PET TECHNOLOGIES LIMITED

Report and Accounts

31 December 1999

Registered No. 1038677

ERNST & YOUNG

DIRECTORS
D Van Hooser
T L Young

SECRETARY

United Glass Group Limited	(resigned 16 June 2000)
W J Poulter	(appointed 16 June 2000)

AUDITORS
Ernst & Young LLP
Apex Plaza
Reading
Berkshire
RG1 1YE

REGISTERED OFFICE
Irton House
The Tower Estate
Warpsgrove Lane
Chalgrove
Oxon OX44 7TH

DIRECTORS' REPORT

The directors present their annual report and the accounts for the year ended 31 December 1999.

RESULTS AND DIVIDENDS
The loss for the financial year amounted to £604,000 (1998: £752,000). This result included an exceptional loss of £626,000 (1998: £1,182,000) which relates to the write down of fixed and some current assets from PV Closures (see note 4). The directors do not recommend payment of a dividend.

PRINCIPAL ACTIVITY
The company's principal activity during the year was the manufacture of plastic containers, mainly in PET resin but also in polypropylene. These products were supplied to a variety of manufacturers for filling with their products (food, drinks, cosmetics, pharmaceuticals, etc.).

REVIEW OF THE BUSINESS
The company's turnover increased by 18% in the year, with a corresponding 17% increase in operating profit.

During 1999 the company acquired certain assets, and assumed certain liabilities of PV Closures Limited. Subsequently, in November of 1999, it transferred certain of those assets to Continental PET Technologies, a fellow subsidiary in Hungary. The costs relating to these transactions, which include losses on disposal of fixed assets, and shipment and reorganisation costs, have been treated as a non-operating exceptional item.

FUTURE DEVELOPMENTS
PET Technologies are continuing to update their machine base with a general move from Aoki to higher cavitation Nissei machines. PET expect to continue to experience sales growth during 2000. PET will be moving towards ISO9001 and preparing to upgrade their business systems.

DIRECTORS AND THEIR INTERESTS
The directors who served during the year are listed on page 2. No director held an interest in the share capital of the company, nor were any directors remunerated by the company during the year.

EVENTS SINCE THE BALANCE SHEET DATE
On 12 April 2000 PET Technologies' share capital was purchased by Owens-Illinois BV from United Glass.

DONATIONS
There were no charitable donations in 1999 (1998: nil).

AUDITORS
In accordance with S386 of the Companies Act 1985 a resolution to dispense with the obligation to appoint auditors annually was passed on 24 May 1991. Accordingly, Ernst & Young shall be deemed to be reappointed as auditors 28 days after the accounts are sent to the members.

On 28 June 2001, Ernst & Young, the Company's auditor, transferred its entire business to Ernst & Young LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Directors consented to treating the appointment of Ernst & Young as extending to Ernst & Young LLP with effect from 28 June 2001. A resolution to re-appoint Ernst & Young LLP as the Company's auditor will be put to the forthcoming Annual General Meeting.

On behalf of the Board

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- 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 to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PET TECHNOLOGIES LIMITED

We have audited the company's financial statements for the year ended 31 December 1999 which comprise Profit and Loss Account, Balance Sheet, Statement of Total Recognised Gains and Losses and the related notes 1 to 22. These financial statements have been prepared on the basis of the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 as at 31 December 1999 and of the loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young. LLP.

28 FEB 2002

Registered Auditor
Reading

PROFIT AND LOSS ACCOUNT
For the year ended 31 December 1999

	Note	*1999* *£'000*	*1998* *£'000*
TURNOVER	2	9,277	7,856
Cost of sales		(4,098)	(3,626)
GROSS PROFIT		5,179	4,230
Distribution costs		(493)	(343)
Administrative expenses		(4,051)	(3,344)
OPERATING PROFIT	3	635	543
Exceptional item	4	(626)	(1,182)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		9	(639)
Bank interest receivable		24	32
Interest payable and similar charges	7	(685)	(6)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(652)	(613)
Tax on loss on ordinary activities	8	48	(139)
LOSS RETAINED FOR THE FINANCIAL YEAR		(604)	(752)

There were no recognised gains or losses other than the loss attributable to shareholders of the company of £604,000 in the year ended 31 December 1999 (1998: £752,000).

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BALANCE SHEET
At 31 December 1999

	Note	1999 £'000	1998 £'000
FIXED ASSETS			
Tangible assets	9	7,406	5,749
CURRENT ASSETS			
Stocks	10	1,346	1,256
Debtors	11	4,076	2,756
Cash at bank and in hand		-	653
		5,422	4,665
CREDITORS: amounts falling due within one year	12	(1,949)	(1,324)
NET CURRENT ASSETS		3,473	3,341
TOTAL ASSETS LESS CURRENT LIABILITIES		10,879	9,090
CREDITORS: amounts falling due after more than one year	13	(11,710)	(9,317)
		(831)	(227)
CAPITAL AND RESERVES			
Called-up share capital	15	65	65
Share premium account	16	167	167
Capital reserve account	16	8	8
Profit and loss account	16	(1,071)	(467)
		(831)	(227)

Approved by the Board on

28 FEB 2002

Director

NOTES TO THE ACCOUNTS
At 31 December 1999

1 ACCOUNTING POLICIES

The accounts are prepared in accordance with all applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The accounts are prepared under the historical cost convention.

Going concern

The financial statements have been prepared on a going concern basis. The company relies on continued funding from Owens-Illinois Inc., who has undertaken to support the company for twelve months from the date of the audit report.

Depreciation of tangible fixed assets

Depreciation is provided to write-off the cost or valuation of tangible fixed assets (less estimated residual value) over their estimated useful lives on a straight line basis. The rates of depreciation applied to fixed assets are as follows:

Plant, machinery and equipment	-	7.5% - 20% per annum
Motor vehicles	-	33% per annum
Fixtures and fittings	-	20% per annum

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Valuation of stocks

(i) Stocks of finished goods are valued at the lower of cost and net realisable value. Cost of finished goods is defined as all the costs of production including attributable factory overheads.

(ii) All other stocks and stores are valued at lower of cost and net realisable value.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Recoverable tooling

Certain costs of tooling are borne by customers. These amounts are incurred by the company and invoiced to the customer at a later date. These amounts are written off over the life of the contract.

NOTES TO THE ACCOUNTS
At 31 December 1999

1 **ACCOUNTING POLICIES (CONTINUED)**

Leasing and hire purchase commitments

Fixed assets leased under finance leases, which are leases where substantially all the risks and rewards of ownership have passed to the company and hire purchase contracts are capitalised and depreciated over their estimated useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet. The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged to profit and loss account on a straight line basis over the lease term.

Foreign currencies

Transaction in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

Deferred taxation

Deferred taxation is provided using the liability method on all timing differences, including those relating to pensions, which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse. Advance corporation tax which is expected to be recoverable is deducted from the provision for deferred taxation.

Pensions

The company operates a defined benefit scheme, the "PET Technologies Limited Pension Scheme". Contributions are charged to the profit and loss as they become payable in accordance with current law. The scheme was set up in response to the sale of PET Technologies by BTR Plc. The bulk transfer from BTR took place in November 2000.

The actuary of the scheme will assess the scheme fund and, if in surplus, it will be a company decision as to whether to reduce the contribution levels. If in deficit, the shortfall will be made up by the company via increased corporate contributions spread over the financial year.

This scheme only covers ex-members of the BTR scheme. From April 2000 PET Technologies has opened the scheme to the remaining employees. This will be offered instead of ISA's.

2 **TURNOVER**

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties. Turnover is attributable to one continuing activity, the manufacture and distribution of plastic bottles and jars. An analysis of turnover by geographical market is given below:

	1999	*1998*
	£'000	*£'000*
United Kingdom	8,590	7,045
Rest of Europe	669	423
United States of America	18	388
	9,277	7,856

NOTES TO THE ACCOUNTS
At 31 December 1999

3 OPERATING PROFIT

This is stated after charging:

	1999	*1998*
	£'000	*£'000*
Depreciation of owned fixed assets	824	886
Depreciation of assets held under finance leases and hire purchase contracts	9	6
Amortisation of tooling	20	107
Auditors' remuneration - audit	19	19
- other services	9	4
Operating lease rentals - plant and machinery	43	43

4 EXCEPTIONAL ITEM

	1999	*1998*
	£'000	*£'000*
Costs relating to the sale of the PV Closures business	626	-
Diminution in value of fixed assets, stock and recoverable tooling	-	1,182

During 1999 the company acquired certain assets, and assumed certain liabilities of PV Closures Limited. Subsequently, in November of 1999, it transferred certain of those assets to Continental PET Technologies, a fellow subsidiary in Hungary. The costs relating to these transactions, which include losses on disposal of fixed assets, and shipment and reorganisation costs, have been treated as a non-operating exceptional item.

During 1998, the value of the company's assets was reviewed after the acquisition by the Owens-Illinois group, and an amount written off for the permanent diminution in value of certain fixed assets, stock and recoverable tooling

5 DIRECTORS' EMOLUMENTS

There were no disclosable directors emoluments in 1999 (1998: £nil).

NOTES TO THE ACCOUNTS
At 31 December 1999

6 STAFF COSTS

	1999	*1998*
	£'000	*£'000*
Wages and salaries	2,072	1,787
Social security costs	171	145
Other pension costs	98	123
	2,341	2,055

The monthly average number of employees during the year was as follows:

	1999	*1998*
	No.	*No.*
Sales and marketing	5	4
Manufacturing	83	75
Administration	6	6
	94	85

7 INTEREST PAYABLE AND SIMILAR CHARGES

	1999	*1998*
	£'000	*£'000*
Finance charges payable under finance leases and hire purchase contracts	-	6
Intercompany interest	685	-
	685	6

8 TAX ON LOSS ON ORDINARY ACTIVITIES

	1999	*1998*
	£'000	*£'000*
UK corporation tax	-	(139)
Corporation tax overprovided in previous year	48	-
	48	(139)

NOTES TO THE ACCOUNTS
At 31 December 1999

8 TAX ON LOSS ON ORDINARY ACTIVITIES (CONTINUED)

If full provision had been made for deferred taxation for the year, the taxation charge would have been increased by £56,000 (1998: £384,000 decrease).

	1999	*1998*
	£'000	*£'000*
Capital allowances in advance of depreciation	(154)	384
Short-term differences	10	-
Trading losses	88	-
	(56)	384

The tax effect relating to the exceptional item in the profit and loss account is a reduction in the losses available for carry forward of £626,000 with an estimated tax value of £188,000 (1998 – an increase in taxable profits of £1,061,000 with a tax value of approximately £329,000).

Since all entries associated with the exceptional item in the profit and loss account have been reversed in the tax computation, the tax effect is nil (1998: credit of £37,000).

9 TANGIBLE FIXED ASSETS

	Plant and machinery	*Equipment and vehicles*	*Total*
	£'000	*£'000*	*£'000*
Cost:			
At 1 January 1999	8,359	4,066	12,425
Additions	2,465	327	2,792
Disposals	(439)	-	(439)
Transfers	28	(28)	-
At 31 December 1999	10,413	4,365	14,778
Accumulated depreciation:			
At 1 January 1999	3,855	2,821	6,676
Provided during the year	547	286	833
Disposals	(137)	-	(137)
At 31 December 1999	4,265	3,107	7,372
Net book value:			
At 31 December 1999	6,148	1,258	7,406
At 31 December 1998	4,504	1,245	5,749

Plant and machinery includes assets of £2,453,000 at net book value which were not used and hence not depreciated in the year. These assets were under construction and came into use in the following financial year. Equipment and vehicles includes assets of £17,000 at net book value which were not used and hence not depreciated in the year.

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NOTES TO THE ACCOUNTS
At 31 December 1999

10 STOCKS

	1999	*1998*
	£'000	*£'000*
Raw material and consumables	285	337
Work in progress	48	132
Finished goods and goods for resale	1,013	787
	1,346	1,256

The directors consider that there is no material difference between the value of stock stated above and its replacement cost.

11 DEBTORS: amounts falling due within one year

	1999	*1998*
	£'000	*£'000*
Trade debtors	2,308	1,624
Amounts due from parent and fellow subsidiary undertakings	1,208	34
Recoverable tooling	312	170
Other debtors	-	763
Prepayments and accrued income	169	165
Corporation tax	79	-
	4,076	2,756

Included in recoverable tooling is £158,847 (1998: £22,000) which is recoverable in more than one year.

12 CREDITORS: amounts falling due within one year

	1999	*1998*
	£'000	*£'000*
Bank loans and overdrafts	29	-
Obligations under finance leases	2	17
Trade creditors	1,580	993
Corporation tax	-	139
Other taxes and social security costs	146	51
Other creditors	11	37
Accruals and deferred income	181	87
	1,949	1,324

NOTES TO THE ACCOUNTS
At 31 December 1999

13 CREDITORS: amounts falling due after more than one year

	1999 *£'000*	*1998* *£'000*
Amounts due to immediate parent undertaking	11,710	2,932
Amounts due to ultimate parent undertaking	-	6,385
	11,710	9,317

14 DEFERRED TAXATION

	Provided		*Not provided*	
	1999 *£'000*	*1998* *£'000*	*1999* *£'000*	*1998* *£'000*
Accelerated capital allowances	-	-	921	766
Short-term timing differences	-	-	(10)	-
Trading losses	-	-	(88)	-
	-	-	823	766

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15 SHARE CAPITAL

	1999 *£'000*	*1998* *£'000*
Authorised, allotted and fully paid:		
32,000 'A' ordinary shares of £1 each	32,000	32,000
33,207 'B' ordinary shares of £1 each	33,207	33,207
100 'C' ordinary shares of £1 each	100	100
	65,307	65,307

All share classes rank pari passu except with regard to special pre-emption rights on liquidation, as set out in the company's articles of association.

16 RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

	Share capital *£'000*	*Share premium account* *£'000*	*Capital reserve* *£'000*	*Profit and loss account* *£'000*	*Total share-holders' funds* *£'000*
At 1 January 1998	65	167	8	285	525
Loss for the year	-	-	-	(752)	(752)
At 1 January 1999	65	167	8	(467)	(227)
Loss for the year	-	-	-	(604)	(604)
At 31 December 1999	65	167	8	(1,071)	(831)

NOTES TO THE ACCOUNTS
At 31 December 1999

17 PENSION COMMITMENTS

The company operates a defined benefit scheme for its employees. The pension costs and assets are assessed in accordance with the advice of a professionally qualified actuary based on calculations carried out at the most recent valuation which was conducted as at 6 April 2000.

The valuation is calculated using the projected unit method and uses the following main assumptions:

Valuation rate of interest	7% pa
Salary increase	4% pa
Pension increases on non GMP element (LPI level)	3% pa
Dividend growth (for valuing the assets)	7% pa

At 6 April 2000 the value of the scheme was £1.7m. The ongoing funding level is 107%.

No amounts were owing to the pension fund at year end.

18 CAPITAL COMMITMENTS

Amounts contracted for but not provided in the accounts amounted to £nil (1998: £76,000).

19 OTHER FINANCIAL COMMITMENTS

	1999 *£'000*	*1998* *£'000*
Operating leases which include no land and buildings and which expire:		
Within one year	23,000	17,820
In two to five years	7,000	44,480
	30,000	62,300

20 CASH FLOW STATEMENT

As the company was at the year end a wholly owned subsidiary of United Glass Limited, a company registered in England and Wales, it has taken advantage of the exemption provided under the scope of FRS 1 (Revised 1996) not to prepare a cash flow statement.

21 RELATED PARTY TRANSACTIONS

As the company was a wholly owned subsidiary undertaking of United Glass Limited, a company registered in England and Wales, which prepares published consolidated financial statements, the company pursuant to paragraph 17 of FRS 8 "Related Party Disclosures", has not included details of transactions with other companies which are subsidiaries of Owens-Illinois Inc. There are no other related party transactions.

Disclosure of the Directors' interests in the shares of the company is made in the Directors' Report.

22 PARENT UNDERTAKING AND CONTROLLING PARTY

At 31 December 1999, the immediate parent undertaking of PET Technologies Limited was United Glass Limited. It has included the company in its group accounts, copies of which are available from its registered office at Edinburgh Way, Harlow, Essex, CM20 2DB. Subsequent to the year end the company was sold to Owens-Illinois BV and this is now the immediate parent undertaking.

The company's ultimate parent undertaking and controlling party is Owens-Illinois Inc., which is incorporated in the United States. Copies of its group accounts, which included the company, are available from One SeaGate, Toledo OH43666, USA.