell** *Age 56*

Appointed to the Board in January 1996. Responsible for the UK based Specialist Printing businesses. Joined Chorley & Pickersgill in 1962.

8 **Michael Orr** *Age 59*

Appointed to the Board as a non-executive director and Chairman Designate in April 1997. Member of the Audit and Remuneration Committees. Also Chairman of Molins PLC and a non-executive director of Granada Group PLC, Lazard Brothers & Co. Ltd., Sketchley Plc and W H Smith Group plc.

9 **Alan Reeve** *Age 59*

Appointed to the Board in 1994. Responsible for the Group's Carton activities. Appointed a non-executive director of Readicut International PLC in May 1997. Joined the Group in 1986.

10 **David Sykes** *Age 62*

Joined the Board as a non-executive director in 1990. Chairman of the Remuneration Committee and a member of the Audit Committee. Also Deputy Chairman of Readicut International PLC.

Directors' Report

The directors present their annual report together with the accounts of the company for the financial year ended 29 March 1997. The principal activities of the Group are described on pages 64 and 65. A review of the performance in the year, of the position at the year end and of future developments is given in the Chief Executive's Review of Operations and in the Financial Review.

Results and dividends

The results for the year and the transfer to retained profits are shown on page 45. The directors are proposing a final dividend of 6.0p per ordinary share payable on 8 August 1997 which, together with the interim dividend of 4.4p per ordinary share already paid, makes a total of 10.4p per ordinary share, which represents an increase of 10.6% compared to the dividend of 9.4p for last year.

Directors

The present directors of the company are shown on page 31.

Mr J C Orr was appointed a director on 2 April 1997; he retires in accordance with Article 114 and offers himself for re-election.

The directors retiring under Article 108 are Mr D G Perry, Mr A B Reeve and Mr D F L Sykes. Mr Perry and Mr Reeve are not offering themselves for re-election. Mr Sykes, being eligible, offers himself for re-election.

Subject to his re-election, Mr Orr will succeed Mr Perry as Chairman from the conclusion of the Annual General Meeting.

The service contracts of Messrs Buckley, Evans, Gibson and Mitchell may be terminated by not less than two years' notice in writing given by the company. Mr Abrahams, Mrs Cohen, Mr Orr and Mr Sykes do not have a service contract with the company. None of the directors had an interest in any contract (other than service contracts) with the company or with any subsidiary company during the year.

During the year the company purchased and maintained Directors' and Officers' Liability Insurance as permitted by the Companies Act 1985.

A list of directors and details of their interests in Waddington shares and options are given on pages 40 and 41.

Acquisition and disposal

On 10 May 1996 The House of Questa Limited was sold to MDC Corporation for a consideration of £1,300,000 in cash and £1,000,000 in loan notes payable over the three years to May 1999.

On 19 December 1996 the remaining 50% of the issued share capital of PFB Creative Marketing Solutions Ltd was acquired for a cash consideration of £508,000.

Research and development

Expenditure on research and development in the year was £771,000 (1996 £1,171,000).

Tangible assets

Details of the movements in tangible assets are given in Note 9 to the accounts.

Based upon professional advice received, the directors consider that the open market value for existing use of the Group's land and buildings is approximately £5 million in excess of the amount included in the consolidated balance sheet.

Share capital

Movements in the authorised, allotted and fully paid share capital are set out in Note 17 to the accounts.

Share option schemes

Further options were granted during the year under the Group's share option schemes. Details of the options outstanding at the year end are given in Note 17 to the accounts.

Employees

The company gives full and fair consideration to applications for employment by disabled persons having regard to their particular aptitudes and abilities. Every effort is made to continue the employment of employees who have become disabled during their employment with the company. Depending on their skills and abilities disabled employees have the same career prospects and opportunities for promotion as other employees. The company continues its practice of keeping all its employees informed on matters affecting them.

Charitable and political contributions

During the year the Group contributed £25,442 (1996 £38,067) for charitable purposes and made no political contributions.

Substantial shareholdings

As at 11 June 1997 the company had been informed of interests of 3% or more of the company's issued ordinary shares as follows:

	Number of ordinary shares	%
Funds managed and advised by PDFM Ltd	14,052,172	13.32
Investment management clients of the Mercury Asset Management Group	10,253,641	9.72
Britannic Assurance plc	6,833,571	6.48
Funds managed or advised by Aberforth Partners	4,139,141	3.92
Funds managed or advised by M&G Investment Management	4,042,586	3.83
Funds managed and advised by Perpetual Investment Management Services Ltd	3,984,282	3.78
Funds managed by Fidelity Investment Services Ltd	3,424,100	3.25

As far as the directors are aware, no other shareholder holds 3% or more of the company's issued ordinary shares.

Directors' Report (continued)

Going concern

After making enquiries, the directors have a reasonable expectation that the company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Payments to suppliers

It is the Group's policy to settle the terms of payment with suppliers when agreeing each transaction or series of transactions, to ensure that suppliers are made aware of these terms, and to abide by them. On average the Group takes fifty-five days to pay its suppliers.

Corporate governance

The company supports the Cadbury Code of Best Practice ("the Code"). Throughout the year to 29 March 1997 Waddington has complied with, and remains in compliance with, the requirements of the Code.

The Board consists of ten directors, five of whom are non-executives. It meets at least ten times a year to review appropriate strategic, operational and financial matters, and otherwise as required. It supervises the executive management team and a schedule of items reserved for the full Board's approval is in place. The directors are entitled to obtain independent professional advice where relevant.

The Audit Committee is composed of Michael Abrahams, Janet Cohen, Michael Orr and David Sykes and is chaired by Michael Abrahams. It meets at least twice a year to review the company's accounting policies and financial and other reporting procedures, with the external and internal auditors and the Finance Director in attendance when appropriate.

The Remuneration Committee is composed of the five non-executive directors and is chaired by David Sykes. The Report of the Remuneration Committee is on pages 36 to 41.

In addition to the above, the selection and appointment of Board members is conducted by a Nominations Committee, brought together on an ad hoc basis and working with the benefit of the advice of external research consultants.

Internal financial control

The directors are responsible for the Group's system of internal financial control which is designed to safeguard the Group's assets and maintain proper accounting records which provide reliable financial information.

The key elements of the system of internal financial control are:

Budgeting and Strategic Planning - All subsidiaries prepare strategic plans annually which include projections for the following two years, and detailed budgets for the forthcoming year. These plans and budgets are considered by the executive directors and then consolidated for review by the Board as a whole. Performance against budget is monitored by the Board on a monthly basis. Reports are consolidated and rolling forecasts are updated monthly for review by the Board.

Organisational Controls - There are clearly defined lines of responsibility and delegation of authority to divisional and subsidiary management. Common accounting systems and controls are in place throughout the Group, which are documented and monitored. Certificated monthly reports from local management are required confirming compliance with systems laid down. Additional annual certification is also required.

Internal Audit - There is a rolling programme of internal audit reviews of subsidiary companies which are documented and reported. In addition selective reviews are carried out each year by Group personnel in conjunction with the external auditors. The Group has also implemented a self-assessment package, which facilitates the measurement and appraisal of the principal financial controls across the Group. The results are reviewed by internal and external auditors.

Investment Appraisal - Formal procedures are set out for Board appraisal and authorisation of major capital expenditure and acquisitions and divestments.

The Board has reviewed the effectiveness of the system of internal financial control through the monitoring process outlined above. It should be recognised that such a system can provide reasonable but not absolute assurance against material misstatement or loss.

Annual General Meeting

Notice of the Annual General Meeting to be held on 25 July 1997 is contained in the document addressed to shareholders dated 2 July 1997 and enclosed with this Report.

Close company status

In the opinion of the directors the company is not a close company within the meaning of the Income and Corporation Taxes Act 1988.

Auditors

A resolution to re-appoint the auditors, Price Waterhouse, will be proposed at the Annual General Meeting.

By order of the Board

M K Young

Secretary



11 June 1997

Report of the Remuneration Committee

Composition

The Committee comprises the non-executive directors and is chaired by David Sykes.

Terms of reference

The terms of reference of the Committee require and empower it to determine the company's policy for executive remuneration and the entire individual remuneration package for the executive directors and, after discussion with the Chief Executive, other senior executives.

Policy

The policy of the Committee is to ensure that the Group is managed in the interests of shareholders

- by providing competitive remuneration for the executive directors and senior management to attract, retain and motivate individuals of the calibre required, and
- by rewarding success measured against demanding performance targets.

Remuneration comprises basic salary, performance related bonuses, pension arrangements, participation in share schemes and benefits in kind.

During the year the company has complied with the Best Practice Provisions set out in Section A annexed to the Stock Exchange Listing Rules and derived from the Greenbury Code of Best Practice. The Committee also confirms that in setting the remuneration of executive directors it has given full consideration to the matters referred to in Section B of those Provisions, taking into account market rates and using comparisons with companies of a similar type, size and complexity. Such comparisons can only give helpful guidance as it is not easy to find comparator companies of the same size and with identical business activities. Advice is sought from specialist remuneration consultants periodically to review rates of remuneration with those of comparator companies and otherwise as the need arises.

Service contracts

The executive directors have service contracts with the company and are entitled to a notice period of two years, subject to retirement at the age of sixty. The Committee believes that two year rolling contracts for such senior positions are reasonable given the nature of the markets in which the company operates and prevailing market practice.

The contracts of the executive directors provide for a predetermined sum to be paid by way of damages (broadly twice the annual remuneration which would have been payable during the contractual notice period, less a suitable discount) if the contracts are terminated following a successful bid for the company.

Salaries

The level of basic salary is established by reference to the competitive marketplace, and details are set out below. Reviews are carried out annually on 1 July or when a change in responsibilities occurs.

Benefits in kind

The main elements, which are consistent with industry norms, are the provision of a fully expensed motor car and medical insurance. Benefits are valued for the purposes of remuneration at the cash cost to the company or at the amount assessed to income tax on the director.

Performance bonuses

The company operates an annual performance bonus scheme for executive directors and senior executives. For those directors with management responsibilities encompassing the entire Group, the level of bonus is related to growth in normalised earnings per share and is limited to a maximum of 50% of basic salary. For those directors with divisional responsibilities, the bonus is calculated primarily by reference to the performance of those divisions against pre-determined targets, with a maximum of 50% of basic salary.

Pensions

Executive directors are members of the John Waddington Group Pension Scheme, a defined benefit scheme, which provides for directors a pension of two-thirds of final pensionable salary on retirement at age sixty after twenty years' service, and proportionately less for service under twenty years. Only basic salary is pensionable.

Share options

Executive directors are eligible to participate in the **John Waddington 1991 Savings-Related Share Option Scheme**, which is available to all UK employees and permits savings up to a maximum of £250 per month, on the same terms as all other eligible staff. These terms include the grant of options at a discount of up to 20% below the market price at the time of grant.

The Inland Revenue approved **John Waddington Executive Share Option Scheme 1985**, which was available to all executive directors and other senior executives, expired in May 1995. The last options under this Scheme were granted in December 1994 at full prevailing market price without discount. The Rules of that Scheme initially set no performance criteria, but for all options granted after July 1988 exercise is conditional upon growth in adjusted earnings per share over any three consecutive financial years following grant exceeding the level of growth in the Retail Prices Index over the same period.

The **John Waddington PLC 1995 Inland Revenue Approved Executive Share Option Scheme** replaced the 1985 Scheme. Since April 1996 the value of options which may be granted under this Scheme has been restricted to £30,000. Exercise under this scheme is conditional upon adjusted earnings per share growth over any three consecutive financial years, commencing on or after the beginning of the financial year in which the date of grant falls, exceeding the level of growth in the Retail Prices Index over the same period, plus 6%. The Committee has extended participation in the 1995 Scheme to a number of senior executives who are not on the parent board.

Report of the Remuneration Committee (continued)

At the AGM in July 1996 the Company established, with shareholders' approval, the **John Waddington Executive Share Option Scheme 1996**. Under this scheme, options can be granted to executive directors and senior executives to a value exceeding £30,000. These again are subject to the performance criterion that adjusted earnings per share growth over any three consecutive financial years, commencing on or after the beginning of the financial year in which the date of grant falls, must exceed the growth in the Retail Prices Index for the same three year period plus 6%. This scheme was not subject to Inland Revenue approval.

The **John Waddington PLC Incentive Stock Option Plan for United States Executives** expired in May 1995. The rules of that Plan largely reflected the rules of the Executive Share Option Scheme 1985 outlined above, but the Plan was structured to provide beneficial treatment for options under United States tax law. Michael Evans is the only executive director who holds options under this Plan.

The **Executive Share Option Scheme 1996** outlined above also includes the facility for options to be granted to executives in other European countries and in the United States under the same conditions for exercise as would apply to executive directors and senior executives in the United Kingdom.

The **Performance Related Restricted Share Plan ("the RSP")** was introduced in August 1995 and is designed to encourage participants to focus their attention on the longer term growth in shareholder value by providing them with a deferred performance related award in Ordinary Shares. It is open only to executive directors with overall Group responsibilities and with a minimum of three years to serve before normal retirement.

An award under this plan is the option to acquire, at nominal cost, a maximum fixed number of Ordinary Shares in the company which had a market value equal to 150% of the participant's basic salary at the time of the award. Each award is subject to a performance target, the attainment of which will determine whether, and to what extent, the award may be exercised.

The principal conditions for exercise are:

1. the option may only be exercised after the third anniversary of grant, but before the seventh;
2. the director must have remained in the company's employment during that first three year period;
3. the option becomes exercisable over 25% of the number of shares under option if there has been an increase in normalised earnings per share of the company during the three financial years beginning with the year in which the option is granted equal to the percentage increase in the Retail Prices Index during that three year period plus 30%; for each 1% increase in normalised earnings per share in excess of this threshold the option becomes exercisable over a further 2½% of the number of shares subject to the option; thus the option would only become exercisable in full if the percentage increase in earnings during that three year period exceeded the percentage rise in the Retail Prices Index during that period plus 60%.

A participant who leaves the company before the first date on which exercise might normally take place will forfeit his award save in certain exceptional circumstances. Under the RSP an executive director will be granted an option only once every three years.

Under the terms of the RSP, the trustees of a trust established in Jersey were put in funds by the company to enable them to purchase in the market 210,450 ordinary shares in the company. On 31 August 1995 Martin Buckley was granted an option to acquire 123,834 shares and Geoffrey Gibson 86,616 shares. In each case the award had a market value at the time of grant equal to 150% of the basic salary of the director concerned. These options are not included in the table of options set out below. No options were granted in 1996 and it is not intended to grant any following the AGM in 1997.


The **Invested Bonus Restricted Share Plan** ("the IBP") was also introduced in August 1995 and the first awards under the plan were made in June 1996. The IBP is designed to reward the success of senior executives in the Group and to encourage their loyalty and commitment to the Group. The IBP is not available to any executive director who is participating in the RSP.

Under the terms of the IBP an executive will, subject to having applied one half of his annual performance bonus (after tax) in the purchase of shares in the company ("the retained shares"), be granted an option to purchase further shares with an aggregate value at the date of grant of one half of that annual bonus (before tax). The exercise price under this option will be a nominal amount only. In normal circumstances the option will become exercisable three years after the date of grant only if (a) the executive has not disposed of the retained shares and (b) the executive has remained employed within the Group.

A participant who leaves the Group or disposes of some or all of his retained shares before the third anniversary of grant will forfeit his award save in certain exceptional circumstances. Exercise may not take place after the seventh anniversary of the date of grant.

Under the IBP an executive will be offered the chance to participate after the end of each financial year in which he earns a performance bonus.

In June 1996 Michael Mitchell was granted an option over 8,876 shares under the terms of the IBP. This option is not included in the table of options set out below.



DAVID SYKES

Chairman of the Remuneration Committee

Report of the Remuneration Committee (continued)

Directors' remuneration

	Salary/ Fees £000	Performance- related payments £000	Other benefits £000	1997 Total £000	1996 Total £000
Chairman					
D G Perry	70	—	5	75	100
Executive directors					
M H Buckley	207	103	12	322	233
M G Evans	124	46	74	244	54
G Gibson	137	68	11	216	169
M Mitchell	101	38	7	146	35
A B Reeve	101	50	7	158	122
Non-executive directors					
M D Abrahams	18	—	—	18	20
J Cohen	18	—	—	18	17
D F L Sykes	23	—	—	23	22
	<u>799</u>	<u>305</u>	<u>116</u>	<u>1,220</u>	<u>772</u>

Note

1. The other benefits of Mr M G Evans include the provision of housing costs.

Directors' interests

The interests (all being beneficial) of directors in the company's securities are set out below:

	At 29 March 1997			At 30 March 1996		
	Ordinary Shares	4.2% Preference Shares	Share Options	Ordinary Shares	4.2% Preference Shares	Share Options
M D Abrahams	—	500	—	—	500	—
M H Buckley	264,709	—	429,408	208,383	—	432,180
J Cohen	—	—	—	—	—	—
M G Evans	5,441	—	150,000	5,441	—	125,000
G Gibson	68,977	—	269,610	6,932	—	341,813
M Mitchell	130,516	—	46,752	108,930	—	101,554
D G Perry	72,510	500	173,249	51,586	500	184,173
A B Reeve	25,007	—	166,718	15,487	—	171,087
D F L Sykes	42,836	—	—	42,836	—	—

Notes

1. As at 2 April 1997, the date of his appointment, Mr J C Orr held 10,000 shares in the company. This figure had not changed by 11 June 1997.
2. Since the end of the financial year Mr M H Buckley has gifted 4,000 shares to his children and has acquired a further 5,897 shares; his beneficial holding on 11 June 1997 was 266,606 ordinary shares and 429,408 options.
3. On 31 May 1997 the daughter of Mr G Gibson reached the age of eighteen and her holding of 964 shares ceased to be part of Mr Gibson's beneficial interest in the company; his beneficial holding on 11 June 1997 was 68,013 shares and 269,610 options.
4. The directors and their families had no interest in the shares of any other company within the Group.

Share options

The number of, and prices at which, options under the Executive Share Option Schemes 1985, 1995 and 1996, the Stock Option Plan for US Executives and the Savings-Related Share Option Scheme have been granted to directors are set out below. The table discloses weighted average option exercise prices, all of which were below the mid-market price of an ordinary share in Waddington PLC on 27 March 1997, the last Stock Exchange trading day prior to 29 March 1997, namely 323½p.

	Options granted during the year		Share options held at 29 March 1997	
	Number	Price (p)	Number	Weighted average exercise price (p)
M H Buckley	8,152#	211.6	429,408	206.2
M G Evans	25,000	254.3	150,000	196.8
G Gibson	134,302	254.3	269,610	234.1
	8,152#	211.6		
M Mitchell	25,000	254.3	46,752	238.2
	4,095#	238.1		
D G Perry	—	—	173,249	190.4
A B Reeve	—	—	166,718	206.2

Exercises of share options during the year were as follows:

	Number	Option price (p)	Mid-market price on date of exercise (p)
M H Buckley	10,924#	171.6	326
G Gibson	26,357	176.0	255
	56,719	176.6	255
	63,938	148.8	255
	56,719	176.0	255
	10,924#	171.6	327
M Mitchell	25,781	176.6	255
	20,625	148.8	255
	30,937	176.0	255
	6,554#	171.6	327
D G Perry	10,924#	171.6	327
A B Reeve	4,369#	171.6	327

Notes

1. There were no lapses of share options during the year.
2. Directors' outstanding share options are exercisable between 1997 and 2006.
3. Options marked # were granted or exercised under the terms of the Savings-Related Share Option Scheme. All other grants and exercises were of Executive Share Options.
4. Full details of directors' shareholdings and options are contained in the Register of Directors' Interests which is kept by the company and is open to inspection in accordance with the provisions of the Companies Act 1985.
5. The range of market price of shares in Waddington PLC during the year ended 29 March 1997 was 216p to 328p.

Environmental Statement

It is the Group's policy to seek continually to minimise any negative environmental impact from the pursuit of its various business interests whilst continuing to produce high quality products to its customers' needs, specification and satisfaction.

The Group recognises that all activities have some environmental impact. In view of this the benefits of our products must be weighed against any environmental impact as a result of their manufacture, use, sale and ultimate disposal.

Environmental impact is therefore considered throughout the organisation in relation to:

- Design and development of new products and processes;
- Selection of raw materials and suppliers;
- Internal production methods, with particular emphasis on
 - reducing wastage
 - reducing energy usage
 - reducing the use of scarce resources, including raw materials
 - minimising and controlling the use of hazardous substances
 - controlling emissions to air, drainage and land fill
 - optimising packaging of raw material and finished products.

It is the Group's policy to comply with all statutory environmental requirements and to aim to improve upon the standards set by local regulatory authorities.

It is the Group's policy to foster an informed and responsible approach to all environmental concerns and it encourages the involvement of employees, customers and suppliers. Regulatory authorities are consulted and informed at all appropriate times.

The Group has continued to follow developments related to implementation of the European Packaging Waste Directive, through its membership of Incpen and the British Printing Industries Federation. The Group has joined Valpak Ltd, a collective compliance scheme, in order to meet its obligations in terms of the Packaging Waste Regulations.

Statement of Directors' Responsibilities in respect of the preparation of Financial Statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the Auditors to the Directors of Waddington PLC on Corporate Governance Matters

In addition to our audit of the financial statements we have reviewed your statement on page 34 concerning the Group's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and the adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v), if not otherwise disclosed.

Basis of opinion

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

Opinion

In our opinion your statements on going concern and on internal financial control on pages 34 and 35 have provided the disclosures required by the Listing Rules referred to above and are consistent with the information which came to our attention as a result of our audit work on the financial statements.

In our opinion, based on enquiry of certain directors and officers of the Group and examination of relevant documents, your statement on page 34 appropriately reflects the Group's compliance with the other paragraphs of the Code specified for our review by Listing Rule 12.43(j).

Price Waterhouse

Chartered Accountants

11 June 1997

Report of the Auditors to the Members of Waddington PLC

We have audited the financial statements on pages 45 to 62 (including the additional disclosures on pages 36 to 41 relating to the remuneration of 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 page 50.

Respective responsibilities of directors and auditors

As described on page 43, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's 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 of the Group as at 29 March 1997 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.

Price Waterhouse
Price Waterhouse

Chartered Accountants
and Registered Auditors

9 Bond Court
Leeds LS1 2SN

11 June 1997

Consolidated Profit and Loss Account

for the financial year ended 29 March 1997

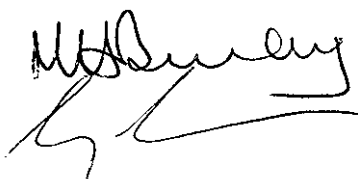
	Notes	1997 £000	1996 £000
Turnover	1	310,388	298,615
Costs and overheads	2	276,362	271,675
Operating profit	1	34,026	26,940
Exceptional items	4	–	(13,761)
Profit before interest		34,026	13,179
Interest payable	5	1,942	1,315
Profit before taxation		32,084	11,864
Taxation	6	9,465	4,072
Profit attributable to shareholders		22,619	7,792
Preference dividends	7	28	28
Ordinary dividends	7	10,903	9,813
Profit(deficit) retained		11,688	(2,049)
Earnings per ordinary share	8	21.57p	7.45p
Earnings per ordinary share excluding exceptional items	8	21.57p	17.89p
Dividend per ordinary share		10.40p	9.40p
Statement of retained profits			
Profit and loss account at 31 March 1996		69,679	70,160
Profit(deficit) retained		11,688	(2,049)
Exchange adjustments		(1,418)	507
Goodwill written back on disposals		–	1,061
Share issue costs	17	(752)	–
Profit and loss account at 29 March 1997		79,197	69,679

Group Balance Sheet

at 29 March 1997

	Notes	1997 £000	1996 £000
Fixed assets			
Tangible assets	9	123,901	109,182
Current assets			
Stocks	11	41,197	38,175
Debtors	12	55,101	58,155
Cash at bank and in hand	13	15,600	22,051
		<u>111,898</u>	<u>118,381</u>
Creditors (due within one year)			
Borrowings	14	30,839	32,366
Other creditors	15	73,172	77,228
		<u>104,011</u>	<u>109,594</u>
Net current assets		<u>7,887</u>	<u>8,787</u>
Total assets less current liabilities		<u>131,788</u>	<u>117,969</u>
Creditors (due after one year)			
Borrowings	14	21,716	18,363
Provisions for liabilities and charges			
Provisions	16	514	1,238
Deferred taxation	6	12,010	12,748
		<u>12,524</u>	<u>13,986</u>
Net assets	1	<u>97,548</u>	<u>85,620</u>
Capital and reserves including non-equity interests			
Called up share capital	17	26,950	26,704
Share premium account	18	2,922	758
Other non-distributable reserve	18	(11,521)	(11,521)
Profit and loss account		79,197	69,679
Shareholders' funds		<u>97,548</u>	<u>85,620</u>

M H Buckley
G Gibson
Directors



Approved by the Board on 11 June 1997

Group Cash Flow Statement

for the financial year ended 29 March 1997

	Notes	1997 £000	1997 £000	1996 £000	1996 £000
Net inflow from operating activities	20		37,422		27,119
Returns on investments and servicing of finance					
Interest received		1,145		1,398	
Interest paid		(2,814)		(2,571)	
Dividends paid on non-equity shares		(28)		(28)	
			(1,697)		(1,201)
Taxation			(8,068)		(4,501)
Capital expenditure					
Purchase of tangible fixed assets		(39,164)		(29,184)	
Sale of plant and machinery		439		2,160	
			(38,725)		(27,024)
Acquisitions and disposals					
Purchase of businesses (net of cash acquired)	21	—		(31,060)	
Disposal of businesses (net of cash disposed of)	22	3,446		6,681	
			3,446		(24,379)
Equity dividends paid			(10,217)		(9,262)
Management of liquid resources					
Decrease in short term deposits			5,843		25,701
Financing					
Issue of ordinary shares		1,658		907	
New loans		28,795		32,942	
Repayment of loans		(24,395)		(19,604)	
			6,058		14,245
(Decrease)increase in cash			(5,938)		698
RECONCILIATION TO NET DEBT	23				
(Decrease)increase in cash in period			(5,938)		698
Increase in debt			(4,400)		(13,338)
Decrease in liquid resources			(5,843)		(25,701)
Change in net debt from cashflow			(16,181)		(38,341)
Translation difference			7,904		(1,213)
Movement in net debt in period			(8,277)		(39,554)
Net debt at 31 March 1996			(28,678)		10,876
Net debt at 29 March 1997	23		(36,955)		(28,678)

Statement of Total Recognised Gains and Losses

for the financial year ended 29 March 1997

	1997 £000	1996 £000
Profit attributable to shareholders	22,619	7,792
Exchange adjustments	(1,418)	507
Goodwill written back on disposals	–	1,061
	<u>21,201</u>	<u>9,360</u>

There is no material difference between the results as disclosed in the profit and loss account and the results on a historical cost basis.

Reconciliation of Movements in Shareholders' Funds

for the financial year ended 29 March 1997

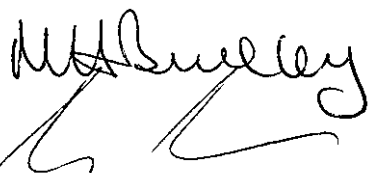
	1997 £000	1996 £000
Profit attributable to shareholders	22,619	7,792
Dividends	10,931	9,841
	<u>11,688</u>	<u>(2,049)</u>
New share capital issued, net of costs	1,658	907
Goodwill written off	–	(26,228)
Goodwill written back on disposals	–	1,061
Exchange adjustments	(1,418)	507
	<u>11,928</u>	<u>(25,802)</u>
Shareholders' funds at start of year	85,620	111,422
Shareholders' funds at end of year	<u>97,548</u>	<u>85,620</u>
Equity interests	96,947	85,019
Non-equity interests	601	601
	<u>97,548</u>	<u>85,620</u>

Company Balance Sheet

at 29 March 1997

	Notes	1997 £000	1996 £000
Fixed assets			
Tangible assets	9	13,376	13,519
Investments	10	42,967	46,899
		<u>56,343</u>	<u>60,418</u>
Current assets			
Stocks	11	6,518	7,983
Debtors	12	26,495	15,619
Cash at bank and in hand	13	8,517	14,357
		<u>41,530</u>	<u>37,959</u>
Creditors (due within one year)			
Borrowings	14	13,515	12,684
Other creditors	15	28,815	27,217
		<u>42,330</u>	<u>39,901</u>
Net current liabilities		(800)	(1,942)
Total assets less current liabilities		<u>55,543</u>	<u>58,476</u>
Creditors (due after one year)			
Borrowings	14	10,096	14,490
Provisions for liabilities and charges			
Deferred taxation	6	7,852	7,852
Net assets		<u>37,595</u>	<u>36,134</u>
Capital and reserves including non-equity interests			
Called up share capital	17	26,950	26,704
Share premium account	18	2,922	758
Other non-distributable reserve	18	(11,521)	(11,521)
Profit and loss account	19	19,244	20,193
		<u>37,595</u>	<u>36,134</u>

M H Buckley
G Gibson
Directors



Approved by the Board on 11 June 1997

Notes to the Accounts

Accounting policies

General

The Group accounts are prepared in accordance with applicable accounting standards under the historical cost convention as modified by the revaluation of certain assets and consolidate the accounts of the holding company and subsidiaries on the basis of audited accounts made up to the Saturday falling within the period from 29 March to 4 April each year. Results of subsidiary undertakings acquired or sold during the year are consolidated from or to the date on which control passes.

Turnover

Turnover represents amounts invoiced to external customers, excluding value added tax.

Tangible assets

Tangible assets in the accounts of each company within the Group are stated at cost to the Group, except in the case of certain assets which have been revalued, less aggregate depreciation.

Depreciation

The charge is calculated at rates appropriate to write off the cost or valuation of individual assets from the time they become operational by equal annual instalments over their estimated useful lives which are principally as follows:

Freehold buildings	25 or 50 years
Leasehold property	Period of lease
Plant, equipment and motor vehicles	4 to 10 years

Freehold land is not depreciated.

Goodwill

The amount by which the fair value of the consideration on the acquisition of a business exceeds the fair value of its net assets is written off against reserves. Upon disposal of previously acquired businesses goodwill written off is reinstated in calculating the profit or loss on disposal.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes appropriate overheads and is determined on the 'first in first out' basis.

Deferred taxation

No provision is made for deferred taxation unless there is a reasonable probability of payment in the foreseeable future.

Rates of exchange

Assets and liabilities expressed in overseas currencies are translated into sterling at the exchange rates ruling at the balance sheet date and trading results at average rates during the year.

Exchange gains or losses of a trading nature are dealt with in the profit and loss account; other gains or losses and translation differences are taken directly to reserves.

Research and development

All such expenditure is written off in the year in which it is incurred.

Capitalisation of interest

Tangible assets include amounts in respect of interest paid on borrowings related to the financing of major projects during their period of construction.

Pension costs

The cost of providing pension benefits is charged to the profit and loss account over the period benefiting from employees' services.

Notes to the Accounts

1. Segment information

	Turnover		Operating profit		Assets employed	
	1997 £000	1996 £000	1997 £000	1996 £000	1997 £000	1996 £000
By class of business:						
Food Services	90,997	77,103	9,090	7,299	48,643	38,545
Pharmaceutical Packaging	28,942	24,090	6,326	6,106	20,321	9,365
Cartons	115,621	104,130	9,658	9,251	60,948	65,471
Specialist Printing	74,828	69,145	8,952	6,777	32,275	24,657
Ongoing businesses	310,388	274,468	34,026	29,433	162,187	138,038
Operations sold	–	24,147	–	(2,493)	–	2,582
Continuing operations	<u>310,388</u>	<u>298,615</u>	<u>34,026</u>	<u>26,940</u>	<u>162,187</u>	<u>140,620</u>
By location of customer:						
United Kingdom	140,668	146,574				
Europe	64,286	62,259				
USA	102,843	87,499				
Rest of world	2,591	2,283				
	<u>310,388</u>	<u>298,615</u>				
By origin:						
United Kingdom	138,694	145,827	15,175	13,248	80,719	69,327
Europe	67,290	66,202	7,795	4,134	26,950	31,550
USA	104,404	86,586	11,056	9,558	54,518	39,743
Continuing operations	<u>310,388</u>	<u>298,615</u>	<u>34,026</u>	<u>26,940</u>	<u>162,187</u>	<u>140,620</u>

Assets employed reconcile to the Group balance sheet as follows:

Assets employed	162,187	140,620
Finance debt less cash at bank and in hand (Note 23)	(36,955)	(28,678)
Current and deferred taxation	(21,360)	(20,684)
Dividends	(6,324)	(5,638)
Net assets	<u>97,548</u>	<u>85,620</u>

Notes to the Accounts

	1997 £000	1996 £000
2. Costs and overheads		
Change in stocks of finished goods and work in progress	(4,969)	(3,401)
Own work capitalised	(34)	(50)
Other operating income	—	(306)
Raw materials and consumables	127,968	134,387
Other external and operating charges	65,180	56,089
Staff costs (Note 3)	73,998	70,277
Depreciation	14,219	14,679
	<u>276,362</u>	<u>271,675</u>

Other external and operating charges include:

Auditors' remuneration	308	303
Auditors' remuneration for non-audit services	20	21
Hire of plant and equipment	839	684
Profit on sale of tangible assets	(278)	(706)
Research and development	771	1,171

Auditors' remuneration includes £80,000 (1996 £80,000) in respect of the parent undertaking.

3. Employees and directors

Staff costs:

Wages and salaries	65,023	61,289
Social security costs	7,510	6,967
Other pension costs (Note 24)	1,465	2,021
	<u>73,998</u>	<u>70,277</u>

The average number of persons employed by the Group during the year was:

	Number of employees	
United Kingdom	1,399	1,809
Rest of world	1,815	1,500
	<u>3,214</u>	<u>3,309</u>

The emoluments of the directors were as follows:

	£000	£000
Aggregate emoluments	1,220	772
Pension contributions	44	33

All executive directors are members of the John Waddington Group Pension Scheme, a defined benefit scheme.

Details of individual directors' emoluments and interests are provided within the Remuneration Committee report on pages 36 to 41.

4. Exceptional items

Loss on sale of Plastona Ltd	—	(12,500)
Provision for loss on sale of The House of Questa Ltd	—	(1,261)
	<u>—</u>	<u>(13,761)</u>

Notes to the Accounts

	1997 £000	1996 £000
5. Interest payable		
Interest payable on:		
Bank loans	2,828	2,440
Bank overdrafts	162	76
Other	58	158
Interest receivable on:		
Short term deposits and bank balances	(1,074)	(1,267)
	<u>1,974</u>	<u>1,407</u>
	(32)	(92)
Interest capitalised	<u>1,942</u>	<u>1,315</u>
6. Taxation		
Based on profits for the year:		
UK corporation tax at 33%	4,890	3,829
Overseas taxation	4,308	2,645
Deferred taxation	169	(2,297)
	<u>9,367</u>	<u>4,177</u>
	98	(105)
Adjustments in respect of prior years	<u>9,465</u>	<u>4,072</u>

The tax charge has been reduced by £680,000 in respect of overseas trading and by £430,000 in respect of timing differences for which no deferred taxation has been provided.

The potential liability at 33% for deferred taxation is as follows:

	Amount provided		Potential	
	1997 £000	1996 £000	1997 £000	1996 £000
Group				
Accelerated capital allowances	3,403	3,709	8,867	8,005
Other timing differences	607	1,039	(267)	20
Held over capital gains	8,000	8,000	8,000	8,000
	<u>12,010</u>	<u>12,748</u>	<u>16,600</u>	<u>16,025</u>

The movement in the amount provided reflects a charge to the profit and loss account of £169,000, a net decrease in respect of the acquisition and disposal of subsidiaries of £353,000 and exchange differences of £554,000.

No provision has been made for deferred UK taxation and foreign withholding taxes relating to unremitted earnings of overseas subsidiaries where remittance of these earnings is not currently anticipated in the foreseeable future.

Company				
Accelerated capital allowances	475	354	592	354
Other timing differences	(623)	(502)	(623)	(502)
Held over capital gains	8,000	8,000	8,000	8,000
	<u>7,852</u>	<u>7,852</u>	<u>7,969</u>	<u>7,852</u>

Notes to the Accounts

	1997 £000	1996 £000
7. Dividends		
Ordinary		
Interim of 4.4p per share (1996 4.0p)	4,579	4,175
Proposed final of 6.0p per share (1996 5.4p)	6,324	5,638
	<hr/>	<hr/>
Preference	10,903	9,813
	28	28
	<hr/>	<hr/>
	10,931	9,841
	<hr/>	<hr/>

8. Earnings per share

Earnings per share are calculated as follows:

Profit after taxation	22,619	7,792
Preference dividends	28	28
	<hr/>	<hr/>
	22,591	7,764
	<hr/>	<hr/>
Earnings per share	21.57p	7.45p
	<hr/>	<hr/>

Earnings per share excluding exceptional items are also presented in order to give an indication of the underlying performance of the Group and are calculated as follows:

Profit after taxation	22,619	7,792
Preference dividends	28	28
	<hr/>	<hr/>
	22,591	7,764
Exceptional items	-	13,761
Taxation on exceptional items	-	(2,888)
	<hr/>	<hr/>
	22,591	18,637
	<hr/>	<hr/>
Earnings per share excluding exceptional items	21.57p	17.89p
	<hr/>	<hr/>

Both calculations of earnings per share are based on the average number of ordinary shares in issue during the year ranking for dividend of 104,715,080 (1996 104,179,998)

Notes to the Accounts

9. Tangible assets £000

Group	Freehold property	Short leasehold property	Plant and vehicles	Other equipment	Total
Cost or valuation					
31 March 1996	46,183	2,205	126,639	23,154	198,181
Exchange adjustments	(2,612)	(153)	(12,828)	(1,467)	(17,060)
Business acquired	–	8	108	874	990
Business disposed of	–	–	(5,404)	(666)	(6,070)
Additions	4,217	2,598	28,565	3,048	38,428
Disposals	–	–	(1,044)	(855)	(1,899)
29 March 1997	47,788	4,658	136,036	24,088	212,570
Being: Cost	44,552	4,658	136,036	24,088	209,334
Valuation 1977	306	–	–	–	306
Valuation 1980	2,930	–	–	–	2,930
Aggregate depreciation					
31 March 1996	7,272	628	64,687	16,412	88,999
Exchange adjustments	(816)	(56)	(8,419)	(1,118)	(10,409)
Business acquired	–	2	17	586	605
Business disposed of	–	–	(2,537)	(470)	(3,007)
Disposals	–	–	(891)	(847)	(1,738)
Charge for year	848	234	11,247	1,890	14,219
29 March 1997	7,304	808	64,104	16,453	88,669
Net book amounts					
29 March 1997	40,484	3,850	71,932	7,635	123,901
30 March 1996	38,911	1,577	61,952	6,742	109,182
Company					
Cost or valuation					
31 March 1996	–	1,268	26,147	1,562	28,977
Additions	–	6	2,251	164	2,421
Transfer from Group companies	–	–	20	–	20
Disposals	–	–	(181)	(27)	(208)
29 March 1997	–	1,274	28,237	1,699	31,210
Aggregate depreciation					
31 March 1996	–	247	14,047	1,164	15,458
Transfer from Group companies	–	–	3	–	3
Disposals	–	–	(132)	(26)	(158)
Charge for year	–	51	2,355	125	2,531
29 March 1997	–	298	16,273	1,263	17,834
Net book amounts					
29 March 1997	–	976	11,964	436	13,376
30 March 1996	–	1,021	12,100	398	13,519

Freehold property includes £1,431,000 (1996 £1,399,000) in respect of interest capitalised.

Notes to the Accounts

9. Tangible assets (continued)

On a historical cost basis freehold property would have been stated at:

	Group		Company	
	1997 £000	1996 £000	1997 £000	1996 £000
Cost	45,914	44,309	-	-
Aggregate depreciation	6,772	6,773	-	-
Net book amount	<u>39,142</u>	<u>37,536</u>	<u>-</u>	<u>-</u>
Future capital expenditure not provided in the accounts:				
Contracts placed	6,078	4,329	1,975	260
Authorised by the directors but for which contracts not yet placed	2,504	5,689	71	90
	<u>8,582</u>	<u>10,018</u>	<u>2,046</u>	<u>350</u>

10. Investments

Subsidiaries

	Shares £000	Loans £000	Provisions £000	Total £000
31 March 1996	121,713	26,055	(100,869)	46,899
Movement during year	(1,316)	(2,728)	112	(3,932)
29 March 1997	<u>120,397</u>	<u>23,327</u>	<u>(100,757)</u>	<u>42,967</u>

The principal operating companies of the Group are shown on pages 64 and 65.

On 19 December 1996 the remaining 50% of the issued share capital of PFB Creative Marketing Solutions Limited was acquired for a cash consideration of £508,000.

The book values of the assets and liabilities acquired, to which no fair value adjustments were made, are detailed in Note 21 of these accounts.

11. Stocks

	Group		Company	
	1997 £000	1996 £000	1997 £000	1996 £000
Raw materials	10,741	9,972	1,745	2,156
Work in progress	4,913	6,389	1,707	3,178
Finished goods	25,543	21,814	3,066	2,649
	<u>41,197</u>	<u>38,175</u>	<u>6,518</u>	<u>7,983</u>

Notes to the Accounts

	Group		Company	
	1997	1996	1997	1996
	£000	£000	£000	£000
12. Debtors				
Trade debtors	46,779	47,988	9,863	9,388
Amounts owed by Group companies	—	—	13,817	2,089
Other debtors	3,029	4,515	776	1,429
Prepayments and accrued income	5,293	5,652	2,039	2,713
	<u>55,101</u>	<u>58,155</u>	<u>26,495</u>	<u>15,619</u>
Other debtors include deferred consideration of £1,261,000 (1996 £1,422,000) receivable after more than one year.				
13. Cash at bank and in hand				
Short term deposits	8,580	14,423	8,502	14,341
Cash and bank balances	7,020	7,628	15	16
	<u>15,600</u>	<u>22,051</u>	<u>8,517</u>	<u>14,357</u>
14. Borrowings				
Secured				
Bank loans in foreign currencies at floating rates on variable fixture terms	—	1,099	—	—
Unsecured				
Bank loans in sterling at floating rates on variable fixture terms	2,240	4,480	2,240	4,480
Bank loans in foreign currencies at floating rates on variable fixture terms	41,302	41,610	11,442	12,250
Bank overdrafts	9,013	3,540	9,929	10,444
	<u>52,555</u>	<u>50,729</u>	<u>23,611</u>	<u>27,174</u>
Repayable				
Over five years	170	262	—	—
Between two and five years	10,553	7,918	—	5,765
Between one and two years	10,993	10,183	10,096	8,725
	<u>21,716</u>	<u>18,363</u>	<u>10,096</u>	<u>14,490</u>
Within one year	30,839	32,366	13,515	12,684
	<u>52,555</u>	<u>50,729</u>	<u>23,611</u>	<u>27,174</u>

The bank loans in foreign currencies of certain overseas subsidiaries are secured on the current assets of those subsidiaries.

Bank loans in foreign currencies are principally denominated in US dollars and bear interest at rates of 5.7% to 6.0%.

Notes to the Accounts

	Group		Company	
	1997 £000	1996 £000	1997 £000	1996 £000
15. Other creditors (due within one year)				
Trade creditors	29,179	33,493	6,353	7,101
Amounts due to Group companies	—	—	2,073	1,950
Other creditors	14,521	17,621	8,901	8,782
Corporation tax	9,350	7,936	1,033	247
Taxation and social security	4,300	4,158	2,940	2,418
Accruals and deferred income	9,498	8,382	1,191	1,081
Dividends	6,324	5,638	6,324	5,638
	<u>73,172</u>	<u>77,228</u>	<u>28,815</u>	<u>27,217</u>
16. Provisions				
Costs of US anti-trust investigation	<u>514</u>	<u>1,238</u>	<u>—</u>	<u>—</u>

Amounts of £724,000 paid during the year have been charged against this provision.

17. Called up share capital

	Authorised		Allotted and fully paid	
	1997 £000	1996 £000	1997 £000	1996 £000
5.6% Cumulative preference shares of £1 each	200	200	200	200
4.2% Cumulative preference shares of £1 each	500	500	401	401
Ordinary shares of 25p each	37,500	37,500	26,349	26,103
	<u>38,200</u>	<u>38,200</u>	<u>26,950</u>	<u>26,704</u>

The preference shares carry no voting rights other than in certain circumstances affecting the rights of the preference shareholders, details of which are set out in the company's Articles of Association. The 5.6% cumulative preference shares rank in priority to the 4.2% cumulative preference shares both as to dividends and on a winding up. Both classes of preference shares rank ahead of the ordinary shares in respect of dividends and on a winding up. Rights on a winding up are limited to repayment of capital and any arrears of dividends.

Shares allotted during the year:

	Number	Nominal value £000	Net consideration £000
On exercise of options	<u>983,168</u>	<u>246</u>	<u>2,410</u>

During the year the company received £1,436,000 on the issue of shares in respect of the exercise of options awarded under the Group Savings-Related Share Option Scheme. Employees paid £684,000 to the Group for the issue of these shares and the balance of £752,000 comprised contributions to the qualifying employee share ownership trust (QUEST) from subsidiary undertakings.

Notes to the Accounts

17. Called up share capital (continued)

Under share option schemes, share options to subscribe for ordinary shares of 25p each outstanding at 29 March 1997 were as follows:

Savings-Related Share Option Scheme			Executive Share Option Schemes		
Number	Option Price (p)	Exercisable	Number	Option Price (p)	Exercisable
30,443	171.6	1997	61,874	170.2-176.0	1997-98
123,505	238.1	2000	82,499	176.6	1997-99
864,468	211.6	2002	92,812	148.8	1997-2000
			51,562	176.0-193.0	1997-2001
<u>1,018,416</u>			226,874	176.0	1997-2002
			124,779	220.6-223.0	1997-2003
			698,754	210.9-217.0	1997-2004
			27,813	215.5	1998
			30,000	220.0	1998-99
			249,167	207.7-234.7	1998-2005
			829,547	206.7-254.3	1999-2006
			<u>2,475,681</u>		

18. Reserves

	Share premium account £000	Other non-distributable reserve £000
31 March 1996	758	(11,521)
Premium arising on exercise of options in year	2,164	-
29 March 1997	<u>2,922</u>	<u>(11,521)</u>

The cumulative amount of goodwill charged to Group reserves at 29 March 1997, net of goodwill attributable to subsidiaries subsequently sold, is £99,313,000 (1996 £99,313,000)

19. Profit and loss account

Waddington PLC has not presented its own profit and loss account as permitted by Section 230 of the Companies Act 1985. The amount of the consolidated profit for the financial year dealt with in the profit and loss account of the holding company is shown below:

	£000
31 March 1996	20,193
Profit for year	9,916
Dividends	(10,931)
Exchange gains	66
29 March 1997	<u>19,244</u>

Notes to the Accounts

	1997 £000	1996 £000
20. Reconciliation of operating profit to cash inflow from operating activities		
Operating profit	34,026	26,940
Depreciation	14,219	14,679
Profit on sale of tangible assets	(278)	(706)
Increase in stocks	(6,808)	(2,803)
Increase in debtors	(3,527)	(12,014)
Increase in creditors	514	3,812
Cash outflow from US anti-trust investigation	(724)	(2,789)
Net inflow from operating activities	<u>37,422</u>	<u>27,119</u>
21. Purchase of business		
Net assets acquired:		
Tangible assets	385	4,254
Stocks	155	1,645
Debtors	823	3,752
Cash at bank and in hand (bank overdraft)	508	(1,831)
Creditors	(474)	(4,819)
Taxation	(381)	-
	<u>1,016</u>	<u>3,001</u>
Less existing 50% shareholding	(508)	-
Goodwill	-	26,228
Consideration	<u>508</u>	<u>29,229</u>
Satisfied by:		
Cash consideration	508	29,229
	<u>508</u>	<u>29,229</u>
Net outflow of cash:		
Cash consideration	508	29,229
(Cash at bank and in hand) bank overdrafts acquired	(508)	1,831
Net outflow of cash in respect of purchase of business	<u>-</u>	<u>31,060</u>

On 19 December 1996 the remaining 50% of the issued share capital of PFB Creative Marketing Solutions Limited was acquired for a cash consideration of £508,000.

Notes to the Accounts

	1997 £000	1996 £000
22. Disposal of business		
Net assets disposed of:		
Tangible assets	3,063	11,285
Stocks	919	4,029
Debtors	1,849	5,945
(Bank overdraft) cash at bank and in hand	(110)	3
Creditors	(3,114)	(1,344)
Taxation	(153)	-
	<hr/>	<hr/>
Net assets disposed of	2,454	19,918
Goodwill previously written off to reserves	1,061	-
	<hr/>	<hr/>
	3,515	19,918
Loss on disposal	(1,261)	(12,500)
	<hr/>	<hr/>
Proceeds of disposal	2,254	7,418
	<hr/>	<hr/>
Satisfied by:		
Cash	2,154	6,500
Deferred consideration	100	918
	<hr/>	<hr/>
	2,254	7,418
	<hr/>	<hr/>
Net inflow of cash:		
Cash consideration	2,154	6,500
Deferred consideration received	1,182	184
Net bank overdraft (cash disposed of)	110	(3)
	<hr/>	<hr/>
Net inflow of cash in respect of disposal of business	3,446	6,681
	<hr/>	<hr/>

On 10 May 1996 The House of Questa Limited was sold for a total consideration of £2,254,000.

Notes to the Accounts

23. Analysis of net debt

	Cash at Bank and in Hand £000	Short Term Deposits £000	Bank Overdraft £000	Debt Due Within One Year £000	Debt Due After One Year £000	Net Debt £000
At 31 March 1996	7,628	14,423	(3,540)	(28,826)	(18,363)	(28,678)
Decrease in cash	(208)	—	(5,730)	—	—	(5,938)
Decrease in short term deposits	—	(5,843)	—	—	—	(5,843)
Movement in debt	—	—	—	454	(4,854)	(4,400)
Exchange movement	(400)	—	257	6,546	1,501	7,904
At 29 March 1997	<u>7,020</u>	<u>8,580</u>	<u>(9,013)</u>	<u>(21,826)</u>	<u>(21,716)</u>	<u>(36,955)</u>

24. Pension commitments

The Group operates pension arrangements for employees in the United Kingdom and overseas. The main pension arrangement is the John Waddington Group Pension Scheme ("the Group Scheme"), which is a defined benefit arrangement for UK employees, with the assets being held in a separate trustee administered fund.

Contributions to the Group Scheme are determined by a qualified actuary on the basis of triennial valuations using the projected unit method of valuation. The most recent actuarial valuation of the Group Scheme was carried out as at 1 October 1996. The principal assumptions used in this actuarial valuation were that the average long-term investment return would exceed increases in earnings and pensions in payment by 2.5% p.a. and 5.5% p.a. respectively. This valuation showed that the market value of the Group Scheme's assets amounted to £66,058,000 and that the actuarial value of these assets represented 105.5% of the benefits that had accrued to members after allowing for expected future increases in earnings. Such results will be reflected in the pension cost figures for future financial years by spreading forward the excess value of assets over liabilities over the average remaining membership of current employees.

The pension cost for the current financial year corresponds to the results of the immediately preceding actuarial valuation and equates to the contributions made.

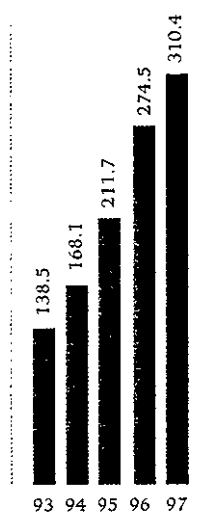
25. Contingent liabilities

The company has given guarantees in respect of the indebtedness of certain Group companies.

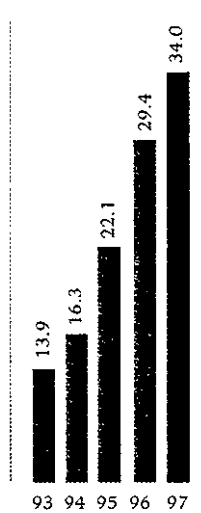
Five Year Review

£000	1997	1996	1995	1994	1993
Sales	310,388	298,615	259,272	236,056	221,556
Profit before exceptional items and tax	32,084	25,625	22,556	18,796	15,051
Profit before tax	32,084	11,864	53,310	8,067	6,051
Profit after tax	22,619	7,792	39,220	3,512	2,574
Capital expenditure	38,428	30,263	18,785	10,068	11,936
Depreciation	14,219	14,679	12,130	11,687	10,814
Ongoing businesses (at 29 March 1997)					
Sales	310,388	274,468	211,734	168,084	138,520
Operating profit before exceptional items	34,026	29,433	22,098	16,345	13,908
Pence per ordinary share					
Earnings	21.57	7.45	40.28	4.20	3.09
Earnings before exceptional items	21.57	17.89	16.90	16.18	13.29
Dividend	10.40	9.40	8.70	8.24	7.66

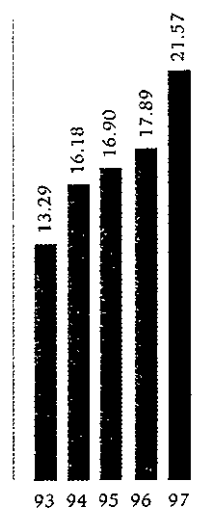
Turnover (£m)



Operating Profit (£m)



Earnings per Share (pence)



Dividend (pence)

