[illegible] plc Report & Accounts 1998

Our objective is to create shareholder value by being a leading worldwide supplier of chemicals within the three technology areas in which we operate. We will achieve this by being a low cost producer through innovative sourcing arrangements and process improvements, by developing higher added value products for our customers and by expanding geographically.

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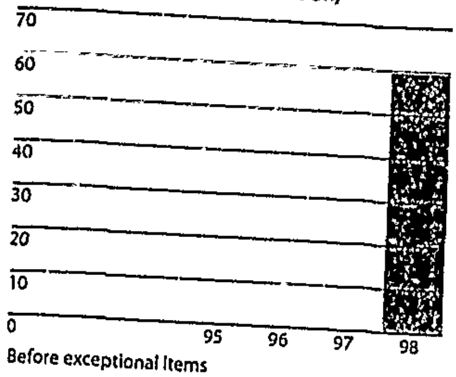
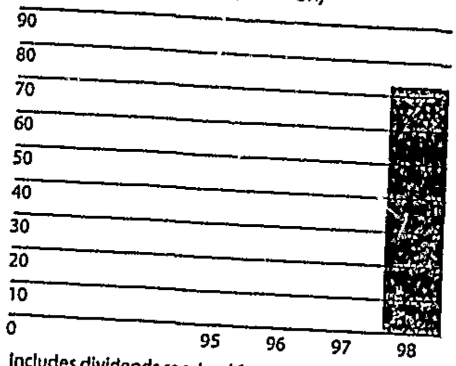
Highlights

Total operating profit (£ million)



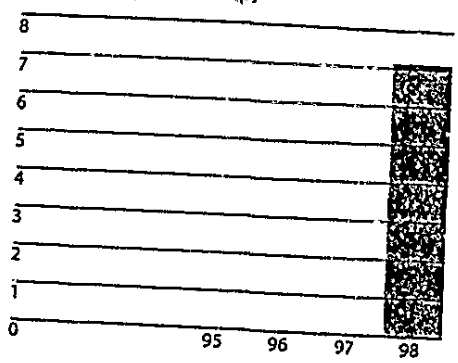
Before exceptional items

Operating cash flow (£ million)



Includes dividends received from joint ventures and associates

Dividends per share (p)

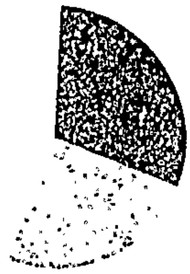


- Pre-exceptional, pre-tax profit £48.3 million
- Sales £815 million, up 4% (+10% CER)
- Return on sales 7.3% (7.7% CER)
- Results adversely affected by two key factors:
  - Strength of sterling and devaluation of Asian currencies – £7 million profit impact
  - Reduced exports to Asia Pacific – £6 million profit impact
- Strong cash generation: operating cash flow, including dividends from joint ventures and associates, up 61% to £73 million
- Net debt reduced by £11 million in second half to £148 million
- Sound balance sheet: gearing 45%
- Interest cover .2 times
- Unchanged final dividend 4.8p proposed (full year unchanged at 7.15p)
- Basic and adjusted EPS 10.8p

CER (constant exchange rates) – results in underlying currencies, eliminating translation and transaction effects.

Chairman's statement

Balanced international portfolio



1998 sales by geographic origin
Includes share of joint ventures' and associates' sales

As I write my statement this year I find myself in the unusual situation that our Company is in an offer period and it is difficult to predict the eventual outcome.

Events of the past few weeks have demonstrated the complexity of the world in which we live and the rapid change that is taking place in the chemical industry.

Against a fairly hostile market environment we have been striving to position the Group for growth across its world-wide operations. However, the effects of currency, particularly the strong pound, and the global slowdown in the intermediate chemical industry, have made it extremely difficult for us to show any real progress in financial terms. Nevertheless the actions we have taken in difficult circumstances have strengthened our world-wide network and this competitive advantage, together with our technical excellence, makes us attractive to others that have not suffered from such financial constraints.

I have written separately to shareholders setting out the nature of the Board's recommendation of the offer from the Albemarle Corporation of the US and do not intend to dwell on the matter here.

Earnings and dividends

1998 was not an easy year in manufacturing industry, especially in the UK, and we were disappointed with our financial performance. Despite achieving top-line sales growth of 4%, our pre-tax profit – when compared with 1997 on a pre-exceptional basis – was lower by 20%.

The continuing effect of economic difficulties in Asia and the slowdown of activity in a number of sectors made 1998 another challenging year. We have, however, continued to focus our attention on reducing the cost base and improving cash flow.

An important feature, given its relevance to the creation of long-term, sustainable value for our shareholders, was the Group's strong cash flow performance, particularly in the second half of the year. It supports the Board's recommendation of an unchanged final dividend of 4.80p, making the full year dividend also unchanged at 7.15p.

Our employees

During the year I visited operations in each of our three geographic regions: the Americas, Europe and Asia Pacific. I continue to be tremendously impressed by the energy, enthusiasm and dedication shown without exception by all the employees I met. I found this particularly encouraging in light of the difficult conditions in which we have been operating. Employee confidence has not been helped by the continued speculation reported in the media regarding potential takeovers, acquisitions and mergers, which can only have an unsettling effect. I would like to thank everyone for their stalwart support.

I would like to make special mention of two directors who retired during the year. John Adsetts, Technical Director since 1987, retired in May. Ian Black, who retired in December, served Albright & Wilson for 31 years, the last three as a director. On his retirement, Ian was Chief Operating Officer and President of the European region. I would like to warmly thank John and Ian for their service to Albright & Wilson and wish them and their families well in their retirement.

Health, safety and the environment

As reported on pages 10 and 11, the Group has achieved its lowest ever level of lost time accidents, has made substantial progress in improving its environmental performance and remains one of the better performing members of the UK Chemical Industries Association.

The future

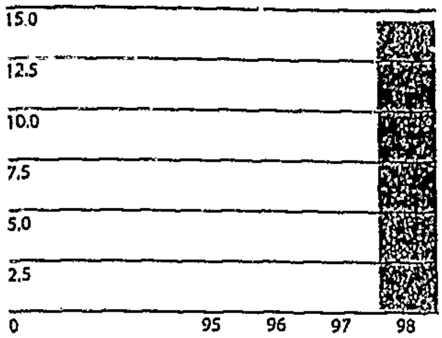
The firm actions taken by the management team provide a solid foundation for the Group to build upon. I remain confident that we are actively and aggressively pursuing actions that will enhance Albright & Wilson's ability to create long term value for its shareholders.

Christopher Benson

Sir Christopher Benson Chairman

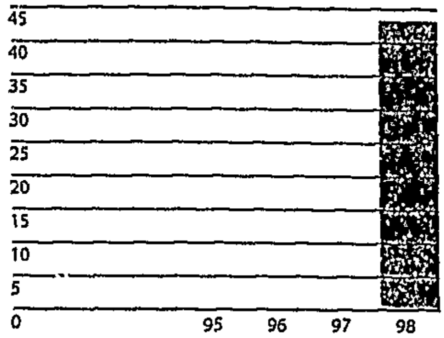
Chief Executive's review

Continental Europe: 41% compound annual growth in operating profit since 1995



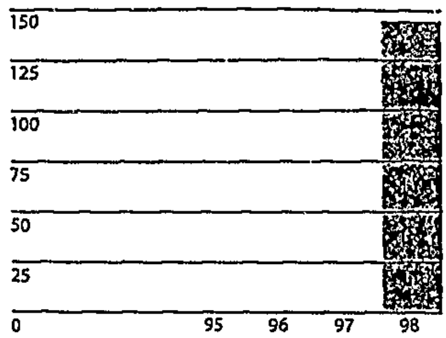
Operating profit (£ million)

Americas: 37% increase in operating profit since 1995



Operating profit ($ million); A&W Troy included at 50% from January 1995 to September 1997, 100% from October 1997

Mexico: 13% compound annual sales growth since 1995



Sales, 100% basis ($ million)

Review of 1998

As Sir Christopher indicated, 1998 was a year in which extremely challenging market conditions affected our industry. The global chemical industry faced new competitive pressures, leading to a sharp fall in the prices of many commodities. Also, many products once considered speciality chemicals came under severe price pressure.

Certainly, all of these industry dynamics affected Albright & Wilson.

The Group's financial performance, and the specific factors affecting it, are described in more detail in the operating and financial reviews. Suffice to say, our earnings performance was disappointing but was mitigated by a strong improvement in cash generation.

Before discussing the strategic position and future development of our three technology groups, I thought it would be helpful to illustrate the strength of our global portfolio from a different perspective.

Balanced international portfolio

The pie chart opposite shows turnover by origin. Our portfolio is well balanced between the UK, Continental Europe, the Americas and Asia Pacific. Even though the proportion of sales produced in the UK has dropped from 34% to 30% since 1995, the relative size of our UK business is still a key feature of the Group.

Continental Europe

Since 1995, the year we floated, we have almost trebled the operating profitability of our Continental European operations, to £14 million from £5 million. The operations are all surfactants sites and the trend shown mirrors the progress made in that technology group over the last three years. We have grown higher value products and changes have been made to ensure the network of assets operates on a pan-European basis.

The Americas

We made good progress in the Americas with sales and profits up 10% and 6% respectively. Regional operating profits have increased $11 million since 1995, aided by the acquisition of the Mexican phosphates business. There was continued growth of specialised food phosphates and surfactants, but many US industrial markets were affected by reduced exports to Asia.

Mexico – a success story

Looking specifically at Mexico, you will recall that we made our original investment in December 1994. In the four years since then, by applying our product and process technology and integrating the activities into our global phosphates network, we have achieved sales and EBITDA compound annual growth rates of 13% and 10% respectively. In 1998 A&W Troy's return on sales was 14% and some 50% of the business was exported into competitive world markets.

Following the loss of volume from a major customer in the fourth quarter of 1996, not only did the business quickly recover, but it was greatly enhanced with a more diverse customer base and new products. I am now pleased to report that volumes with the customer concerned are again approaching pre-1997 levels.

Resilient performance of Asian operations

Despite the economic difficulties prevailing during the last 18 months or more, in 1998 our Asian operations turned in an operating profit approaching $13 million, marginally ahead of 1997.

Following an initial decline in the immediate aftermath of the Thai baht devaluation in the third quarter of 1997 and subsequent regional currency turmoil, these businesses have proved to be extremely resilient. Margins recovered as a result of management securing price increases to offset lower volumes, favourable raw material contracts and rigid control of local currency fixed costs

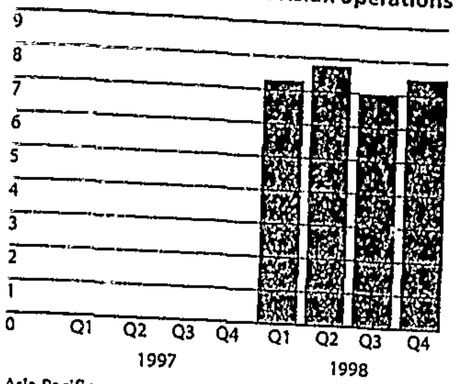
Sales to emerging markets

A key aspect of the Asian story is the impact that the devaluation of local currencies had on our ability to sell products into the region.

The chart on page 4 shows our export sales from the UK and US to Asia and Brazil in 1997 and 1998. The value of exports to Asia fell to about £30 million in 1998 from roughly £50 million in 1997

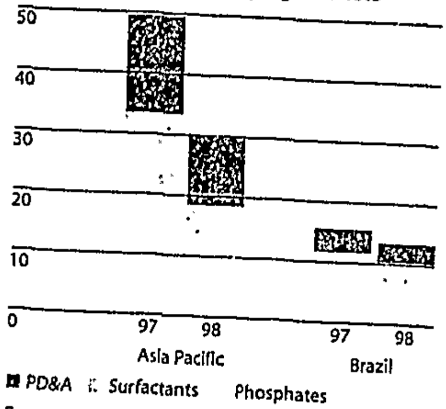
Chief Executive's review

Resilient performance of Asian operations



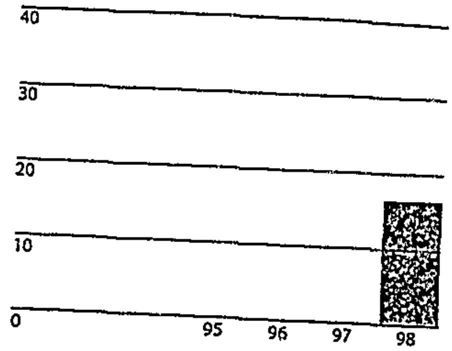
Asia Pacific: return on sales by quarter (%)
Includes exchange losses on associates' US$ denominated loans

Lower exports to emerging markets



Export sales from the UK and US to Asia Pacific and Brazil 1997-98 (£ million)

Declining profitability in the UK



Operating profit excluding corporate costs (£ million)

With marginal contributions of between 30-40%, the incremental profit impact was quite significant in terms of our overall result for the year. While Surfactants recorded the largest drop in sales, PD&A profits were most affected given the relatively high contribution margin of its products.

Brazil directly accounts for only a small part of the Group's sales, but we remain confident it will be an important market for us in the future.

Our UK business

Since 1996 the profitability of our UK business has reduced by half. Three factors have contributed to this, two resulting from the strengthening of sterling against euro-zone currencies since August 1996.

First, profits have been hit by £9 million due to the currency transaction effect on foreign currency denominated sales contracts. Traditionally, 40% of UK production is exported, highlighting our exposure.

Second, we estimate the underlying currency economic effect to be of similar magnitude. This economic effect is the result of lower prices in the UK, driven by cheaper imports into the country.

Third, we have suffered a £5 million increase in pension costs due to the changes in the treatment of ACT and investment performance. Matters affecting UK pension costs are referred to on page 15.

After stripping out the effect of these negatives the UK business has improved by £5 million, despite the downturn in industrial demand in 1998. This underlying improvement was driven primarily by restructuring the operations coupled with some growth of new products.

Actions to improve the performance of the UK business

We are now in full stride in making further changes in the UK. There has been good support from our skilled, dedicated employees to improve productivity, increase raw material efficiencies and provide flexibility as we make the necessary changes. As we streamline the operations there have been significant redundancies, yet the changes have been achieved with improvements in customer service and safety.

Due to the relative strength of sterling we have reduced our capital spending, as illustrated in the chart on page 5. By the second half of 1999, capital spending will be 60% lower than the peak in 1997. Effectively we are only spending on essential maintenance projects.

Recent management changes will drive the improvements needed to achieve a recovery in the UK operations.

This geographic analysis gives you an appreciation of the strength of our world-wide Group and the strong foundation for growing our three technology groups.

Strategic positioning and actions

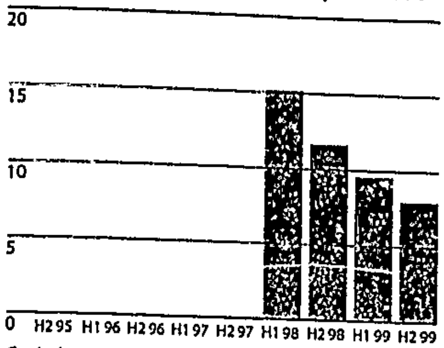
Phosphates

Strategic position: We continue to believe that we have the leading worldwide position in industrial phosphates. Our strong competitive position in the Americas is supported by low cost operations at Coatzacoalcos, Mexico, and Aurora, US. They underpin our good market presence in North America and a growing position in South America.

Despite the growing presence of Chinese competition throughout Asia, our business has moved forward supported by our global supply network.

Our position in Europe is challenging due to over-capacity in the industry and the relative strength of sterling. We have traditionally enjoyed a strong market position in the UK and we are now working closely with a range of new customers to enhance our position on the Continent. Across Europe we have made good underlying progress growing new products, but this has been masked by price pressure on commodities such as detergent phosphates.

60% reduction in UK capital expenditure



Capital expenditure in the UK by half year: 1995-98 actual, 1999 forecast (£ million)

Despite the difficulties caused by the impact of exchange rates, we have seen growth in volumes and profit contribution from speciality food phosphates, more technical grades of STPP and higher quality grades of acids.

[illegible] The actions we are taking to enhance the performance of the Phosphates technology group are set out below:

- We will continue to drive technical improvements to our purified acid processes and in particular we will simplify the operations at Whitehaven, allowing us to take out significant cost.
- In Mexico modest capital investment will improve productivity and enable us to expand the product range.
- In Asia we believe good returns can be achieved by enhancing our capabilities in India, Thailand and Australia.
- We will further develop our market presence in Continental Europe, strengthening our marketing and technical service.
- And, of course, we will continue to seek opportunities to pursue consolidation initiatives.

Surfactants

[illegible] In Europe we have a strong market position in what I characterise as an attractive market with more scope for development. We project continued growth in new higher margin applications for our surfactants products.

Following the Chicago acquisition at the end of 1997, our US market position is greatly enhanced. The new site is effectively sold out and we are concentrating on modifying the product mix to improve profit contribution. Our operations in Asia Pacific have demonstrated their resilience due to our good coverage in that region.

Importantly, rationalisation is occurring in both the European and North American markets on an increasing scale. Numerous small competitors have left the market and now Witco plans to dispose of its business. The surfactants industry could look significantly different in 18 to 24 months' time.

Future development: The main actions we are pursuing in Surfactants are:

- We will continue to invest selectively to grow the profitable product lines, pushing towards our margin target.
- Cost reduction programmes will continue, again with emphasis on Whitehaven.
- We will continue to grow the US business.
- In Asia we will focus development in India, Australia and Indonesia, with limited investment in higher value products.
- While we are unlikely to pursue significant consolidation initiatives in Surfactants, we do plan to be in a position to capture market opportunities as the industry consolidates.

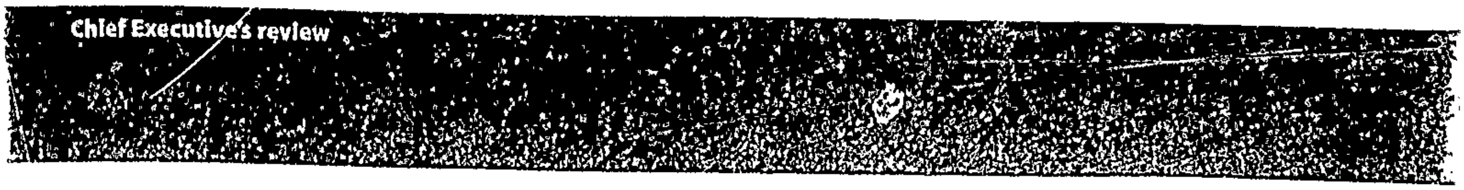
Phosphorus Derivatives & Acrylics

[illegible] In our Phosphorus Derivatives & Acrylics technology group we have excellent product and process technology. Our strength in water management chemicals and phosphorus specialities is to a certain extent hidden by the less attractive commodity type chemicals in our portfolio.

We do, however, have a good development pipeline for fine chemicals, such as pharmaceutical intermediates and catalysts, which is starting to yield benefits and should fuel growth in volumes and margins in the future.

[illegible] The actions we are taking to enhance the PD&A technology group include the following:

- We have initiated steps to utilise low-cost Chinese phosphorus and in due course access Chinese manufactured primary derivatives.



Chief Executive's review

- Where we produce commodity products we are reducing the fixed costs of our manufacturing operations and minimising or redeploying applications support.
- We are building on the success of the water management business by expanding the TOLCIDE® range of products, entering new markets whilst at the same time maintaining the margins in this area. We are also using our relationships with multinational water management companies to pull through new products.
- We will exploit fine chemicals opportunities.
- We have for some time been rationalising the product portfolio through minor disposals of non-core product areas and this process will continue.

Creating value

More generally we are continuing to build and exploit our global network which provides leverage and identifies new opportunities. We see our global position as a competitive strength of the Group. As our customers consolidate and expand into developing countries, we are there to support them as profitable opportunities arise.

We are maintaining an extremely tight focus on cash generation, preserving our balance sheet. Our management incentive schemes are now firmly linked to cash flow as well as sales and profit improvement. Capital is only being spent on sustaining and cost reduction activities and very selective growth projects.

As we look forward there are several themes that link our business plans. These include:

- Global competition has become more intense and, in the short term, deflation has replaced inflation as a concern. We are ensuring that all our operations understand the need to benchmark against the lowest cost producer in the world. There are several initiatives underway to take cost out of our raw material supply chain either through long-term arrangements or alliances with new low-cost suppliers.
- Our customers are becoming larger and more adept at using information technology to create leverage. We are responding by searching for more efficient supply chain management, global coverage, and by offering a range of products and technology to provide competitive advantage for our customers.
- We must have employees that work effectively in a dynamic environment, with the skills and judgement to perform in ever challenging conditions. Recent changes ensure our world-wide team is operating more effectively than ever before.

Our businesses are well positioned to capture exciting growth opportunities around the world while locally offering a high level of service for our customers. Even in a challenging economic environment we have the capability to create value.

Outlook for 1999

There are few signs that the economic climate and market conditions existing at the end of 1998 will show any near term improvement in 1999. We are optimistic that our firm actions to reduce costs, lower raw material prices and some easing of market conditions later in the year will lead to progress for the Group in the second half.

In terms of our geographical portfolio, we look forward to further progress in Continental Europe and Asia Pacific in 1999. In the Americas, our operation in Mexico has continued to make good progress as we move into the new year. With no real signs of sterling weakening we envisage another difficult year for the UK business.

Management actions have provided a solid foundation for the Group to build upon. Tight focus on cash generation and cost control is the cornerstone of our financial strength. In addition to managing the effects of the challenging trading conditions, we are pursuing activities that provide longer term growth opportunities

Paul Rocheleau

Paul Rocheleau Chief Executive

Phosphates

Technology group activities

The Phosphates technology group is a world leader in the production of purified phosphoric acid. This is the feedstock used in the production of Albright & Wilson's specialised phosphate derivatives around the world, for a variety of end uses, from food and drink to industrial processes.

Performance

	1998 £m	1997 £m
Turnover	318.6	300.3
Operating profit	31.2	32.0

Note: Turnover includes share of joint ventures' and associates' sales. Operating profit excludes exceptional items.

Geographical spread

The business is supported by world class purified acid facilities in the UK, USA and Mexico and 16 phosphate derivative plants in ten countries including a number of associates/joint ventures. A strategy of continuing investment in new products and expansion of geographic scope ensures that Albright & Wilson provides capacity to meet growing world demand.

Proportion of turnover, by region

Financial performance

In 1998 Phosphates' sales were £319 million, up 6% from £300 million in 1997. On a constant exchange rate (CER) basis (eliminating the adverse transaction effect of export sales, net of raw material imports, denominated in foreign currencies) sales were £335 million, an 11% increase year-on-year.

Operating profit was £31.2 million, down 3%; the CER result was £34.0 million, up 6%. The return on sales was 9.8% (1997: 10.7%) and at constant exchange rates it was 10.2%.

Three main factors affected Phosphates' performance in 1998: A&W Troy, the strong pound and lower exports to Asia.

Acquisition of additional equity in A&W Troy

First, there was the positive impact of the acquisition of additional equity in A&W Troy. In October 1997 we increased our shareholding in the Mexican operation from 50% to 75% and in March 1998 we purchased the remaining 25% shareholding to assume full ownership.

The year-on-year benefit of these transactions was to increase sales in the Phosphates technology group by approximately £30 million and operating profit by £4.6 million.

Elsewhere in North America we increased market share, though the general price increase announced in early 1998 did not have as much benefit as anticipated.

Unfortunately, the benefits derived from A&W Troy were offset by the strong pound and lower exports from the UK to Asia.

Continuing effects of the strong pound

The continuing strength of sterling against the major European currencies reduced margins in the UK and Continental Europe. In particular, there was increased competition in the UK market. Aggressive import competition meant that we had to reduce margins in order to maintain market share. In some instances, where prices being quoted were uneconomic, we decided to sacrifice volume rather than match these.

Lower exports to Asia

In common with the Surfactants and PD&A technology groups, Phosphates suffered a decline in exports to Asia Pacific as a consequence of the economic difficulties and significant weakening of currencies in that region. The year-on-year fall in exports to Asia was 30%.

As an example of how our exports into the Asia Pacific region have suffered, we can look at sales of DCP – dicalcium phosphate – to Indonesia. DCP is used as the abrasive in toothpaste – however, because of the 80%-plus fall in the value of the Indonesian rupiah, our customer could no longer afford to buy our product and so reformulated its product to use chalk instead.

Although exports into the Asia Pacific region were down, our volumes in local markets priced in local currency held up well with margins largely intact.

Growth in sales of higher added value derivatives

Despite the adverse factors described above, Phosphates made important progress during 1998 in increasing sales of and profit contribution from higher value added derivatives in the UK and Continental Europe, particularly speciality food phosphates, the more technical grades of STPP and higher quality grades of acids.

The newly commissioned food blends plant at Widnes enabled us to maintain market share in the UK and to gain market share on the Continent in key derivative product areas. We also produced record quantities of food grade phosphoric acid at Whitehaven. These achievements are important milestones in our strategy of moving the European Phosphates business further downstream and strengthening our market position in Continental Europe.

Operating review

Surfactants

Technology group activities

The Surfactants te[illegible] group combines technical expertise with extensive mark[illegible] to be a leader in surfactant products for personal care, detergents and industrial applications. These products are used in the manufacture of such items as shower [illegible]ps and toothpastes, advanced laundry detergents, liquids & powders and also in textile & leather processing, the foundry & construction industries and agrochemical formulations.

Performance

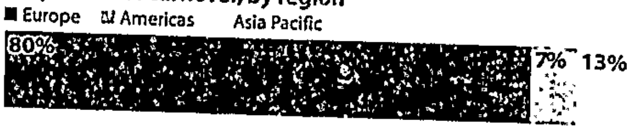
	1998 £m	1997 £m
Turnover	308.6	284.5
Operating profit	18.0	17.6

Note: Turnover includes share of joint ventures' and associates' sales. Operating profit excludes exceptional items.

Geographical spread

Manufacturing sites across Europe and the Asia Pacific region ensure that the range of anionics, non-ionics and amphoterics, together with formulated products, for personal care, detergent and industrial applications, provide a leadership position in a dynamic marketplace. Manufacturing sites in Indonesia, the Philippines and Singapore are associate/joint venture companies. The acquisition in 1997 of a surfactant manufacturing business in Chicago, Illinois to add to the existing manufacturing agreement with Pilot Chemicals, greatly strengthened the business's manufacturing capabilities in North America.

Proportion of turnover, by region



Financial performance

In 1998 Surfactants' sales were £309 million, up 8% from £285 million in 1997. On a constant exchange rate (CER) basis sales were £333 million, a 17% increase year-on-year.

Operating profit was £18.0 million, up 2%; the CER result (eliminating the effect of the translation of profits earned in relatively weak euro-zone currencies) was £20.6 million, up 17%. The return on sales was 5.8%. At constant exchange rates it was 6.2%, unchanged from 1997.

Our Continental European operations enjoyed a record year in terms of production volumes and contribution margins. This volume increase was achieved through more efficient utilisation of existing plants and greater use of toll manufacturing facilities rather than requiring significant capital expenditure.

In Asia Pacific volumes and margins were steady, though exports from Europe into the region fell by over 60%.

Apart from the above, two main factors adversely affected Surfactants' results in 1998: an increasingly competitive environment in the UK and the start-up investment in Chicago.

Increasingly competitive environment in the UK

One of the effects of the strong pound was that a major customer relocated production from the UK to Continental Europe, which affected our market share.

In addition, the second half of 1998 saw intense competition between branded and own-label products in the supermarkets. Traditionally, we supply surfactant ingredients to the latter only. The launch of branded washing powder tablets significantly affected volumes and margins on our heavy duty liquids, slowing the trend of sustained growth over the last 2 to 3 years.

Start-up investment in Chicago

Following the acquisition of the Chicago site in November 1997, we now have full national sales coverage in the US. This has given greater exposure to our large portfolio of specialised surfactants, resulting in increased sales of these products in the US.

The North American business is performing in line with our expectations, with the Chicago operation contributing to sales growth. As we expected, Chicago is only breaking even as we build the customer base, and this has somewhat constrained the Surfactants technology group's overall margin.

The Chicago site is effectively sold out and we are concentrating on modifying the product mix to improve profit contribution.

Now that our market position in North Americas is greatly enhanced, we have successfully turned our Surfactants group into a truly global business. This has been well received by customers. We have secured key product approvals from major consumer products companies who previously had only limited opportunity to develop global supply alliances.

Growth in sales of speciality products

We define speciality products as those where the customer can discern a value difference between our product and that of our competitors. With the exception of heavy duty liquids, referred to above, sales of speciality products continued to grow and accounted for 49% of sales.

Phosphorus Derivatives & Acrylics

Technology group activities
Phosphorus Derivatives & Acrylics is an international business principally based on the Group's strength in phosphorus chemistry. The business has unique assets and process technology to produce an ever growing range of derivatives used as flame retardants, agricultural intermediates, coatings catalysts, pharmaceutical intermediates, water management agents, lubricant additives and biocides.

Performance	1998 £m	1997 £m
Turnover	**187.7**	200.1
Operating profit	**15.5**	22.7

Note: Turnover includes share of joint ventures' and associates' sales. Operating profit excludes exceptional items.

Geographical spread
Manufacturing is carried out at a number of sites in the UK, the Americas and in Australia. This last location produces a range of acrylic resins which are used in industrial and speciality applications. These resins are also produced by AWAT Thai in Thailand.

Proportion of turnover, by region

Financial performance
In 1998 Phosphorus Derivatives & Acrylics' sales were £188 million, down 6% from £200 million in 1997. On a constant exchange rate (CER) basis sales were £193 million, a 3% fall year-on-year.

Reported operating profit was £15.5 million, down 32%. As with the Phosphates technology group, our European PD&A operations are located in the UK. During the year its results suffered from the adverse transaction effect on export sales, net of raw material imports, denominated in foreign currencies. Eliminating this effect, the CER result was £16.7 million. The return on sales was 8.3% (1997: 11.3%). At constant exchange rates it was 8.6%.

Growth in sales of speciality products
As discussed in the Chief Executive's review, the PD&A technology group has excellent product and process technology. In 1998 PD&A achieved continued growth in water management and phosphorus speciality products.

Our TOLCIDE® and other water management chemicals sales increased 35% and sales of new products continued to increase, particularly in pharmaceutical intermediates and catalysts.

Unfortunately these improvements could not offset the sharp decline in volume and margin of the higher volume derivatives resulting from the direct and indirect effects of the economic situation in Asia Pacific.

Lower exports to Asia
As with the Phosphates and Surfactants technology groups, PD&A experienced a substantial reduction (30%) in exports from its UK and US operations to Asia.

Knock-on effect of Asian slowdown
The Asian economic difficulties affected more than just our direct exports to that region. Towards the end of the second quarter certain "ripple effects" became apparent as US and European producers started to adjust their production capability in response to the economic slowdown and price deflation in Asia. A few examples serve to illustrate this point:

- We manufacture a complex catalyst for a large US customer that is used in various polymer and fibre operations. Orders were cancelled as this company shut down a number of US facilities citing lack of demand from Asia.
- Many of our flame retardant customers in the US and Europe produce systems that are then exported to Asia – their sales declined significantly.
- A large agrochemicals company with facilities in South America cancelled orders for intermediates citing low cost competition from Asia for their products.

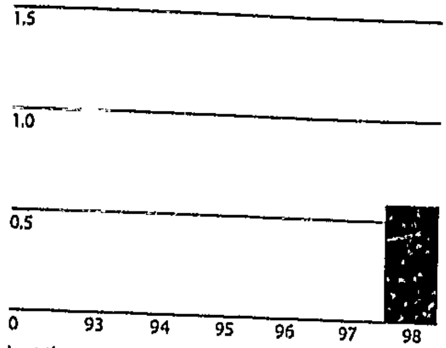
Other factors influencing 1998's financial performance included partial recovery in volumes and pricing in flame retardants in Europe; however, this was more than offset by lower sales in the US, partly because of the General Motors strike.

In addition, volumes to mining industries declined in the US, particularly in uranium, where a major customer decided to cease extraction activities.

More generally, our markets are increasingly being affected by Chinese competition. In the short-term, however, we are encouraged that the de-stocking effects we saw mid-1998 have partly subsided, although in some areas this has continued into 1999.

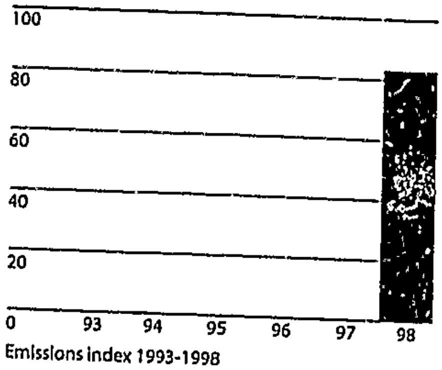
Health, safety and the environment

Improved safety performance



Lost time case rate 1993-1998

Lower emissions



Emissions index 1993-1998

Policy statement

Albright & Wilson attaches the highest priority to the protection of the health and safety of its employees, customers, neighbours and others who may come into contact with, or be affected by, its operations or products. It recognises equally its duty to protect the environment both in the vicinity of its operations and elsewhere by the responsible management of waste materials and high standards of product stewardship. Through this policy the Group supports the Global Responsible Care® initiative.

Risk management

The Group's business operations necessarily include the use of hazardous materials and the production of waste materials. The Group is therefore subject to a wide range of laws relating to health, safety and the environment.

The Group's risk management strategy comprises a consistent approach to risk management in these three areas through a programme of corporate level supervision. This risk management system includes:

- a publicly stated health, safety and environmental policy;
- regional risk management conferences;
- adherence to guidelines, standards and codes of practice;
- compliance with reporting procedures;
- regular auditing of known and potential health, safety and environmental risks to monitor compliance; and
- training and support in health, safety and environmental risk management.

The Group is proactive in terms of practical compliance with environmental regulations and the application of good operating procedures that are not specifically required by legislation or regulation. For example, our major US sites were subjected to independent 'management system verification' as adopted by the Chemicals Manufacturers Association. Many of our systems were found to be "world class".

Health and safety

The lost time accidents (LTAs) frequency rate is the internationally accepted measure of safety at production sites. By this measure 1998 was our best year ever in terms of health and safety performance.

The chart at the top left of this page shows the lost time case rate (LTCR) from 1993 to 1998. The LTCR is the number of LTAs per 1,000 employees and is calculated in accordance with an industry standard methodology, based on 200,000 hours worked.

In 1998 we reduced the frequency of LTAs by 3%. Over the period shown in the chart the LTCR has fallen by 53%, from 1.26 in 1993 to 0.59 in 1998. This is despite the increase shown in 1995 when we included the data for our operations in Mexico for the first time. In the first two months of 1999 the LTCR has fallen further to 0.53 due to an excellent year-on-year performance in January 1999, particularly in Mexico.

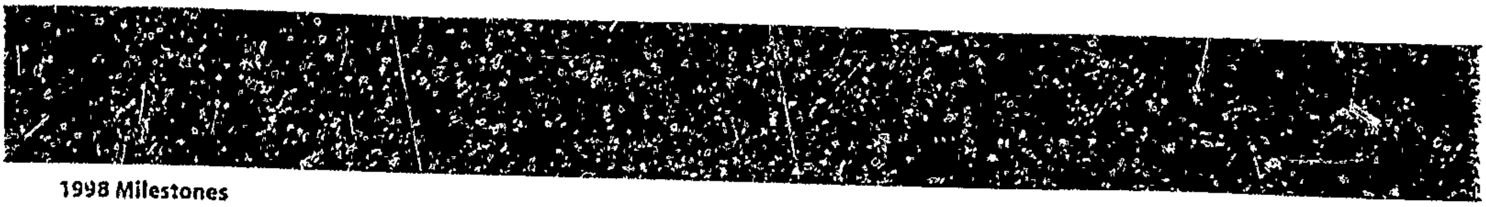
The Group's performance compares favourably with the average rate of 0.74 achieved by members of the UK Chemical Industries Association in 1997.

Of our 35 operating sites, 21 sustained no LTAs in 1998 and, of these, 11 have not sustained such an accident in the last four years. Some of the plant milestones that contributed to this continued improvement are set out in the diary of events at the top of the next page.

This achievement is the result of determined efforts by site personnel across our worldwide operations. Although it is encouraging, we are not complacent. The pursuit of excellence is a continuous process and there is always room for improvement.

Environment

During 1998 we made further progress in our programme to reduce emissions from our sites. The measure we use to track our performance in this area is the "emissions index".



1998 Milestones

January	April	June	July	August	September	November
Portishead – 11 years without LTA	Varennes – 6 years without LTA Alcover – 4 years without LTA	A&W Americas receives CMA National Safety Award	Cincinnati – 1 year without LTA Box Hill – 6 years without LTA	Charleston – 4 years without LTA	Chicago – 1 year without LTA A&W Americas receives ACS (Virginia Section) Environmentally Significant Product award for Bricorr® 288 Long Harbour – 6 years without LTA Roha – 8 years without LTA	Yarraville – 1 year without LTA Oldbury – 1 year without LTA

The methodology followed is to calculate a weighted amount for each category of pollutant by multiplying the actual amount of emission by a hazard factor. These hazard factors are based on published weightings obtained using a Delphi technique that captures the views of a number of independent academic scientists.

The chart on page 10 shows Albright & Wilson's weighted emissions index from 1993 to 1998. This was set at 100 in 1993. The increase in 1997 was due to the inclusion of the Coatzacoalcos site in Mexico for the first time, without which the index would have been 69.4 rather than the reported 90.7.

The downward trend in emissions resumed in 1998, with the index falling to 83.5, an 8% reduction compared with 1997. The overall decrease in the index is due to lower carbon dioxide emissions to the atmosphere and lower shipments of non-hazardous waste to landfill. Emissions at the Chicago Surfactants site were included for the first time in 1998 but did not significantly affect the index.

The fall in the index in 1998 reaffirms our excellent record in reducing environmental emissions from our sites. We are continuing to invest in projects that will substantially reduce emissions, particularly at our larger sites, and funds have been set aside for 1999 and beyond to ensure these improvements take place. Projects we have committed to complete over the next few years include water recycling and the reduction of oxide emissions of sulphur at Coatzacoalcos and a major water use reduction at Whitehaven.

During 1998 we continued with the environmental remediation of our three former phosphorus producing sites: Portishead in the UK, and Varennes and Long Harbour in Canada. The work at Portishead is due to be completed during the second half of 1999, ahead of schedule. At Varennes the remediation work is complete, though we will continue to monitor the site on a regular basis. Our work continues at Long Harbour, though in the meantime we are pursuing possible alternative uses of the site and the commercial sale of by product materials stored on site.

Events

During the year we organised a number of events and public awareness initiatives to promote awareness of our commitment to environmental protection and safety. These included involvement in community advisory boards, mock disaster drills in conjunction with local authorities, donation of time and equipment to local emergency services, and participation in industry arrangements for mutual assistance.

Friends of the Earth Report

In February 1999 Friends of the Earth issued a report naming UK companies that are allegedly releasing cancer causing chemicals into the environment. Albright & Wilson was one of the companies listed.

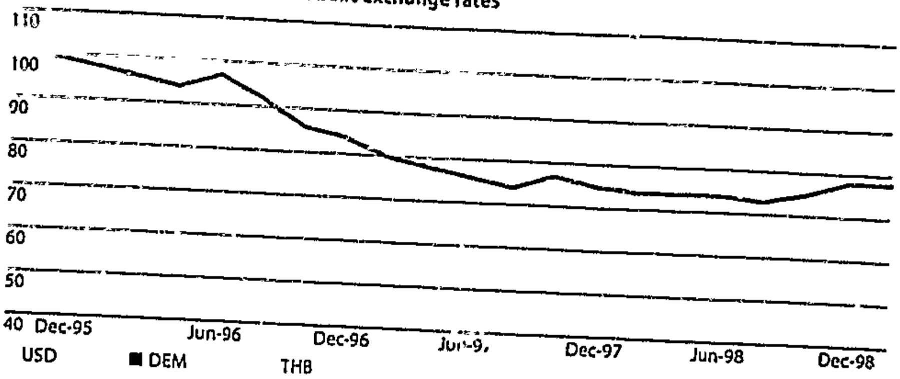
The data used to compile the report was taken from the submissions made regularly by UK chemicals companies to the Environment Agency and is freely available from the Agency.

In response to this report, we have stressed Albright & Wilson's commitment to health, safety and the environment and our support for the CIA's Responsible Care® initiative. Our industry is strictly regulated and the regulatory authorities set rigorous consent levels for the emission of potentially harmful substances.

We have close working relationships with the regulatory authorities and strive to conform with and, indeed, improve on these limits. Whilst we are never complacent about our environmental performance and constantly aim for improvement, we firmly believe that there is no risk to the public or our employees as long as our well established procedures are adhered to.

Financial review

US dollar, German mark and Thai baht exchange rates



Movement in US dollar, German mark and Thai baht exchange rates against sterling 1996-98 (index: 31 December 1995 = 100)

Financial performance

In 1998 the Group's turnover increased by 4% from £785 million to £815 million but pre-exceptional operating profit fell by 13% from £68.4 million to £59.7 million. I will explain the impact of exchange rates on our results further below, but on a constant exchange rate (CER) basis turnover increased by 10% to £861 million and pre-exceptional operating profit fell by 3% to £66.4 million.

Return on sales for the year was 7.3% (7.7% CER). The various factors affecting technology group margins are discussed in the operating review section of this annual report. However, I will expand further below on two of the main issues – the continuing strength of sterling and economic difficulties in Asia Pacific.

Year-on-year the Group's net interest charge increased to £11.4 million due to the higher level of debt to finance attractive investment opportunities such as the acquisition of the remaining equity in our business in Mexico.

Pre-tax profit for the year was £48.3 million, down 20% (-9% CER) from last year's £60.6 million pre-exceptional result. In 1998 exceptional items netted to zero, with exceptional charges offsetting an exceptional gain. In 1997 we incurred a £29 million exceptional charge following a strategic review of the Group's activities.

The effective tax rate was 29%, the same as last year. This benefited from the payment of 1997's final dividend and 1998's interim dividend as FIDs. This left post-tax profit of £34.3 million (1997: £42.8 million) on a pre-exceptional basis. After exceptional items post-tax profit more than doubled from £15.4 million to £34.3 million.

Basic earnings per share (EPS) were 10.8p (1997: 4.7p). After stripping out the effects of exceptional items, adjusted EPS was 10.8p (1997: 13.5p).

Impact of changes in exchange rates

The Group has manufacturing operations in 16 countries worldwide and its consolidated results are affected by currencies in three regions: the United States, Continental Europe and Asia Pacific. Over the last three years, the rates of exchange of the US dollar and German mark (representative of Continental currencies) against sterling have been as follows:

	US dollar		German mark	
	Average	Year-end	Average	Year-end
1996	1.57	1.70	2.37	2.64
1997	1.64	1.65	2.85	2.96
1998	**1.66**	**1.66**	**2.92**	**2.78**

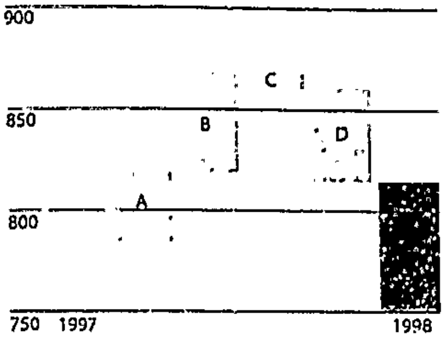
As in 1997, our 1998 results were adversely affected by the strengthening of sterling against currencies in what is now known as the "euro-zone" and the significant depreciation of currencies in the Asia Pacific region. The chart at the top of this page illustrates how the US dollar, German mark and Thai baht exchange rates have weakened over the last three years.

The continuing strength of sterling against currencies in the euro-zone has reduced our profitability in the UK and Continental Europe in three ways.

First, there is the impact on the translation of overseas earnings into sterling. Some 45% of our sales are in countries whose currencies have fallen significantly against sterling over the last two years. Since mid-1996 Continental European currencies have depreciated by 27% (on a trade-weighted basis) against sterling.

Second, with some 40% of our UK production being exported we have suffered from an adverse transaction effect, i.e. the net impact of the effective reduction in export selling prices and imported raw material costs.

Sales bridge: 1997-98



	£m	£m
1997 Turnover[1]		785.0
CER year-on-year change:		
A Phosphates	34.0	
B Surfactants	49.0	
C PD&A	(7.0)	
CER increase		76.0
D Currency effect[2]		(46.0)
1998 Turnover[1]		815.0

(1) Includes share of joint ventures' and associates' sales
(2) Translation effect

The third aspect of the strong pound has been the economic impact where, for example, the threat of imports into the UK from Continental European competitors has forced us to reduce our prices and margins in order to maintain market share.

Constant exchange rate (CER) results referred to in this annual report are calculated by applying the exchange rates prevailing in 1997 to the results and transactions for 1998, that is by eliminating the translation and transaction effects. In 1998 our CER operating profit was approximately £7 million higher than reported at actual exchange rates.

Asia Pacific economic situation

The continuing economic difficulties in Asia Pacific affect us in two ways: the impact on our operations located in the region and our ability to export products to the Far East.

In 1998 our operations based in Asia generated a US dollar pre-tax profit that was actually marginally ahead of 1997 despite the economic difficulties prevailing over the last 18 months or more. The resilient performance of these businesses was the result of favourable raw material contracts, management securing price increases to offset lower volumes and rigid control of local currency fixed costs.

There has been an average 43% fall in Asian currencies since the Thai baht was devalued in July 1997. This is like having the prices of exports into the region halved over the period. Consequently, we have found it difficult to compete against local producers or customers can sometimes no longer afford our products. As a result in 1998 our exports from the UK and US into the Asia Pacific region fell by some 40%. We have not been able to find new markets to replace some of these lost sales because of our existing high domestic market shares. We estimate that the lower exports to the Asian region reduced our operating profits by approximately £6 million.

Because of the reduction in the value of Asian currencies, we suffered a significant translation effect on converting these results into sterling. This translation effect is included in the £7 million CER impact referred to above.

Exceptional items

A number of exceptional items arose during the second half of the year. As I mentioned earlier, these netted to zero.

We had a windfall exceptional gain. During the year we simplified the Group's financial affairs by unwinding a long-term financing arrangement. As part of this arrangement, we had made a financial investment with a bank which, in accordance with accounting standards, we were offsetting against borrowings from the same bank. On unwinding the arrangement and disposing of this investment, we realised net proceeds of £8.5 million and a net gain of £7.9 million due to the movement in interest rates from the time the investment was made.

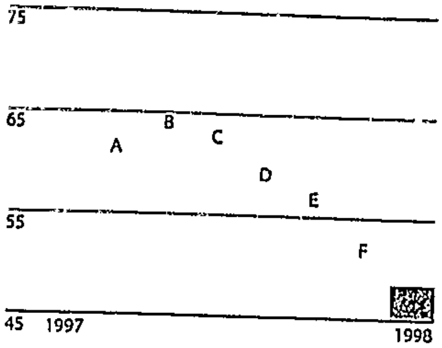
Turning to the exceptional charges, in light of the new accounting standard on asset impairment, FRS11, we performed a detailed review of our asset base around the Group. As a result of this review we wrote off £4.6 million of assets we considered to be non-performing.

A redundancy provision of £1.2 million related to redundancies that were implemented in January 1999 in the UK and US. At this stage we anticipate that further redundancies from programmes already announced will give rise to an additional £1.2 million in the first quarter of 1999. There could be further redundancy costs as the year progresses and we seek to reduce the cost base.

We also "topped up" our environmental provisions by £1 million to ensure that the final phase of the remediation of our Portishead site near Bristol is adequately covered.

Financial review

Pre-tax profit bridge: 1997-98



	£m	£m
1997 Profit before tax[1]		60.6
CER change in operating profit:		
A Phosphates	2.0	
B Surfactants	3.0	
C PD&A	(6.0)	
D Corporate costs	(1.0)	
CER decrease in operating profit		(2.0)
E Increase in interest payable		(3.6)
F Currency effect[2]		(6.7)
1998 Profit before tax[1]		48.3

(1) Excluding exceptional items
(2) Translation and transaction effects

Finally, we have written off due diligence costs of £1.1 million incurred in connection with two aborted acquisitions. After thorough investigation, at the prices being asked, the target businesses did not match up to our strict cash flow value creation criteria.

On a net basis, the exceptional items did not affect pre-tax profit. Indeed, their effect on cash flow in the second half of 1998 and in 1999 will be positive by £6.3 million.

Cash flow

One of the key areas we have been focusing on has been to improve cash management as a foundation for creating sustainable value for our shareholders.

I am pleased to report real progress on this front. Compared with 1997, our cash flow from operations, including dividends received from joint ventures and associates, increased 61% to £73 million. We contained net capital expenditure to below £50 million – £10 million less than in 1997 – and we are targeting to reduce this to somewhat below £45 million in 1999.

We also implemented programmes to reduce working capital across our business. This resulted in £7 million being taken out of working capital in the second half.

The progress we have made in terms of cash flow is illustrated by the left-hand chart on page 16. This shows our operating cash flow – after paying for restructuring costs, environmental remediation and sustaining capital expenditure – by half year for 1997 and 1998, with a strongly improving trend over the last six months. These figures exclude the £8.5 million exceptional proceeds from the disposal of the financial investment.

Against this we show the amount spent on growth capital expenditure. This shows that at the same time as we have been working to improve operating cash flow, we have halved the amount we are spending on discretionary growth projects, from a peak of £20 million in the second half of 1997 to just over £10 million in the second half of 1998.

This improved position is not a one-off and we are confident it can be sustained. We are determined that the "managing for cash" culture becomes engrained throughout the Group. Therefore, we have further developed our cash added value concept so that we now assess the financial performance of each business unit as though it were a stand-alone, self financed management buy-out.

Later in this review I explain our approach to shareholder value in more detail.

Financial position

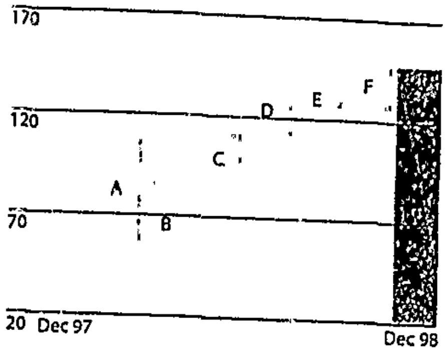
The cash management actions outlined above helped to ensure a strong financial position. Year-end net debt of £148 million was £11 million less than at the interim stage. Gearing was 45% and the interest charge was covered 5.2 times.

Accounting standards

Over the past 12 months a number of new UK accounting standards have come into effect. These covered the following areas: associates and joint ventures (FRS9), goodwill and intangible assets (FRS10), impairment of fixed assets and goodwill (FRS11) and earnings per share (FRS14). The accounting policies section on page 31 describes our compliance with these new standards.

Two further standards – FRS12 Provisions, contingent liabilities and contingent assets and FRS13 Derivatives and other financial instruments – come into effect in March 1999 and we will comply with them in our financial statements for the year ending 31 December 1999. FRS12 requires that provisions should not be made unless there is a past event stemming from which there is an obligation to transfer economic benefits. FRS13 significantly expands the disclosure requirements in respect of financial instruments.

Net debt bridge: 1997-98



	£m	£m
Net debt at 31 December 1997		(116.2)
A Operating cash flow[1]	72.9	
B Financing costs[2]	(42.9)	
C Sustaining capital expenditure[3]	(25.0)	
"Base business" cash flow		5.0
D Growth capital expenditure[4]	(23.3)	
E Disposal proceeds[5]	8.5	
F A&W Troy acquisition	(22.0)	
Net growth investment		(36.8)
Net debt at 31 December 1998		(148.0)

(1) Including £9.9 million dividends from joint ventures and associates
(2) Interest, tax and dividends paid, net of £2.6 million exchange movement and £0.5 million issue of shares
(3) Non-growth capital expenditure (see below)
(4) Investment in new products, capacity expansion or cost reduction
(5) Exceptional proceeds from disposal of financial investment

UK pension costs

As I mentioned in last year's financial review, in both 1997 and 1998 the Group had to fund additional cash payments to the main UK pension scheme and, consequently, absorb additional charges against profit.

The additional cash contributions in 1998 were £5 million and the additional pension charge was approximately £2 million.

In order to mitigate any future increases in pension costs, we have announced the intention to introduce employee contributions to what was formerly a non-contributory scheme, with effect from May 1999. The pension fund trustees have also reviewed the investment strategy of the fund.

Acquisitions and disposals

In March 1998 we acquired the minority 25% shareholding in A&W Troy in Mexico. A&W Troy has been accounted for as a subsidiary undertaking since October 1997, when the Group increased its shareholding from 50% to 75%, having previously been a joint venture. The consideration paid was £22 million.

In February 1999 we acquired the remaining 51% shareholding in AWAT Thai for a consideration of £1.5 million.

We did not dispose of any operations in 1998.

Capital expenditure

Net capital expenditure in the year was £48 million, representing gross spend of £51 million less proceeds of £3 million from the disposal of fixed assets. This represented 173% of depreciation and amortisation charges for the year, significantly lower than the equivalent figure of 256% in 1997 when we spent £60 million on capital projects. This ratio will fall further in 1999.

Shareholder value

At A&W we subscribe to the view that cash flow is the key to creating value for our shareholders.

The basis for this approach is that the equity value of a business equals the present-day value of its future cash flows less the debt it carries in the balance sheet. Indeed, numerous studies of stock market performance have shown that cash flow is a more reliable indicator of value creation than the traditional accounting measures of profit and earnings per share.

Earlier in this review I described some of the ways in which we are actively managing our business to produce superior, sustainable cash returns for shareholders, for example tight control of working capital and capital expenditure. One of the key elements that supports this "managing for value" culture is our cash added value (CAV) performance measure.

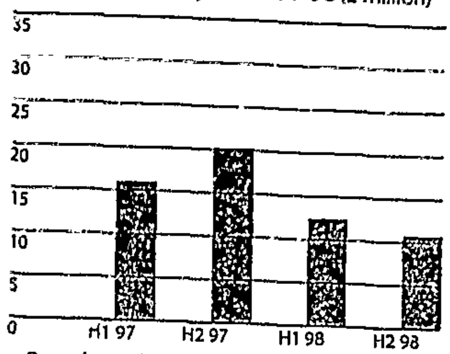
Although we calculate it every month as part of our internal management reporting, CAV is not intended to be a precise accounting measure. Rather, it is a performance measure indicating over time whether we are creating or destroying shareholder value.

The calculation of CAV takes account of six of the seven "value drivers", i.e. those factors that if managed properly will enable a business to create value. These six drivers are: sales growth, margin growth, the rate of investment in fixed assets and in working capital, the amount of tax paid and the cost of capital. The seventh value driver is what is known as the "competitive advantage period", not something that is readily measurable (in financial terms at least).

The cost of capital is calculated as the weighted average cost of the Group's equity and debt. Essentially, it is the minimum rate of return that investors require in order to invest in A&W rather than another investment of similar risk. Put simply, if we do not deliver this return, investors will ultimately deny us new funding and will invest elsewhere.

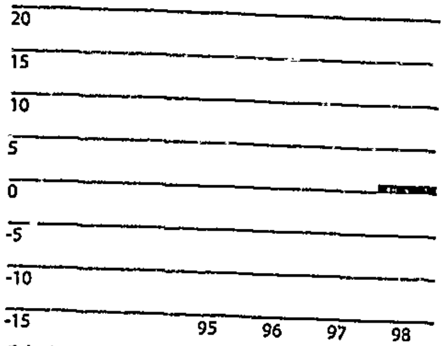
Financial review

Cash flow by half year: 1997-98 (£ million)



Operating cash flow after sustaining capital expenditure
■ Growth capital expenditure

Cash added value (£ million)



Calculated using 9% weighted average cost of capital

CAV and the 'cash return' on net operating assets employed are the principal internal measures that we use to assess the extent to which we are generating sustainable cash flows in order to create long-term value for our shareholders. These measures also indicate where we are earning a return on capital in excess of its cost and thus identify the businesses that should receive priority resources for investment.

CAV represents free cash flow before investment in business growth and financing costs, less a capital charge for the use of operating assets. The capital charge assumes a weighted average cost of capital of 9%.

There are a number of other shareholder value measures commonly in use. We developed CAV because we believe it is meaningful (clearly linked to shareholder value), simple to calculate (can be understood by management and investors) and is capable of being driven down through our organisation. In this way, CAV encourages decision making that results in a sustainable improvement in cash flow and, hence, long-term value creation.

Due to the strong cash flow performance described above, the Group's CAV improved markedly over the last 12 months. Using the same cost of capital for both years, CAV improved by £15 million, from minus £14 million in 1997 to a positive £1 million in 1998. Cash return was 9%, up from 6% last year.

Treasury management

Albright & Wilson operates a central treasury function which is responsible for managing financial risk in order to mitigate the effects of any adverse changes in exchange rates and interest rates on the Group's financial results. Each month a treasury committee, which includes the Chief Executive and Finance Director, formally reviews its activities, ensuring that these are in accordance with authority limits set by the Board.

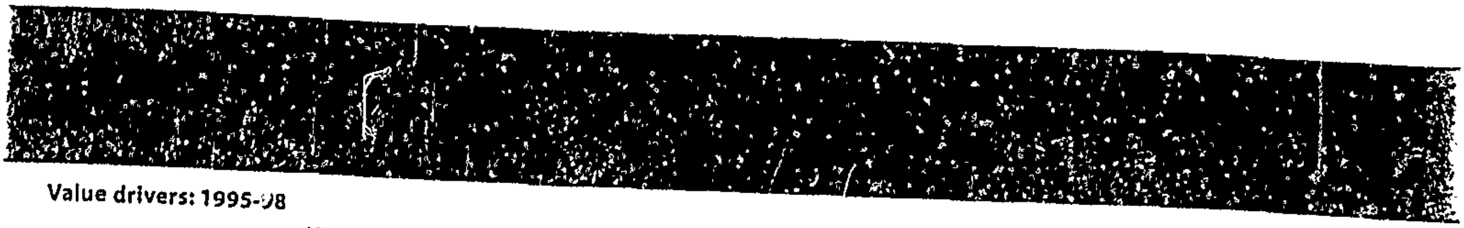
Earlier I referred to the translation and transaction effects arising from significant changes in exchange rates over the last two years. The treasury function is able to mitigate, but cannot eliminate, the impact that these have on our reported results. To seek to do so would involve us entering into speculative forward transactions, which is not our policy.

Short-term transaction exposures are managed centrally within strict limits on exposure. Balance sheet translation exposures are partially hedged through the use of foreign currency borrowings. As far as is commercially advisable, we seek to maintain debt in the currency of major cash inflows. As the Group has significant cash inflows and net assets denominated in US dollars and French francs, the majority of centrally managed debt is also held in these currencies.

Interest payable in foreign currencies provides a partial hedge for operating profits and cash flows denominated in currencies other than sterling. Interest rate exposures are managed through a combination of interest rate swaps and forward rate agreements with maturities of up to seven years.

The Group's policy is to maintain banking facilities which provide committed funding 20% above the Group's projected borrowing requirements. These facilities contain three principal financial covenants: shareholders' funds must be at least equal to £265 million (at 31 December 1998 they were £333 million); net gearing including external guarantees must not exceed 100% of shareholders' funds (gearing at the end of 1998 was 45%); and, interest must be covered at least three times by pre-exceptional operating profits (interest cover in 1998 was 5.2 times).

At 31 December 1998 the Group had committed banking facilities of £204 million, available for between 4 to 6 years, of which £119 million was utilised.



Value drivers: 1995-98

	1995	1996	1997	1998	CER
1 Sales growth[a]	+13%	+2%	−2%	**+4%**	**+10%**
2 Margin growth[b]	−1.1%	+1.0%	−0.1%	**−1.4%**	**−1.1%**
3 Rate of investment in fixed assets[c]	172%	167%	256%	**173%**	
4 Rate of investment in working capital[d]	15%	14%	15%	**15%**	
5 Cash tax rate[e]	22%	19%	11%	**30%**	

(a) Including share of joint ventures' and associates' sales
(b) Annual change in return on sales
(c) Net capital expenditure as a percentage of depreciation and amortisation charges
(d) Working capital as a percentage of subsidiaries' sales
(e) Tax paid as a percentage of pre-exceptional profit before tax

Information systems

The Group has chosen to introduce JD Edwards integrated systems in the majority of its operations. In 1998 the new accounting systems were successfully implemented in the UK and systems upgraded in the Americas. During 1999 the installation of new systems will be completed in Italy, France, Mexico, Australia and India so that before the end of the year we expect all critical information systems to be Year 2000 compliant.

The conversion of systems to JD Edwards is an important part of the Group's information strategy. This strategy constantly reassesses the information needs of the business and provides a framework for the development of communications, data, text and voice transmission around the Group.

Year 2000 (the "Millennium bug")

The primary issue for Albright & Wilson is whether critical business processes, including plant process control equipment and information systems, will be affected by key calendar dates as we progress into the next millennium. The Board acknowledges the Group's reliance on information technology as a vital business and operating tool and has established a steering group and regional task forces, headed by senior management, to identify and work on areas which may be significantly affected by the Year 2000 issue. By this process, action and contingency plans have been put in place to resolve potential problems and secure full Year 2000 compliance so far as practicable across the Group's businesses and operations. The Board receives regular updates on the progress of this work.

Where the Year 2000 issue is addressed through the implementation of new computerised information systems, the related costs are capitalised; the costs of remedial work on existing systems and on contingency activities are charged to the profit and loss account as incurred. During 1998 the Group spent approximately £4 million on new systems; the costs of remedial and contingency work are difficult to estimate but we believe they did not have a significant impact on the Group's results.

Economic and Monetary Union

The Group operates in all initial 11 participating countries of the European Economic and Monetary Union. Beyond the capital investment in new information systems referred to above, the costs of upgrading financial and transaction processing systems to accommodate the introduction of the euro have not been significant as the Group has extensive experience of trading in multiple currencies.

We have traded in euros since 1 January 1999 and we expect that a number of our customers and suppliers in Continental Europe will increasingly transact business in euros.

Financial controls

The Group has an established system of financial control which is consistent with the Group's size and decentralised operating structure. The Group's internal and external auditors carry out reviews of the system of financial control and make periodic reports to the Audit Committee.

Ken Lever

Ken Lever Finance Director

Board of directors

From left to right, top row:
Sir Christopher Benson, Paul Rocheleau, Gabriel Kow, Ken Lever.
Second row: Nicholas Barber, Michael Garner, Hans Lottig.

Sir Christopher Benson 65, Chairman, non-executive director *†§
Appointed a director and Chairman in January 1995. He is a member of the Panel on Takeovers and Mergers.

Paul F Rocheleau [illegible] §
Joined the Group in 1985 and was appointed to the Board in August 1995. He became Chief Executive in August 1997.

Gabriel C M Kow [illegible]
Appointed a director on joining the Group from Glaxo Wellcome in June 1997 as President – Asia Pacific. He is now responsible for all the Group's operations in Europe and Asia Pacific.

Ken Lever [illegible] Finance Director
Joined Albright & Wilson as Finance Director in November 1995. He is a non-executive director of Merewood Group plc and VEGA Group PLC.

Nicholas C F Barber [illegible] *†§
Appointed a director in January 1995. He is a non-executive director of the Royal & Sun Alliance Insurance Group plc and of Bristol & West plc.

Michael F Garner [illegible] *†§
Appointed a director in January 1995. He is a non-executive director of C&J Clark Limited, Enterprise Inns plc and Ibstock plc.

Hans Lottig [illegible] *§
Appointed a director in January 1995, having initially been a non-executive director of Albright & Wilson Limited (now Albright & Wilson UK Limited) since 1990. He has held senior board appointments with the Shell Group in Germany.

Board committees

* Audit
The Audit Committee assists the Board in fulfilling its responsibility for the true and fair presentation of the Group's financial position in its published accounts and to ensure the continued operation of appropriate accounting policies, internal financial and other controls and compliance procedures for the Group. It also reviews the performance of the auditors in respect of both external and internal audit matters and other services. The committee, which meets at least three times in a year, comprises the non-executive directors and Michael Garner acts as its chairman. The Chief Executive, Finance Director and representatives from the Company's internal and external auditors normally attend meetings.

† Remuneration
The Remuneration Committee sets the Group's policy on the remuneration and benefits of executive directors and other senior management and determines the specific levels of award in each case. Three non-executive directors are members of this Committee which is chaired by Nicholas Barber. The Chief Executive may attend meetings by invitation.

§ Nominations
The Nominations Committee advises the Board on succession issues, recommending to the Board the appointment of executive and non-executive directors. The non-executive directors and the Chief Executive are members of this committee; Sir Christopher Benson is its chairman.

Directors' report

For the year ended 31 December 1998

The directors submit their annual report and the audited financial statements for the year ended 31 December 1998

Principal activities

Albright & Wilson is a worldwide chemical manufacturing group operating in three technology areas: phosphates, surfactants and phosphorus derivatives & acrylics. It has interests across Europe, the Americas and in the Asia Pacific region. The Group develops and manufactures intermediate and speciality effect chemicals and supplies its products to a wide range of end-users. Its markets include detergents & toiletries, textiles, food & drink, water treatment, pharmaceutical, electronic and other process industries.

Business review and financial statements

The directors' report should be read in conjunction with the operating review on pages 7 to 9 and financial review on pages 12 to 17. The audited financial statements for the year ended 31 December 1998 are set out on pages 28 to 45.

Results and dividends

The Group's retained profit for the year was £11.5 million (1997: £7.5 million loss). An interim dividend of 2.35p per ordinary share was paid as a foreign income dividend on 25 November 1998. The Board recommends a final dividend of 4.80p per ordinary share, making a total of 7.15p per ordinary share for the year ended 31 December 1998. The final dividend, if approved at the Annual General Meeting, will be paid on 27 May 1999 to shareholders on the register on 26 March 1999.

Corporate governance: the Combined Code – application and compliance

On the flotation of Albright & Wilson in 1995, the corporate governance structure of the Company was established so as to comply with the best practice embodied in the Cadbury Code (and later the Greenbury Report). Since then, the Company has continued to commit itself to the achievement of high standards of corporate governance. Following the publication of the Combined Code on Corporate Governance ("the Code") in June 1998, the Company is this year reporting on its application of and compliance with the principles and provisions of the Code.

The ways in which the Company has complied with the principles set out in the Code are described in this report and in the Remuneration Report. With the exception of the matters identified below, the Company considers that it has fully complied with the Code provisions throughout the year

Board and committee structure

The Board currently comprises three executive directors and four non-executive directors (including the Chairman). All of the non-executive directors are considered by the Board to be independent as set out in the Code. The non-executive directors provide strong and independent judgement and experience at board level. Collectively, they have long-standing experience of board responsibilities with a variety of public and private companies No director, either during the year or at the year end, was materially interested in any contract that was significant in relation to the Group's business. The Company recognises the importance of education and training for all its senior executives and will review the specific training needs of directors in accordance with the Code provisions.

Specific responsibilities have been delegated to the principal standing committees of the Board. A summary of their membership and terms of reference are given on page 18, together with biographies of the directors. Recommendations for the appointment of any new directors to the Board are submitted by the Nominations Committee to the Board for approval.

The Board believes that, given its composition and the composition of its principal committees, it is inappropriate to formally recognise a single senior independent director as recommended by the Code provisions.

The Board meets formally at least eleven times a year and has a schedule of matters specifically reserved to it for decision, including certain strategic and policy issues. There is open communication between senior executive management and Board members. The Board and its committees are supplied with high quality, up-to-date information for review prior to each meeting to enable them to discharge their responsibilities. Early informal notification of major matters which in due course will require formal consideration by the Board takes place where practicable. All directors have access to the advice and services of the company secretary and a procedure is in place for directors to take independent professional advice, should this be required.

Directors

The directors holding office at the date of this report and who held office throughout the year are named on page 18. John Adsetts and Ian Black retired as directors on 31 May 1998 and 31 December 1998 respectively.

The Company's Articles of Association provide that one-third of directors must submit themselves for re-election each year at the annual general meeting. Further, any director appointed during the year also has to seek re-election at the annual general meeting. In this way, each director of the Board is required to regularly submit himself for re-election. Having regard to the size of the current Board, the period between submission for re-election for each director will be every three or four years. The Company will propose an amendment to its articles at the next appropriate opportunity in order to provide that each director automatically seeks re-election every three years notwithstanding the size of the Board to bring it within full compliance with the Code provisions. This year, Nicholas Barber and Ken Lever are the directors who retire and who offer themselves for re-election.

Directors' report

Directors' remuneration

The Remuneration Committee, which is comprised exclusively of non-executive directors, has responsibility for executive remuneration. The remuneration of the non-executive directors is determined by the Board. Information about the Company's remuneration policies and directors' service contracts and terms of appointment (together with their interests in the shares of the Company, share options and restricted share schemes) are found in the Remuneration Report on pages 22 to 26.

Communications with shareholders and AGM

Investor communication is recognised as being a priority. The annual report & accounts and interim report are sent to all shareholders. The annual general meeting provides an opportunity for shareholders, particularly private investors, to question the Board and during the year enquiries are received from investors and answered on a wide spectrum of topics covering Albright & Wilson's businesses. There is a programme of regular dialogue with major institutional investors and fund managers. Information on the Group is also made available on the Albright & Wilson website.

The notice convening the annual general meeting to be held at 12 noon on Wednesday 28 April 1999 is contained in a circular sent to shareholders with this report.

Share capital

In the year to 31 December 1998, the issued share capital of the Company increased by 312,889 ordinary shares to 313,860,756 ordinary shares as a result of shares issued under the Company's Executive Share Option and Sharesave Schemes. Details are given in note 24 to the financial statements.

Substantial share interests

In accordance with Part VI of the Companies Act 1985, the Company has been notified of the following interests in 3% or more of its share capital:

Phillips & Drew	24.84%
M&G Group P.L.C.	7.64%
Britannic Assurance plc	3.11%
Electricity Pensions Services Limited	3.01%

Employees

The Group aims to continue to advance and maintain effective employment practices in line with current and future business requirements. It is the Company's policy that there should be no discrimination against any person for any reason that is not relevant to the effective performance of their job. Depending on their skills and abilities, disabled people are given the same consideration as others when applying for jobs and in career prospects.

The Company has extensive arrangements for team and individual employee involvement in continuous improvement activities. Considerable emphasis is placed on communication with employees and internal publications are regularly issued. High standards of health and safety at work and environmental practices continue to be of the utmost importance.

Employee share schemes

The Company's Sharesave Scheme granted options in April 1998 over 927,214 ordinary shares at 130p per share. Under this scheme, 876 participants hold options over 4,074,557 shares.

There are 167 participants in the Albright & Wilson Executive Share Option Schemes, holding options over 5,067,650 ordinary shares. Options under the schemes were granted during the year to 157 participants over 2,864,500 shares. Options under these schemes are exercisable only if performance conditions are met; these conditions are described on page 22.

345,000 ordinary shares were provisionally allocated as awards made to 38 participants comprising executive directors and senior managers under the Company's Restricted Share Award Scheme. Awards outstanding at 31 December 1998 gave those participants prospective interests in 919,331 ordinary shares in the Company. Further details of this plan are given on page 22.

The Company's 1995 Flotation Award Plan (the Americas, Asia Pacific and Scandinavia) and Americas Sharesave Plan (USA and Canada) continue in operation. Both these plans are structured to enable participants' notional share units to realise any appreciation in the Company's share price during the life of the schemes.

Accountability and audit

Statements of the respective responsibilities of the directors and the auditors for these accounts are set out on page 27.

Internal control

The principal elements of the Group's internal control system are described below. The Audit Committee has on behalf of the Board reviewed the effectiveness of the system of internal financial control from information provided by management and the Group's internal and external audit functions. The Committee limited its review to internal financial controls, as permitted by the London Stock Exchange, pending publication of guidance for directors on the broader aspects of internal control. However, wider aspects of internal control are periodically considered by the Board. Further reviews of such matters will be undertaken during 1999. Any system can provide only reasonable and not absolute assurance of meeting internal control objectives.

The Group's strategic direction is reviewed by the Board at least once each year as part of a strategic planning process and key projects are considered in the context of Group strategy. Management structure, organisation and resources are also considered in relation to the actions needed to implement this strategy. Annual operating profit and cash flow targets for each of the Group's businesses and regions are set by executive management and reviewed by the Board.

The management of the Group is delegated to the Chief Executive and, through him, to senior executive management in the various regions and technology groups in which the Group operates. Operational and business objectives are set for, and within, each region/technology group and clear responsibilities established. Regional presidents and/or technology group leaders are accountable for the conduct and performance of their businesses in line with the agreed strategy and annual operating targets.

Operating and financial reporting to the Board is undertaken on a monthly basis. Detailed financial reports of results against budget and prior year and analysis of variance by business are prepared and reviewed by the Board. These encompass a range of key performance indicators. In addition, quarterly reviews of forecast future performance are undertaken by the Chief Executive and Finance Director and reported to the Board.

Capital investment decisions are made through a formal evaluation and authorisation process, with major projects being referred to the Board for decision. Post-completion reviews are undertaken.

Key functional activities are the responsibility of executive directors and other senior management, with the Board setting or approving policy in certain areas such as health, safety and environmental matters, information technology strategy and treasury policy.

Business risk analysis and assessment and financial control self-assessment programmes are carried out across the Group. The Group also maintains a comprehensive insurance programme.

Leadership in health, safety and environmental matters is a primary responsibility of the Chief Executive and Executive Vice-President Technology, with operational management responsible for the implementation of compliance requirements and policy. Health, safety and environmental risk management reviews are undertaken in each region.

Going concern

The directors, after having made what they consider to be appropriate enquiries, have a reasonable expectation that the Company and the Group have adequate resources to continue in existence for the foreseeable future. Accordingly, the financial statements which appear on pages 28 to 45 have been prepared on a going concern basis.

Creditor payment policy

Group companies are responsible for agreeing the terms and conditions under which business transactions with their suppliers are conducted. It is Group policy that payments to suppliers are made in accordance with these terms, provided that the supplier is also complying with all the relevant terms and conditions.

At 31 December 1998 the Group's trade creditors outstanding represented approximately 52 days' purchases (1997: 66 days).

Charitable donations

During the year the Group made donations of £122,000 to charities (1997: £149,000). No payment was made to any political party in the UK.

Auditors

Arthur Andersen have expressed their willingness to continue in office as auditors of the Company and their reappointment will be put to the members at the Annual General Meeting.

By order of the Board

Andrew Cree Secretary

10 March 1999

Remuneration report

Remuneration committee

The Remuneration Committee comprises three of the Board's non-executive directors (see page 18). Executive directors do not sit on the Committee, although the Chief Executive is present for discussions on senior executive remuneration other than his own. The Committee's role is to set the framework for executive remuneration generally and to determine the specific remuneration, benefits and terms of employment for executive directors and other senior executive managers.

Remuneration policy

The objectives of the Company's executive remuneration policy are:

- to design a competitive remuneration and benefits structure to recruit, retain and motivate executives of the highest calibre; and
- to align the rewards and incentives of the key group of individuals with the performance of the Company and the interests of its investors.

In particular, the Committee has regard to the general levels of remuneration across the Group and in comparator companies and businesses. It draws upon data and advice on executive pay and conditions from compensation practitioners and the investment community as appropriate. The Committee also recognises the increasing globalisation and technical nature of Albright & Wilson's businesses which, by its very nature, necessitates the assignment and relocation of directors and key senior executives around the world.

The constituent parts of remuneration for executive directors and senior executive managers are as follows:

Salary comprises two elements:

- a basic annual salary, paid in cash, generally reviewed each year and set in line with average comparative salaries;
- a deferred element granted as an award of restricted shares which, combined with the basic salary, can bring the total value to the upper quartile level.

The deferred element operates through the Company's Restricted Share Award Scheme, which is a deferred share bonus plan, and is intended to facilitate the motivation and retention of senior executives. It enables an individual to receive a grant of a provisional allocation of shares from the scheme's trustee. The shares are released in full after a retention period of 48 months. Should a participant leave during the retention period, the Committee decides whether he should receive the full award or a partial award, or if the award should be cancelled, and requests the trustee to exercise discretion accordingly.

Bonus payments (which are not pensionable) to executive directors and senior executive managers are paid subject to the Group's or relevant businesses' performance. Individual bonus payments are determined or approved at the discretion of the Remuneration Committee, subject to an overall maximum of 50% of base salary for executive directors, and take account of personal contribution to the Group's business. Although the Committee acknowledges the efforts and hard work of the executive directors during the year in difficult trading conditions, it was not considered appropriate to award bonus payments to them in respect of 1998.

In order to foster the link between individuals' personal interest and that of shareholders, the Company encourages share ownership by executive directors, senior executive managers and key employees both independently and through employee share schemes. Grants of share options are normally made annually at the market price of the Company's shares at the time of grant. Options are not issued at a discount to the market. Grants are phased over a four year period in equal tranches up to a maximum grant for executive directors based on a multiple of four times earnings. Deviations from this policy are made from time to time in order to reflect performance and promotions and to enhance incentive programmes.

The options have a ten year life and the earliest that they can be exercised is three years from the date of grant. Performance conditions have to be met before options can be exercised. For options granted to date, the performance condition requires that the average growth in the Company's earnings per share over any three year period prior to exercise shall be at least equal to the percentage increase in the UK's Retail Price Index plus 2% per annum over the same period. This target is subject to a rolling three year measurement period.

UK based executive directors and senior executive managers are eligible to participate in the Sharesave Scheme which is operated within the UK.

Pensions The Company's three executive directors each have pension arrangements. Paul Rocheleau, a US citizen, participates in local US retirement benefits plans. Gabriel Kow and Ken Lever each contribute to approved pension arrangements by way of a pension allowance paid by the Company up to an agreed percentage of salary. Senior executive management participates in retirement programmes appropriate to the countries in which Albright & Wilson operates around the world.

Directors' pension benefits are shown on page 24.

Contracts of service

Executive directors are generally appointed under service agreements capable of being terminated by either party on twelve months' notice or earlier on payment in lieu of notice. All the present executive directors have terms of service which are in accordance with this policy.

Non-executive directors

The non-executive directors are generally appointed for three year periods, subject to renewal. Non-executive directors do not have service agreements, are not eligible for pension scheme membership and do not participate in any of the Company's incentive schemes. The remuneration of the non-executive directors is determined by the Board on the recommendations of the Chairman and Chief Executive (save that the Chairman does not participate in the consideration of his own fees).

Directors' remuneration and interests

The following tables and notes set out details of the directors' remuneration and interests as at 31 December 1998 and form part of this report.

On behalf of the Board

Nicholas Barber Chairman, Remuneration Committee
10 March 1999

Directors' remuneration	1998 £'000	1997 £'000
Emoluments	**1,543**	1,580
Amounts receivable under long term incentive schemes	**193**	191
Money purchase pension contributions	**85**	57
Total remuneration	**1,821**	1,828

Emoluments by individual director

The emoluments of all directors during 1998 were as follows:

	Basic salary/fees 1998 £'000	Basic salary/fees 1997 £'000	**Benefits 1998 £'000**	Benefits 1997 £'000	**Performance related bonus 1998 £'000**	Performance related bonus 1997 £'000	Total emoluments **1998 £'000**	1997 £'000
Executive								
J R Adsetts (retired 31.5.98)	**83**	148	**7**	8	**–**	13	**90**	169
G I Black (retired 31.12.98)[a]	**180**	162	**13**	14	**–**	15	**193**	191
G C M Kow (appointed 1.6.97)[b]	**262**	266	**36**	55	**–**	38	**298**	359
K Lever	**185**	175	**17**	19	**–**	25	**202**	219
P F Rocheleau[b]	**298**	209	**277**	22	**–**	25	**575**	256
R C Paul (retired 31.7.97)	**–**	178	**–**	13	**–**	10	**–**	201
Non-executive Chairman								
Sir Christopher Benson[c]	**110**	110	**–**	–	**–**	–	**110**	110
Non-executive								
N C F Barber	**25**	25	**–**	–	**–**	–	**25**	25
M F Garner	**25**	25	**–**	–	**–**	–	**25**	25
H Lottig	**25**	25	**–**	–	**–**	–	**25**	25
	1,193	1,323	**350**	131	**–**	126	**1,543**	1,580

Notes

(a) In addition to the emoluments shown, Ian Black received a termination payment of £257,108 in accordance with the terms of his service contract.

(b) Benefits include overseas allowances in respect of Gabriel Kow and Paul Rocheleau; in particular they include the payment of expenses and costs incurred totalling £200,000 in respect of Mr Rocheleau's relocation to the UK from the USA upon his appointment as Chief Executive.

(c) Sir Christopher Benson's fees include a contribution of £20,000 (1997: £20,000) towards his office and related costs.

(d) The emoluments represent sums earned during the year, irrespective of when paid. No payments were made to directors in 1998 in respect of the annual bonus scheme.

Remuneration report

Directors' pension benefits

	Accumulated total accrued pension at 31.12.97 £'000	Increase in accrued pension during the period £'000	**Accumulated total accrued pension at 31.12.98 £'000**	Transfer value of the increase in accrued pension during the period £'000	Amounts paid in respect of other arrangements	
					1998 £'000	1997 £'000
J R Adsetts (c)	47	4	**53**	79	**–**	–
G I Black (c)	66	11	**79**	400	**–**	–
G C M Kow (d)	–	–	**–**	–	**25**	14
K Lever (d)	–	–	**–**	–	**44**	26
P F Rocheleau (e)	17	12	**29**	60	**–**	–

Notes

(a) The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year. The increase in accrued pension during the year excludes any increase for inflation.

(b) The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11.

(c) John Adsetts and Ian Black are participants in the Albright & Wilson Senior Executive Pension Fund (SEPF) which provides for a pension on retirement, life assurance cover for death in service, ill-health pension and spouse's pension on death. The SEPF is a non-contributory scheme. Members of the SEPF have the option to pay additional voluntary contributions to secure additional pension benefits: additional voluntary contributions and the resulting benefits are not included in the above table.

Dr Adsetts retired on 31 May 1998. The accumulated total accrued pension shown is that earned up to his retirement date and the increase in his accrued pension takes account of his retirement at a date later than that which he could have retired as of right, without a reduction in benefits.

Mr Black's pension entitlement shown above is his entitlement at retirement on 31 December 1998. The transfer value shown for Mr Black includes an amount of £225,000 which relates to the preservation of his base pension at an agreed level on the termination of his contract in connection with which the Company made an additional payment of £119,000 to the SEPF.

Mr Black's entitlement is enhanced by the proceeds of a supplementary money purchase account under the SEPF which had a balance of £360,000 at 31 December 1998 (1997: £325,000), including accumulated interest. Company contributions amounting to £16,000 were made during the year into the supplementary account (1997: £17,000).

(d) Gabriel Kow and Ken Lever each receive a pension allowance of 12.5% and 25% respectively of their salaries to enable them to contribute to approved pension arrangements. Mr Lever is also entitled to death-in-service benefits from the SEPF up to the Inland Revenue cap with the balance administered through an independent trustee. Mr Lever receives no other benefits from that fund.

(e) Paul Rocheleau's benefits are accrued as a member of the Retirement Plan and the Supplemental Executive Retirement Plan for Albright & Wilson Americas Inc. The former plan is available to all staff employees in the USA, providing a pension based on 1.46% of pensionable salary for each year of service up to a maximum of 35 years. Under US law the pensionable salary is limited to a specified maximum value. The supplemental scheme is an insured money purchase scheme that allows contributions to be made in recognition of that part of Mr Rocheleau's salary that exceeds the specified maximum value. In the absence of a transfer basis in these US pension plans, the present value of the increase in the accrued plan benefits are shown for Mr Rocheleau on the basis of actuarial assumptions to reflect the time value of money and the probability of payment. Mr Rocheleau, the highest paid director, is not entitled to any accrued lump sum benefit under either of the above pension plans.

Directors' long term incentive awards

	Shares awarded as at 1.1.98	During the year			Outstanding as at 31.12.98	Release dates	Value of shares released	
		Awarded	Released	Cancelled			1998 £'000	1997 £'000
G I Black (retired 31.12.98)[a]	82,416	20,000	(19,083)	–	**83,333**	14.3.99 – 23.4.02	**33**	32
G C M Kow	20,000	20,000	–	–	**40,000**	20.9.01 – 23.4.02	–	–
K Lever	40,000	25,000	–	–	**65,000**	8.11.99 – 23.4.02	–	–
P F Rocheleau	195,291	30,000	(28,625)	–	**196,666**	14.3.99 – 20.9.02	**49**	48
Former directors								
J R Adsetts (retired 31.5.98)[a]	86,958	–	(68,625)	(18,333)	–	–	**111**	32
R C Paul (retired 31.7.97)	–	–	–	–	–	–	–	79
Total	424,665	95,000	(116,333)	(18,333)	**384,999**		**193**	191

Note

(a) In cases of retirement, the trustee may exercise its discretion and release all or part of a participant's outstanding awards. Ian Black's awards totalling 83,333 shares may therefore be released on or after 14 March 1999.

Directors' shareholdings

	Interests in ordinary shares at 31.12.98	Interests in ordinary shares at 1.1.98
Executive		
G I Black (retired 31.12.98)	**56,414**	37,250
G C M Kow	**25,000**	–
K Lever	**9,398**	4,398
P F Rocheleau	**105,791**	52,166
Non-executive		
N C F Barber	**15,000**	15,000
Sir Christopher Benson	**150,000**	100,000
M F Garner	**5,000**	5,000
H Lottig	**3,333**	3,333

The shareholdings shown comprise the directors' beneficial interests in the ordinary shares of the Company. The executive directors, as potential beneficiaries under the Company's Restricted Share Award Scheme, are each also deemed to be interested in the 2,165,853 Albright & Wilson plc ordinary shares held by the trustee for the Albright & Wilson plc Employees' Benefit Trust.

No director had a non-beneficial interest in the shares of the Company during the year or between 1 January 1999 and 25 February 1999. There has been no change in any of the interests shown between 1 January and 25 February 1999.

Remuneration report

Directors' share options

	1.1.98	Granted (a)	Granted date	Option price	31.12.98	Date from which exercisable	Expiry date	Weighted average option price
	Ordinary shares under option							
G I Black (d)	289,005							
		100,000*	16.4.98	180p				
					80,000 (b)	17.2.98	16.2.05	150p
					309,005	25.4.99	15.4.05	169p
Total	289,005	100,000			389,005 (d)			
G C M Kow	–							
		250,000*	16.4.98	180p				
		100,000*	22.10.98	80p				
					350,000	16.4.01	21.10.05	151p
Total	–	350,000			350,000			
K Lever	247,375							
		120,000*	16.4.98	180p				
		100,000*	22.10.98	80p				
					150,000 (b)	8.11.98	7.11.05	153p
					317,375	27.3.00	21.10.05	138p
Total	247,375	220,000			467,375			
P F Rocheleau (c)	296,800							
		250,000*	16.4.98	180p				
		125,000*	22.10.98	80p				
		13,269**	9.4.98	130p				
					80,000 (b)	17.2.98	16.2.02	150p
					605,149	25.4.99	21.10.05	153p
Total	296,880	388,269			685,149			

Notes

(a) Options are held under the Albright & Wilson plc Executive Share Option Schemes and the Albright & Wilson plc Sharesave Scheme. Option grants marked * above were made under the Executive Share Option (No. 2) Scheme and are exercisable between 2001 and 2005 The grant marked ** above was made under the Sharesave Scheme and is exercisable from 1 June 2003 to 30 November 2003.

(b) Performance criteria fulfilled; exercise price exceeds market price at 31 December 1998.

(c) Paul Rocheleau has additional interests in the shares of the Company by way of a total holding of 14,660 notional share units through his participation in the 1995 Flotation Award Plan and the Americas Sharesave Plan pursuant to which he may realise any appreciation in the Company's share price during the life of the schemes.

(d) Former directors

Michael Winstanley – retired 31 August 1996: exercised 160,000 shares under option at 150p per share on 9 March 1998. The middle market price at that date was 172½p and the gain on exercise was £36,000.

Robin Paul – retired 31 July 1997: 366,666 shares under option at 150p per share lapsed on 17 August 1998.

John Adsetts – retired 31 May 1998, a total of 187,000 shares under option, at an option price of 150p per share. These options are exercisable, subject to the attainment of the relevant performance criteria, until 31 May 1999; 110,000 shares under option have been exercisable since February 1998.

Ian Black – retired 31 December 1998: a total of 380,880 shares under option with a weighted average option price of 166p per share. These options are exercisable, subject to the attainment of the relevant performance criteria, until 31 December 1999; 80,000 shares under option have been exercisable since February 1998. Mr Black's 8,125 shares under option granted pursuant to the Sharesave Scheme lapsed at his instruction on 31 December 1998.

(e) A summary of the performance criteria attached to the options set out above is on page 22 of this Remuneration Report.

(f) On 30 December 1998 (the last trading day of the year) the share price was 64¼p per share and the range during the year was 191¼p to 64¼p.

(g) The Company's Register of Directors' Interests, which is open to inspection at the registered office, contains full details of directors' shareholdings and share options

Statement of directors' responsibilities and auditors' report

Statement of directors' responsibilities

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 and cash flows for that period. In preparing these financial statements the directors are required to:

- select appropriate accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company and Group will continue in business.

The directors are responsible for ensuring that the Group maintains proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Auditors' report

To the shareholders of Albright & Wilson plc

We have audited the accounts on pages 28 to 45 which have been prepared under the historical cost convention and the accounting policies set out on page 31. We have also examined the amounts disclosed relating to the emoluments, share options, long-term incentive scheme interests and pension benefits of the directors which form part of the remuneration report on pages 22 to 26.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described above, the accounts. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, 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 or the Listing Rules regarding directors' remuneration and transactions with the Company and the Group is not disclosed.

We review whether the statement on page 19 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Company's corporate governance procedures or its internal contr[illegible]

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group at 31 December 1998 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen Arthur Andersen
Chartered Accountants and Registered Auditors

1 Victoria Square
Birmingham B1 1BD

10 March 1999

Consolidated profit and loss account

For the year ended 31 December 1998

	Notes	1998 Before exceptional items £m	1998 Exceptional items (note 5) £m	1998 Total £m	1997 Before exceptional items £m	1997 Exceptional items (note 5) £m	1997 Total £m
Turnover		**814.9**	**–**	**814.9**	784.9	–	784.9
Less: share of joint ventures' sales	2	**(55.5)**	**–**	**(55.5)**	(89.6)	–	(89.6)
share of associates' sales	2	**(29.1)**	**–**	**(29.1)**	(30.1)	–	(30.1)
Group turnover	1	**730.3**	**–**	**730.3**	665.2	–	665.2
Cost of sales		**(620.5)**	**(6.8)**	**(627.3)**	(557.8)	(23.0)	(580.8)
Gross profit		**109.8**	**(6.8)**	**103.0**	107.4	(23.0)	84.4
Other operating expenses, net	3	**(63.8)**	**(1.1)**	**(64.9)**	(58.4)	(1.8)	(60.2)
Group operating profit		**46.0**	**(7.9)**	**38.1**	49.0	(24.8)	24.2
Share of net operating profit (loss) in							
Joint ventures	2	**10.6**	**–**	**10.6**	16.7	–	16.7
Associates	2	**3.1**	**–**	**3.1**	2.7	(3.0)	(0.3)
		13.7	**–**	**13.7**	19.4	(3.0)	16.4
Total operating profit		**59.7**	**(7.9)**	**51.8**	68.4	(27.8)	40.6
Loss on sale of operations	15	**–**	**–**	**–**	–	(1.1)	(1.1)
Profit before interest		**59.7**	**(7.9)**	**51.8**	68.4	(28.9)	39.5
Interest receivable and similar income	6	**2.7**	**7.9**	**10.6**	1.5	–	1.5
Interest payable and similar charges	6	**(14.1)**	**–**	**(14.1)**	(9.3)	–	(9.3)
Profit on ordinary activities before taxation		**48.3**	**–**	**48.3**	60.6	(28.9)	31.7
Taxation	8	**(14.0)**	**–**	**(14.0)**	(17.8)	1.5	(16.3)
Profit on ordinary activities after taxation		**34.3**	**–**	**34.3**	42.8	(27.4)	15.4
Equity minority interests	26	**(0.5)**	**–**	**(0.5)**	(0.6)	–	(0.6)
Profit for the financial year		**33.8**	**–**	**33.8**	42.2	(27.4)	14.8
Dividends	10	**(22.3)**	**–**	**(22.3)**	(22.3)	–	(22.3)
Retained profit (loss) for the year	25	**11.5**	**–**	**11.5**	19.9	(27.4)	(7.5)
Basic earnings per share	11			**10.8p**			4.7p
Diluted earnings per share	11			**10.8p**			4.7p
Adjusted earnings per share	11			**10.8p**			13.5p
Dividends declared per share	10			**7.15p**			7.15p

Statement of recognised gains and losses and reconciliation of movements in shareholders' funds

For the year ended 31 December 1998

	1998 £m	1997 £m
Profit for the financial year (note 1)	**33.8**	14.8
Exchange adjustments on foreign currency net investments	**1.1**	(12.5)
Total recognised gains and losses relating to the year	**34.9**	2.3
Dividends – paid and proposed	**(22.3)**	(22.3)
Issue of shares	**0.5**	–
Goodwill:		
– acquisition of subsidiary undertakings	**(1.3)**	(10.1)
– purchase of business	**(0.4)**	(1.9)
– disposal of subsidiary undertakings	**–**	0.7
Net increase (decrease) in shareholders' funds	**11.4**	(31.3)
Opening shareholders' funds	**320.5**	351.8
Closing shareholders' funds	**331.9**	320.5

Consolidated cash flow statement

For the year ended 31 December 1998

	Notes	1998 £m	1998 £m	1997 £m	1997 £m
Net cash inflow from operating activities	12		63.0		35.3
Dividends received from joint ventures		9.3		9.9	
Dividends received from associates		0.6		0.1	
Dividends from joint ventures and associates			9.9		10.0
Interest received		2.8		1.2	
Interest paid		(12.0)		(4.5)	
Returns on investments and servicing of finance			(9.2)		(3.3)
UK corporation tax paid		(4.9)		(4.5)	
Overseas tax paid		(9.6)		(2.0)	
Tax paid			(14.5)		(6.5)
Purchase of tangible fixed assets		(51.1)		(60.2)	
Purchase of own shares		–		(2.5)	
Proceeds from sale of tangible fixed assets		2.8		0.4	
Proceeds from disposal of fixed asset investment		8.5		–	
Capital expenditure and financial investment			(39.8)		(62.3)
Purchase of subsidiary undertakings	14	(22.0)		(17.6)	
Purchase of other business		–		(5.5)	
Proceeds from sale of operations	15	–		3.8	
Acquisitions and disposals			(22.0)		(19.3)
Equity dividends paid			(22.3)		(21.9)
Net cash outflow before financing			(34.9)		(68.0)
Issue of shares	24	0.5		–	
New loans		7.2		88.3	
Repayment of loans		(1.0)		(41.3)	
Financing			6.7		47.0
Decrease in cash in the year			(28.2)		(21.0)

Reconciliation of net cash flow to movement in net debt

	Notes	1998 £m	1997 £m
Decrease in cash		(28.2)	(21.0)
Repayment of loans		1.0	41.3
New loans		(7.2)	(88.3)
Loans acquired with acquisition		–	(12.0)
Exchange adjustment		2.6	(0.5)
Movement in net debt		(31.8)	(80.5)
Net debt at beginning of year	13	(116.2)	(35.7)
Net debt at end of year	13	(148.0)	(116.2)

Balance sheets

As at 31 December 1998

	Notes	Group 1998 £m	Group 1997 £m	Company 1998 £m	Company 1997 £m
Fixed assets					
Intangible assets	16	**11.6**	0.2	–	–
Tangible assets	17	**382.9**	362.1	–	–
Investments in joint ventures:	18	**23.6**	25.7	–	–
Share of gross assets		**40.1**	42.4		
Share of gross liabilities		**(16.5)**	(16.7)		
Investments in associates	18	**9.9**	7.8	–	–
Other investments	18	**4.6**	5.0	**275.4**	391.0
		432.6	400.8	**275.4**	391.0
Current assets					
Stocks	19	**102.4**	109.4	–	–
Debtors falling due within one year	20	**149.5**	153.2	**192.9**	40.7
Debtors falling due after more than one year	20	**3.9**	6.3	–	–
Cash at bank and in hand		**13.1**	8.4	–	–
		268.9	277.3	**192.9**	40.7
Creditors: amounts falling due within one year	21	**(199.7)**	(180.8)	**(65.0)**	(22.1)
Net current assets		**69.2**	96.5	**127.9**	18.6
Total assets less current liabilities		**501.8**	497.3	**403.3**	409.6
Creditors: amounts falling due after more than one year	22	**(145.2)**	(135.1)	–	(16.9)
Provisions for liabilities and charges	23	**(2[illegible].1)**	(27.1)	**(1.3)**	(1.3)
Net assets	1	**333.5**	335.1	**402.0**	391.4
Capital and reserves					
Called-up share capital	24	**78.5**	78.4	**78.5**	78.4
Share premium account	25	**117.1**	116.7	**117.1**	116.7
Capital reserves	25	**35.7**	35.7	**35.7**	35.7
Profit and loss account	25	**100.6**	89.7	**170.7**	160.6
Equity shareholders' funds		**331.9**	320.5	**402.0**	391.4
Equity minority interests	26	**1.6**	14.6	–	–
		333.5	335.1	**402.0**	391.4

Signed on behalf of the Board

Paul Rocheleau Chief Executive
Ken Lever Finance Director

10 March 1999

Accounting policies

For the year ended 31 December 1998

Basis of accounting
The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards. A summary of the significant accounting policies, all of which have been consistently applied, is set out below.

Restatement of prior year turnover
We have restated turnover figures to ensure the consistent reporting of insurance and freight costs recharged to customers and, in complying with FRS9 (see below), we have disclosed the Group's share of external sales of joint ventures and associates. The resultant reduction of previously published turnover figures amounted to £56.6 million in the year ended 31 December 1997.

Compliance with new UK accounting standards
In 1998 we adopted four new UK accounting standards:

- FRS9, like its predecessor, requires equity accounting to be used for associates and joint ventures, and expands the related disclosure requirements. Adopting FRS9 has had no impact on the reported profit.
- FRS10 requires purchased goodwill to be shown as an asset on the balance sheet and amortised over its useful economic life. The impact of FRS10 on the results for the year is set out in note 14.
- FRS11 requires the carrying amount of a fixed asset to be compared with its recoverable amount, defined as the higher of net realisable value and value in use. If the carrying amount exceeds the recoverable amount, the asset is impaired and should be written down. Asset impairment write-downs are shown in note 5.
- FRS14 clarifies the rules for calculating earnings per share. This has resulted in a minor restatement of the previously reported earnings per share for 1997 (see note 11).

Basis of consolidation
The consolidated financial statements include the accounts of Albright & Wilson plc and its subsidiary undertakings made up to 31 December. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed.

Goodwill arising on acquisition[illegible]epresenting the excess of the fair value of purchase consid[illegible] over the fair value of the separable net assets acquired[illegible]italised and amortised over 20 years. Previously it was writ[illegible]off against reserves in the year of acquisition and has not been [illegible]capitalised but will be written back to the profit and loss account if the business concerned is sold.

In the Company's balance sheet, investments in subsidiary undertakings are shown at cost less, where necessary, a provision for any diminution in value. Dividends received and receivable are credited to the Company's profit and loss account.

Joint ventures and associates
Investments in joint ventures and associates are accounted for in the consolidated financial statements using the equity method. The Group's share of the profits less losses of joint ventures and associates is included in the consolidated profit and loss account. Its equity interest in their net assets is included as an investment in the consolidated balance sheet.

Tangible fixed assets
Tangible fixed assets, except freehold land, are depreciated on a straight line basis over their estimated useful lives as follows: freehold buildings (40 years), leasehold land and buildings (40 years or term of lease if shorter) and plant and machinery (5 to 15 years).

Foreign currency translation
Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Assets and liabilities denominated in foreign currencies at the year end are converted using year end rates or, if appropriate, the forward contract rate. Exchange differences are included in the profit and loss account.

Results of overseas operations are translated into sterling at the average rates of exchange during the year and their balance sheets at year end rates of exchange. Gains or losses arising on the translation of opening net assets and results of overseas operations, net of gains or losses related to foreign currency borrowings or other instruments to the extent they hedge the Group's investment in such operations, are dealt with through reserves.

Turnover
Turnover comprises sales to external customers, excluding VAT and similar taxes, returns and allowances.

Research and development
Research and development expenditure is charged against profit in the year in which it is incurred.

Stocks
Stocks are stated at the lower of cost and net realisable value.

Deferred taxation
Deferred taxation is provided where timing differences between profits computed for taxation purposes and profits stated in the financial statements are likely to reverse in the foreseeable future. Advance corporation tax is carried forward to the extent it is expected to be recovered.

Pensions and other post-retirement benefits
The expected cost of pensions in respect of the Group's defined benefit pension schemes is charged to the profit and loss account so as to spread the cost of providing pensions over the period during which the Group benefits from employees' services in accordance with the advice of independent actuaries. The effects of variations from regular cost are spread over the expected average remaining service lives of members of the scheme. The cost of foreign pension schemes is determined in accordance with local practice and statutory requirements.

The costs of other post-retirement benefits are assessed in accordance with the advice of independent actuaries.

Environmental liabilities
The Group is exposed to environmental liabilities relating to its past operations principally in respect of site remediation costs. Provisions are made for estimated remediation costs for both operating and non-operating plants when the directors determine that it is probable that a liability exists and when the cost can be reasonably estimated within a range of possible outcomes.

Notes to the financial statements

For the year ended 31 December 1998

1 Segment information: Group

	Group turnover		Operating profit before exceptional items		Operating exceptional items		Net operating assets	
	1998 £m	1997 £m	1998 £m	1997 £m	1998 £m	1997 £m	1998 £m	1997 £m
By class of business								
Phosphates	**266.1**	215.2	**31.2**	32.0	**(0.9)**	(16.1)	**268.1**	236.4
Surfactants	**277.2**	250.7	**18.0**	17.6	**(1.4)**	(8.3)	**132.3**	127.4
Phosphorus Derivatives & Acrylics	**187.0**	199.3	**15.5**	22.7	**(3.5)**	(1.9)	**137.6**	140.8
Corporate costs	–	–	**(5.0)**	(3.9)	**(2.1)**	(1.5)	**1.7**	2.9
	730.3	665.2	**59.7**	68.4	**(7.9)**	(27.8)	**539.7**	507.5
By geographical origin								
United Kingdom	**241.3**	253.8	**10.7**	24.6	**(3.4)**	(19.4)	**222.4**	201.1
Continental Europe	**195.2**	178.7	**14.4**	12.5	**–**	(0.9)	**57.2**	52.2
Americas	**243.9**	176.8	**26.1**	21.4	**(4.2)**	(4.5)	**221.7**	216.0
Asia Pacific	**49.9**	55.9	**8.5**	9.9	**(0.3)**	(3.0)	**38.4**	38.2
	730.3	665.2	**59.7**	68.4	**(7.9)**	(27.8)	**539.7**	507.5
By geographical destination								
United Kingdom	**160.6**	168.3						
Continental Europe	**224.4**	211.6						
Americas	**246.3**	182.9						
Asia Pacific	**73.4**	82.2						
Rest of the World	**25.6**	20.2						
	730.3	665.2						

All of the above results are attributable to continuing operations.

Reconciliation of net operating assets to net assets:

	1998 £m	1997 £m
Net operating assets	**539.7**	507.5
Taxation	**(23.0)**	(24.3)
Dividends proposed	**(15.0)**	(15.0)
Deferred consideration for acquisition of subsidiary undertaking	**(20.2)**	(16.9)
Net borrowings	**(148.0)**	(116.2)
Net assets	**333.5**	335.1

The profit for the financial year of £33.8 million (1997: £14.8 million) comprises: Group £23.0 million (1997: £6.0 million), joint ventures £9.2 million (1997: £11.1 million) and associates £1.6 million (1997: £2.3 million loss).

2 Segment information: Joint ventures and associates

	Turnover		Operating profit		Net assets	
	1998 £m	1997 £m	1998 £m	1997 £m	1998 £m	1997 £m
Joint ventures						
By class of business						
Phosphates	**37.9**	71.5	**9.4**	15.3	**19.0**	20.5
Surfactants	**17.6**	18.1	**1.2**	1.4	**4.6**	5.2
	55.5	89.6	**10.6**	16.7	**23.6**	25.7
By geographical origin						
Americas	**26.2**	55.6	**8.6**	14.5	**16.6**	18.0
Asia Pacific	**29.3**	34.0	**2.0**	2.2	**7.0**	7.7
	55.5	89.6	**10.6**	16.7	**23.6**	25.7

The principal reason for the change in joint ventures' turnover and operating profit between 1997 and 1998 is due to the transfer of A&W Troy from joint venture to subsidiary status in October 1997.

2 Segment information: Joint ventures and associates

By class of net assets employed (joint ventures)	1998 £m	1997 £m
Fixed assets	**25.3**	27.1
Current assets	**14.8**	15.3
Liabilities due within one year	**(14.3)**	(12.0)
Liabilities due after more than one year	**(2.2)**	(4.7)
Net assets employed	**23.6**	25.7

	Turnover		Operating profit		Exceptional items	
	1998 £m	1997 £m	1998 £m	1997 £m	1998 £m	1997 £m
Associates						
By class of business						
Phosphates	**14.6**	13.6	**2.1**	1.4	–	(1.5)
Surfactants	**13.8**	15.7	**1.0**	1.0	–	(1.5)
Phosphorus Derivatives & Acrylics	**0.7**	0.8	–	0.3	–	–
	29.1	30.1	**3.1**	2.7	–	(3.0)
By geographical origin						
Continental Europe	**4.5**	1.9	**0.1**	0.1	–	–
Asia Pacific	**24.6**	28.2	**3.0**	2.6	–	(3.0)
	29.1	30.1	**3.1**	2.7	–	(3.0)

3 Other operating expenses, net

	1998 £m	1997 £m
Distribution and selling costs	**37.1**	33.2
Administrative expenses	**31.4**	29.8
Other operating income	**(3.6)**	(2.8)
	64.9	60.2

4 Total operating profit

Total operating profit is stated after charging:

	1998 £m	1997 £m
Exceptional costs (note 5)	**7.9**	27.8
Research and development expenditure	**8.2**	8.6
Depreciation of tangible fixed assets		
– owned	**27.4**	22.1
– held under finance leases	**0.4**	0.4
Operating lease rentals		
– plant and machinery	**1.0**	1.2
– other	**2.9**	1.3

Auditors' remuneration was £0.7 million (1997: £0.6 million) for audit services and £0.8 million (1997: £0.8 million) for non-audit services.

Notes to the financial statements

5 Exceptional items

	1998 £m	1997 £m
Asset impairment and stock valuation changes	4.6	18.9
Redundancy	1.2	5.4
Environmental remediation	1.0	3.5
Due diligence costs	1.1	–
	7.9	27.8

The exceptional items charged to cost of sales in 1998 comprise the write-off of non-performing assets and provisions for redundancy and environmental remediation costs. Due diligence costs incurred in connection with aborted acquisitions have been charged to other operating expenses.

During the year the Group simplified its financial affairs by unwinding a long-term financing arrangement. As part of this arrangement, the Group had made a financial investment with a bank which, in accordance with FRS5, was offset against the Group's borrowings from the same bank. On unwinding the arrangement, the Group realised a gain of £7.9 million in disposing of this investment as a result of the movement in interest rates from the time the investment was made. This gain is shown as an exceptional item under the interest receivable and similar income' heading.

The above items had no net effect on the Group's tax charge or on equity minority interests.

Exceptional charges in 1997 comprised asset impairment charges and redundancy costs following a strategic review of the Group's operations, together with environmental remediation costs and stock valuation changes.

6 Interest

	1998 £m	1997 £m
Interest receivable and similar income:		
Short term loans and deposits	2.7	1.2
Associates	–	0.3
	2.7	1.5
Gain on disposal of financial investment (see note 5)	7.9	–
	10.6	1.5
Interest payable and similar charges:		
Bank overdrafts and other loans	(12.5)	(4.8)
Joint ventures	(0.6)	(2.2)
Associates	(0.7)	(0.8)
Share of Far Eastern exchange losses	(0.3)	(1.5)
	(14.1)	(9.3)

7 Employee information

	1998 £m	1997 £m
Wages and salaries	107.7	98.9
Social security costs	10.2	9.8
Pensions	9.9	8.2
	127.8	116.9

Average number employed:

	1998 Number	1997 Number
Production	3,941	3,475
Selling and distribution	430	362
Administration	779	691
	5,150	4,528

The increase in employee numbers in 1998 was primarily due to the inclusion of A&W Troy for the full year.

Details of the emoluments of the directors are shown in the Remuneration Report on pages 22 to 26 and form part of these audited financial statements.

7 Employee information

	1998 £m	1997 £m
UK schemes:		
– regular cost	**7.8**	6.4
– variation from regular cost	**(1.3)**	(1.8)
	6.5	4.6
Overseas schemes	**3.4**	3.6
Total pension cost	**9.9**	8.2

The pension costs for the UK relate to two funded defined benefit schemes, one of which applies specifically to senior executives. The 1998 pension cost was based upon an interim review carried out by the Group's independent actuaries as of 31 March 1998 on the market valuation basis using SSAP24 accounting assumptions. The most recent formal triennial valuation was carried out as of 31 March 199[illegible]

The principal assumptions used for accounting purposes are that the long-term rate of return on investments will exce[illegible] (i) the average annual increase in total pensionable payroll by 2.50% and (ii) the average annual increase in present and future pension payments by 3.75%.

Using the market valuation approach, the actuarial value of the principal scheme at 31 March 1998 was sufficient to cover 92% of the benefits that had accrued to members on the funding basis and 101% on the accounting basis. The past service deficit on the funding basis identified as at 31 March 1998 was £31 million; accordingly, the contribution rate to the scheme has been increased from 1999 onwards

The market value of the schemes' assets at 31 March 1996 was £327 million.

An amount of £16.3 million for the Group (1997: £14.1 million) is included in creditors due within and after one year, being the excess of accrued pension costs over the contributions paid.

[illegible] Numerous overseas schemes exist, each of which is small in comparison with the principal UK scheme.

A prepayment of £2.3 million (1997: £2.4 million) is included within prepayments, being the excess of the amount funded over the accumulated pension cost of the Group's Canadian and American schemes.

[illegible] The Group operates a number of private medical insurance schemes which carry benefits into retirement. The main benefits of the schemes are the refund of medical expenses up to a maximum benefit limit per person in any one subscription year. Approximately 150 employees are eligible to receive these benefits. The projected past service liability for these post-retirement benefits is £3.5 million (1997: £3.5 million), which is included within provisions for liabilities and charges (note 23).

8 Taxation

The tax charge is based on the profit for the year and comprises:

	1998 £m	1997 £m
UK corporation tax	**24.7**	7.1
Double taxation relief	**(2.4)**	(1.8)
ACT written back	**(14.7)**	–
	7.6	5.3
Overseas taxation	**4.2**	6.8
Deferred taxation	**0.8**	2.3
Joint ventures	**0.2**	2.8
Associates	**1.2**	0.6
Tax on exceptional items	**–**	(1.5)
Total tax charge	**14.0**	16.3

Had the Group provided in full for deferred taxation, the tax charges shown above would have been higher (lower) as follows, prior to any allowance for additional ACT recoverable:

	1998 £m	1997 £m
Additional deferred tax charge (credit)	**0.9**	(2.6)

9 Profit attributable to Albright & Wilson plc

The profit for the financial year dealt with in the accounts of Albright & Wilson plc was £32.4 million (1997: £50.6 million). As provided by Section 230 of the Companies Act 1985, no profit and loss account is presented in respect of Albright & Wilson plc.

Notes to the financial statements

10 Dividends paid and proposed

	1998 £m	1997 £m
Interim paid of 2.35p per share (1997: 2.35p)	7.3	7.3
Final proposed of 4.80p per share (1997: 4.80p)	15.0	15.0
	22.3	22.3

The 1997 final dividend and 1998 interim dividend were paid as FIDs.

11 Earnings per share

The earnings and weighted average number of shares used in the calculation of earnings per share were as follows:

	1998	1997
Basic earnings (£m)	33.8	14.8
Diluted earnings (£m)	33.8	14.8
Adjusted earnings (£m)	33.8	42.2
Number of shares used to calculate basic earnings per share (million)	311.5	311.6
Number of shares used to calculate diluted earnings per share (million)	311.5	312.8

The number of shares represents the number of ordinary shares in issue, less the ordinary shares held by the trustee of the Albright & Wilson plc Employees' Benefit Trust on which dividends have been waived.

Adjusted earnings per share are based on the profit for each financial year before all exceptional items. The earnings per share and adjusted earnings per share are reconciled as follows:

	1998	1997
Basic earnings per share	10.8p	4.7p
Effect of exceptional items (credited) charged after operating profit	(2.5)p	0.4p
Effect of exceptional items charged in arriving at operating profit	2.5p	8.9p
Taxation effect of exceptional items	–	(0.5)p
Adjusted earnings per share	10.8p	13.5p

Adoption of the new accounting standard, FRS14, has resulted in the basic and adjusted earnings per share for 1997 being restated from the previously reported 4.8p and 13.6p respectively.

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

	1998 £m	1997 £m
Total operating profit from continuing operations	51.8	40.6
Exceptional items charged to operating profit	7.9	27.8
	59.7	68.4
Operating profit of joint ventures and associates	(13.7)	(19.4)
Depreciation and amortisation charges	28.2	22.4
Loss on sale of tangible fixed assets	–	1.0
Decrease (increase) in stocks	5.8	(18.8)
Decrease (increase) in debtors	8.4	(15.7)
(Decrease) increase in creditors	(17.8)	7.2
Restructuring costs	(3.7)	(4.0)
Environmental remediation costs	(3.9)	(5.8)
Net cash inflow from operating activities	63.0	35.3

13 Analysis of net debt

	31 December 1997 £m	Cash flow £m	Exchange movements £m	**31 December 1998 £m**
Cash at bank and in hand	8.4	4.7	–	**13.1**
Overdrafts	(26.2)	15.2	–	**(11.0)**
	(17.8)	19.9	–	**2.1**
Creditors due within one year	(6.7)	(21.6)	0.5	**(27.8)**
Creditors due after more than one year	(91.7)	(32.7)	2.1	**(122.3)**
	(116.2)	(34.4)	2.6	**(148.0)**

14 Acquisitions

On 20 March 1998 the Group acquired the minority 25% shareholding in A&W Troy Grupo Industrial, SA de CV ("A&W Troy"), a Mexican holding company whose principal subsidiary is engaged in the manufacture of purified wet phosphoric acid and other phosphate based chemicals. A&W Troy has been accounted for as a subsidiary undertaking since 1 October 1997, when the Group increased its shareholding from 50% to 75%, having previously been accounted for as a joint venture.

The consideration for the investment was £22.0 million settled in cash. This gave rise to purchased goodwill of £8.5 million which is being amortised over 20 years. A contingent payment of US$5.4 million, due in 1999, has been accounted for in 1998, giving rise to an equivalent amount of goodwill. The amortisation charge in the period to December 1998 was £0.3 million.

On 11 February 1999 the Group acquired the remaining 51% shareholding in AWAT Thai Limited, an associate engaged in the manufacture of phosphate based chemcials and acrylics. The consideration paid was £1.5 million; after fair value adjustments, purchased goodwill is expected to be approximately £1 million.

15 Disposal of operations

No operations were disposed of in 1998. In 1997 cash proceeds of £3.8 million were received in respect of operations sold, giving rise to an exceptional loss of £1.1 million.

16 Intangible fixed assets

	Goodwill £m	Marketing rights £m	Total £m
Cost			
Beginning of year	–	0.4	0.4
Additions	11.8	–	11.8
End of year	**11.8**	**0.4**	**12.2**
Amortisation			
Beginning of year	–	0.2	0.2
Charge for year	0.3	0.1	0.4
End of year	**0.3**	**0.3**	**0.6**
Net book value			
Beginning of year	–	0.2	0.2
End of year	**11.5**	**0.1**	**11.6**

The Company had no intangible fixed assets at the beginning or end of the year

17 Tangible fixed assets

	Land and buildings £m	Plant and machinery £m	Assets under construction £m	Total £m
Cost				
Beginning of year	90.8	533.9	59.2	683.9
Additions	0.7	5.9	44.4	51.0
Disposals	–	(4.4)	–	(4.4)
Transfers	2.9	60.1	(63.0)	–
Exchange adjustment	0.2	1.1	(0.2)	1.1
End of year	**94.6**	**596.6**	**40.4**	**731.6**
Depreciation				
Beginning of year	27.8	294.0	–	321.8
Charge for year	2.5	25.3	–	27.8
Disposals	–	(1.8)	–	(1.8)
Exchange adjustment	0.4	0.5	–	0.9
End of year	**30.7**	**318.0**	**–**	**348.7**
Net book value				
Beginning of year	63.0	239.9	59.2	362.1
End of year	**63.9**	**278.6**	**40.4**	**382.9**

Land and buildings at cost:

	1998 £m	1997 £m
Freehold	**98.1**	92.1
Long leasehold (over 50 years)	**1.3**	2.2
Short leasehold	**1.2**	0.1
	100.6	94.4
Less land and buildings included in assets under construction	**(6.0)**	(3.6)
	94.6	90.8

Freehold land included in the above at £8.9 million (1997: £8.9 million) has not been depreciated.

Plant and equipment included amounts which were held under finance leases:

	1998 £m	1997 £m
Cost	**38.0**	39.1
Accumulated depreciation	**(37.5)**	(37.7)
Net book value	**0.5**	1.4

The Company had no tangible fixed assets at the beginning or end of the year.

18 Fixed asset investments

	Group 1998 £m	Group 1997 £m	Company 1998 £m	Company 1997 £m
Joint ventures	23.6	25.7	–	–
Associates	9.9	7.8	–	–
Subsidiary undertakings	–	–	272.5	387.8
Other investments	1.7	1.8	–	–
Own shares	2.9	3.2	2.9	3.2
	38.1	38.5	275.4	391.0

A list of the Group's principal subsidiary undertakings, joint ventures and associates is detailed below. Particulars of certain undertakings, none of which are material in relation to the Group's financial statements, are omitted and will be dealt with in the 1999 Annual Return. The principal activity of all undertakings listed below is the sale and/or manufacture of chemicals and allied products. The issued shares of the undertakings are ordinary shares (or equivalent thereto). The country shown is both the country of incorporation and the principal country of operation.

Country	Company	Percentage holding
Europe		
United Kingdom (registered in England and Wales)	Albright & Wilson UK Limited*	100%
France	Albright & Wilson Lavéra Sarl	100%
	Albright & Wilson Saint Mihiel SA	100%
Italy	Albright & Wilson Castiglione Srl	100%
	Albright & Wilson Patrica Srl	100%
Spain	Albright & Wilson Ibérica SA	100%
Americas		
USA	Albright & Wilson Americas Inc	100%
	Albright & Wilson Company **†	50%
Canada	Albright & Wilson Americas Limited	100%
Colombia	Productora Andina de Acidos y Derivados Limitada†	49%
Mexico	Albright & Wilson Troy de Mexico, SA de CV	100%
Asia Pacific		
Singapore	Albright & Wilson Asia Pacific Pte Ltd	100%
	Ethoxylates Manufacturing Pte Limited†	49%
Australia	Albright & Wilson (Australia) Limited†	50%
	Albright & Wilson Specialities Pty Ltd	100%
China	Hunan Resun-Albright & Wilson Industrial Company Limited†	50%
India	Albright & Wilson Chemicals India Limited	73%
Indonesia	PT Albright & Wilson Manyar†	50%
Philippines	Chemphil Albright & Wilson Corporation†	40%
Thailand	AWAT Thai Limited†	49%
	Thai Polyphosphates & Chemicals Company Limited	30%

* Direct subsidiary undertaking of Albright & Wilson plc.
** A Virginia General Partnership.
† Joint ventures and associates with which the Group traded during 1998.

[illegible] The Group's trading activities with these undertakings included: purchases of materials of £26.0 million (1997: £57.9 million) principally relating to purchases of purified phosphoric acid from Albright & Wilson Company; sales of materials of £18.5 million (1997: £15.6 million); and royalties and commissions paid of £2.1 million (1997: £1.8 million).

Notes to the financial statements

18 Fixed asset investments

	Joint ventures 1998 £m	Joint ventures 1997 £m	Associates 1998 £m	Associates 1997 £m
Cost, less goodwill written off	**5.3**	5.3	**4.2**	4.2
Share of retained profits, less losses and exchange adjustments since acquisition	**16.7**	17.9	**5.0**	2.9
	22.0	23.2	**9.2**	7.1
Loans to associated undertakings	**1.6**	2.5	**0.7**	0.7
	23.6	25.7	**9.9**	7.8

The movement on investments in joint ventures and associates was as follows:

	Joint ventures £m	Associates £m
Beginning of year	25.7	7.8
Movement in loans	(0.9)	–
Exchange adjustment	(1.1)	1.1
Share of profits less losses for the year	9.2	1.6
Dividends received	(9.3)	(0.6)
End of year	**23.6**	**9.9**

b Investments in subsidiary undertakings

	Company 1998 £m	Company 1997 £m
Investments in shares at cost	**263.9**	381.9
Loans to subsidiary undertakings	**8.6**	5.9
	272.5	387.8

The movement in the aggregate amount of the Company's total investment in subsidiary undertakings was as follows:

	Company 1998 £m	Company 1997 £m
Beginning of year	**387.8**	233.3
Acquisition	–	95.4
Additional investment	**0.8**	118.8
Revaluation of investments	–	58.5
Intra-group disposals and transfers	**(118.8)**	(59.7)
Movement in loans	**2.7**	(58.5)
End of year	**272.5**	387.8

c Other investments

	Group 1998 £m	Group 1997 £m
Beginning of year	**1.8**	2.2
Additions	–	0.1
Disposals	**(0.1)**	(0.5)
End of year	**1.7**	1.8

At the end of the year £1.4 million represented overseas listed investments (1997: £1.7 million).

18 Fixed asset investments

	Group and Company	
	1998 £m	1997 £m
Cost		
Beginning of year	3.8	1.7
Additions	–	2.5
Allocations	(0.3)	(0.4)
End of year	3.5	3.8
Amortisation		
Beginning of year	0.6	0.8
Charge for year	0.3	0.2
Allocations	(0.3)	(0.4)
End of year	0.6	0.6
Net book value		
Beginning of year	3.2	0.9
End of year	2.9	3.2

Investment in own shares comprises ordinary shares held by the trustee of the Albright & Wilson plc Employees' Benefit Trust. Dividends have been waived by the trust. The number and market value of the ordinary shares held by the trustee at 31 December 1998 were 2,165,853 (1997: 2,318,444) and £1.4 million (1997: £3.3 million) respectively.

19 Stocks

	1998 £m	1997 £m
Raw materials and consumables	17.9	24.6
Work-in-progress	3.5	2.1
Finished goods and goods for resale	74.0	73.1
Engineering stores	7.0	9.6
	102.4	109.4

20 Debtors

	Group		Company	
	1998 £m	1997 £m	1998 £m	1997 £m
Amounts falling due within one year				
Trade debtors	125.7	130.2	–	3.7
Amounts owed by subsidiary undertakings	–	–	186.8	34.3
Amounts owed by joint ventures and associates	4.4	4.1	–	–
Other debtors	16.1	13.8	5.7	2.0
Prepayments and accrued income	3.3	5.1	0.4	0.7
	149.5	153.2	192.9	40.7
Amounts falling due after more than one year				
Other debtors	1.3	3.7	–	–
Pension prepayment (note 7)	2.3	2.4	–	–
Prepayments and accrued income	0.3	0.2	–	–
	3.9	6.3	–	–
	153.4	159.5	192.9	40.7

21 Creditors: Amounts falling due within one year

	Group		Company	
	1998 £m	1997 £m	**1998 £m**	1997 £m
Bank overdrafts (unsecured)	**11.0**	26.2	**–**	–
Bank and other loans	**27.8**	6.7	**10.0**	–
Deferred consideration	**20.2**	–	**16.9**	–
Trade creditors	**73.7**	89.1	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**19.2**	6.7
Amounts owed to joint ventures and associates	**1.7**	2.2	**–**	–
Corporation tax payable	**14.0**	10.1	**3.3**	–
ACT payable on proposed dividend	**1.8**	5.6	**–**	–
Other taxation and social security	**3.9**	3.4	**–**	–
Proposed dividend	**15.0**	15.0	**15.0**	15.0
Pension accrual (note 7)	**5.5**	3.2	**–**	–
Accruals and deferred income	**25.1**	19.3	**0.6**	0.4
	199.7	180.8	**65.0**	22.1

22 Creditors: Amounts falling due after more than one year

	Group		Company	
	1998 £m	1997 £m	**1998 £m**	1997 £m
Bank and other loans	**122.3**	91.7	**–**	–
Deferred consideration	**–**	16.9	**–**	16.9
Pension accrual (note 7)	**10.8**	10.9	**–**	–
Accruals and deferred income	**12.1**	15.6	**–**	–
	145.2	135.1	**–**	16.9

Total loans due within and after one year are repayable as follows:

	Group		Company	
	1998 £m	1997 £m	**1998 £m**	1997 £m
Within one year:				
– bank overdrafts	**11.0**	26.2	**–**	–
– other loans	**27.8**	6.7	**10.0**	–
Between one and two years:				
– other loans	**0.2**	2.4	**–**	–
Between two and five years:				
– other loans	**94.8**	0.5	**–**	–
After five years:				
– other loans	**27.3**	88.8	**–**	–
	161.1	124.6	**10.0**	–

22 Creditors: Amounts falling due after more than one year

Bank and other loans comprised:

	Group 1998 £m	Group 1997 £m	Company 1998 £m	Company 1997 £m
Floating rate unsecured loans repayable in:				
– 1998	–	5.4	–	–
– 1999	**26.5**	–	**10.0**	–
– 2003	**94.4**	55.8	–	–
– 2004	**27.1**	32.5	–	–
Floating rate unsecured loan repayable in instalments ending in 1999	**1.0**	3.2	–	–
Other loans	**1.1**	1.5	–	–
	150.1	98.4	**10.0**	–

Interest on the floating rate loans varies between LIBOR +0.25% and LIBOR +0.35%.

23 Provisions for liabilities and charges

	Restructuring £m	Environmental remediation £m	Post-retirement benefits £m	Deferred tax £m	Group Total £m
Beginning of year	4.9	5.4	3.5	13.3	**27.1**
Reclassified from current assets and liabilities	0.5	0.3	–	–	**0.8**
Profit and loss account	1.2	1.0	0.1	0.8	**3.1**
Expenditure	(3.7)	(3.9)	–	–	**(7.6)**
Exchange adjustment	–	(0.3)	(0.1)	0.1	**(0.3)**
End of year	**2.9**	**2.5**	**3.5**	**14.2**	**23.1**

There was no movement in the year in the £1.3 million provision for post-retirement medical benefits held in the Company's accounts.

Deferred taxation

	1998 £m	1997 £m
Provided		
Tax effect of timing differences related to:		
– accelerated capital allowances	**14.2**	14.0
– other	–	0.7
ACT recoverable	–	(1.4)
	14.2	13.3
Not provided		
Tax effect of timing differences related to:		
– accelerated capital allowances	**26.2**	33.2
– other	**(2.7)**	(4.6)
ACT recoverable	–	(6.0)
	23.5	22.6

24 Called-up share capital

	Authorised 1998	Authorised 1997	Issued and fully paid 1998	Issued and fully paid 1997
Ordinary shares of 25p each (£'000)	**107,000**	107,000	**78,465**	78,387
Ordinary shares of 25p each (000's)	**428,000**	428,000	**313,861**	313,548

During the year the Company issued 312,889 ordinary shares (1997: 30,816) with a nominal value of £78,222 (1997: £7,704) for an aggregate consideration of £469,165 (1997: £41,020) in connection with the Albright & Wilson Executive Share Option and Sharesave Schemes.

At 31 December 1998 options were outstanding to subscribe for ordinary shares of 25p each as follows:

	Albright & Wilson Sharesave Scheme 000's	Albright & Wilson Executive Share Option Schemes 000's	Total 000's
Beginning of year	3,772	2,946	6,718
Granted	927	2,864	3,791
Exercised	(1)	(312)	(313)
Expired	(624)	(431)	(1,055)
End of year	4,074	5,067	9,141
Option price	120p – 146p	80p – 180p	
Earliest exercise date	September 1999	April 1999	
Final exercise date	November 2003	October 2008	

25 Reserves

	Non-distributable: Share premium account £m	Non-distributable: Capital reserves £m	Distributable: Profit and loss account £m
Beginning of year	116.7	35.7	89.7
Retained profit for the year	–	–	11.5
Currency translation adjustment	–	–	1.1
Issue of shares	0.4	–	–
Adjustments to goodwill written off in prior years	–	–	(1.7)
End of year	**117.1**	**35.7**	**100.6**

Adjustments to goodwill written off in prior years represent final fair value adjustments in respect of 1997 acquisitions. The cumulative amount of goodwill written off against reserves, net of goodwill relating to undertakings disposed of is £33.0 million (1997: £31.3 million).

	Non-distributable: Share premium account £m	Non-distributable: Capital reserves £m	Distributable: Profit and loss account £m
Beginning of year	116.7	35.7	160.6
Retained profit for the year	–	–	10.1
Issue of shares	0.4	–	–
End of year	**117.1**	**35.7**	**170.7**

26 Equity minority interests

	1998 £m	1997 £m
Beginning of year	**14.6**	1.5
Acquisition of subsidiary undertaking	**–**	12.6
Acquisition of remaining shareholding in subsidiary undertaking	**(14.2)**	–
Profit after taxation	**0.5**	0.6
Exchange adjustment	**0.7**	(0.1)
End of year	**1.6**	14.6

27 Guarantees and commitments

	1998 £m	1997 £m
Contracts placed but not provided for in the financial statements	**3.4**	6.5

The Company and certain subsidiary undertakings have given guarantees totalling £1.2 million (1997: £1.8 million) in respect of the Group's share of external loans to associated undertakings.

A subsidiary undertaking has given commercial guarantees to third parties amounting to £0.6 million (1997: £0.3 million). The same subsidiary undertaking has given bank guarantees of £0.7 million (1997: £0.8 million) in respect of VAT on imports. Certain other subsidiary undertakings have given bank guarantees and other commercial guarantees to third parties totalling £0.4 million (1997: £0.6 million).

Operating lease rentals are expensed as incurred. The minimum annual commitments under non-cancellable operating leases were as follows:

	Land and buildings		Plant and machinery	
	1998 £m	1997 £m	1998 £m	1997 £m
In respect of leases which expire:				
– within one year	**0.2**	0.2	**0.5**	0.3
– within two to five years	**0.4**	0.3	**2.4**	1.7
– after five years	**0.7**	0.7	**–**	–
	1.3	1.2	**2.9**	2.0

28 Contingent liabilities

Various Group undertakings are parties to legal actions and claims by third parties, regulatory and fiscal authorities. While the outcome of some of these matters cannot be readily foreseen, the directors believe that they will be disposed of without material effect on the net asset position as shown in these financial statements.

Five year summary

Profit and loss account	1994 £m	1995 £m	1996 £m	1997 £m	1998 £m
Turnover					
Phosphates	236.9	263.7	289.4	300.3	**318.6**
Surfactants	263.1	296.6	288.5	284.5	**308.6**
Phosphorus Derivatives & Acrylics	200.8	230.3	224.7	200.1	**187.7**
	700.8	790.6	802.6	784.9	**814.9**
Operating profit before exceptional items					
Phosphates	36.9	40.9	39.9	32.0	**31.2**
Surfactants	8.6	7.7	13.7	17.6	**18.0**
Phosphorus Derivatives & Acrylics	18.5	19.6	20.9	22.7	**15.5**
Corporate costs	(1.4)	(4.1)	(4.0)	(3.9)	**(5.0)**
	62.6	64.1	70.5	68.4	**59.7**
Return on sales					
Phosphates	16%	16%	14%	11%	**10%**
Surfactants	3%	3%	5%	6%	**6%**
Phosphorus Derivatives & Acrylics	9%	9%	9%	11%	**8%**
Group	9%	8%	9%	9%	**7%**
Sales growth	5%	13%	2%	(2)%	**4%**
Interest cover	33x	9x	11x	8x	**5x**
Basic EPS	10.2p	12.3p	13.9p	4.7p	**10.8p**
Adjusted EPS	15.5p	13.1p	14.4p	13.5p	**10.8p**
Dividends per share	–	6.5p	6.9p	7.15p	**7.15p**
Cash flow					
Operating profit	55.9	59.1	70.5	68.4	**59.5**
Depreciation and amortisation	24.6	24.6	23.3	23.4	**28.0**
EBITDA	80.5	83.7	93.8	91.8	**87.5**
Undistributed profits of joint ventures and associates	(8.6)	(9.9)	(9.6)	(9.4)	**(3.8)**
Change in working capital	(17.5)	(22.2)	6.7	(27.3)	**(2.4)**
Restructuring and environmental costs	(6.6)	(7.7)	(7.8)	(9.8)	**(8.0)**
Cash flow from operations	47.8	43.9	83.1	45.3	**73.3**
Capital expenditure[b]	(42.4)	(42.2)	(38.8)	(59.8)	**(48.4)**
Free cash flow	5.4	1.7	44.3	(14.5)	**24.9**
Acquisitions, net of disposals	4.0	-	1.7	(19.3)	**(13.7)**
Issue (purchase) of shares	–	(2.2)	–	(2.5)	**0.5**
Interest, tax and dividends	(15.6)	(23.6)	(36.6)	(31.7)	**(45.9)**
Net cash flow	(6.2)	(24.1)	9.4	(68.0)	**(34.2)**
Balance sheet					
Fixed assets	313.8	324.0	326.3	400.8	**432.6**
Working capital	65.0	99.9	90.8	106.7	**107.1**
Net operating assets	378.8	423.9	417.1	507.5	**539.7**
Non-bank financing	(96.7)	(28.2)	(28.1)	(56.2)	**(58.2)**
Net debt	(17.0)	(44.4)	(35.7)	(116.2)	**(148.0)**
Net assets	265.1	351.3	353.3	335.1	**333.5**
Equity minority interests	(0.3)	(0.3)	(1.5)	(14.6)	**(1.6)**
Equity shareholders' funds	264.8	351.0	351.8	320.5	**331.9**
Gearing	6%	13%	10%	36%	**45%**

Notes

(a) Turnover for the years 1994-97 has been restated for the matters referred to in the accounting policies section and includes A&W's share of joint ventures and associates' sales.

(b) Capital expenditure is shown net of proceeds from fixed asset disposals.

(c) The cash flow analyses for 1994 and 1995 have been restated to exclude the effect of pre-flotation reorganisation transactions.

Investor information

Financial calendar

Ordinary shares – dividends	Ex-dividend date	Record date	Payment date
Interim	21 September 1998	25 September 1998	25 November 1998
Final	22 March 1999	26 March 1999	27 May 1999

Results

Half year	Announced 9 September 1998
Full year	Announced 10 March 1999
Annual Report	Posted 26 March 1999
Annual General Meeting	28 April 1999

Analysis of shareholdings at 31 December 1998

Size of shareholding	Number of shareholders	%	Number of ordinary shares	%
1 – 500	9,511	58.02	3,587,277	1.14
501 – 5,000	5,683	34.67	9,486,365	3.02
5,001 – 100,000	862	5.26	18,536,145	5.91
100,001 – 1,000,000	275	1.68	87,325,488	27.82
Over 1,000,001	61	0.37	194,925,481	62.11
Totals	16,392	100.00	313,860,756	100.00

Share price information

The table sets out below the reported highest and lowest middle market quotations for Albright & Wilson's shares on the London Stock Exchange as notified by the Company's stockbrokers for the periods indicated:

Year end	High – pence	Low – pence
1998	191½	64½
1997	173½	142½
1996	207½	157
1995	198	146

The latest information on the Albright & Wilson plc share price can be found on Ceefax or by calling FT Cityline on 0891 4335017.

Internet

Albright & Wilson has an Internet page that can be found at http://www.albright-wilson.com. It includes a brief history of the Group and summary financial information. This annual report and accounts is also published on the website.

Key contacts information

Shareholder enquiries – Shareholders who have questions relating to the Group's business or wish to receive copies of the corporate brochure should write to:

Public Affairs Manager, Albright & Wilson plc, 210-222 Hagley Road West, Oldbury, West Midlands B68 0NN, England.
Telephone: 0121 420 5250. E-mail: jenny_l_stratton@albriw.com

Copies of the annual report and accounts may also be obtained from this address and by contacting the FT Free Annual Reports Club on 0181 770 0770.

Registrar – Administrative enquiries concerning shareholdings in Albright & Wilson plc such as the loss of share certificates, change of address, dividend payment arrangements and amalgamation of multiple accounts should be sent directly to:

Lloyds TSB Registrars, 54 Pershore Road South, Birmingham B22 1AD, England. Telephone: 0121 433 8000.

When contacting Lloyds TSB Registrars, please refer to the registered name and address and, if available, the full account number which starts with 0972.

Share dealing service – Details of a postal share dealing service can be obtained from:

Albright & Wilson plc Share Dealing Service, Cazenove & Co., 12 Tokenhouse Yard, London EC2R 7AN, England. Telephone: 0171 606 1768.

Glossary

Associate
A company in which A&W has a minority shareholding and over which it exercises significant influence.

Capital expenditure
Money spent on tangible fixed assets such as building new chemical plants.

Cash added value (CAV)
The cash-based performance measure used by A&W to assess the extent to which the its businesses are creating or destroying shareholder value.

Constant exchange rate (CER) results
For the purposes of comparison with the prior year, CER results are stated after eliminating the translation and transaction effects of exchange rate movements.

Dividend cover
A measure used to assess the Company's ability to pay dividends. Earnings per share divided by dividends per share.

EBITDA
Earnings before interest, tax, depreciation and amortisation. This represents the cash effect of profit generated from operations.

Earnings per share (EPS)
One of the measures used by investors to assess the financial performance of a company. Basic EPS is the profit for the year after tax and minority interests divided by the weighted average number of shares. Adjusted EPS excludes exceptional items from the above calculation.

Equity minority interest
That part of an A&W subsidiary owned by third parties.

Exceptional items
Material items deriving from the ordinary activities of the Group but which are disclosed separately due to their size or incidence in order to give a true and fair view.

Foreign income dividend (FID)
Dividends paid to shareholders out of foreign income remitted to the UK and on which no advance corporation tax (ACT) credit is available to shareholders.

Gearing
A measure of financial solvency. Net debt expressed as a percentage of shareholders' funds.

Goodwill
The difference between the price paid for an acquisition and the fair value of the assets and liabilities acquired.

Interest cover
Like gearing, a measure of financial solvency. Operating profit divided by interest payable net of interest receivable

Joint venture
A company which is jointly controlled by A&W and one or more third parties.

Net debt
Borrowings (overdrafts and loans) with banks and other third parties less cash held at banks and in hand.

Net operating assets
Total assets less liabilities, excluding items of a financing nature.

Free cash flow
Cash flow from operations stated after capital expenditure but before corporate acquisitions & disposals and payments to tax authorities and providers of finance (through interest and dividends).

Provisions
Expected future liabilities in respect of which the amount or timing of the expenditure is uncertain.

Return on sales
One of the key drivers of shareholder value. Operating profit as a percentage of turnover.

Subsidiary
A company in which A&W holds a majority shareholding and exercises dominant influence.

Transaction effect
The difference between the value of sales and purchases denominated in foreign currencies as reported in 1998 and what they would have been at 1997's exchange rates.

Translation effect
The difference between foreign currency results translated at 1998's exchange rates and what they would have been at 1997's rates.

Working capital
The sum of stocks, debtors and creditors, excluding items of a financing nature such as corporate taxation and proposed dividends.

Year 2000
Also known as the "Millennium bug" or "Y2K". The problem computers may have when the year changes from 1999 to 2000 because software programmes were originally written to recognise only the last two digits of each year and so may not be able to distinguish between the years 1900 and 2000.