

REXAM COMBIBLOC LIMITED
(Formerly Rexam PKL Limited)
REGISTERED NO: 1146077

DIRECTORS' REPORT

The Directors present the accounts of the company for the year ended 31st December 1998.

NAME CHANGE

The name of the Company was changed from Rexam PKL Limited to Rexam Combibloc Limited with effect from 1st January 1999.

PRINCIPAL ACTIVITY AND REVIEW OF BUSINESS

The principal activity of the Company is the manufacture and sale of liquid packaging cartons and the sale of associated machinery for the forming and filling of cartons.

RESULTS AND DIVIDENDS

The profit for the year after taxation amounted to £3,586,000. The year's results were considered to be satisfactory by the Directors.

The Directors have declared an interim dividend of £3,000,000 and do not recommend the payment of a final dividend leaving retained profit of £586,000 to be carried to reserves.

FUTURE DEVELOPMENTS

The Directors will continue to manage the business with a view to improving the Company's profitability in the current year.

DIRECTORS

Mr W H Moran, Mr A F Waters, and Herr W W Schafers all held office throughout the year.

DIRECTORS' INTERESTS

Neither Mr A F Waters or Herr W W Schafers held beneficial interests in the ordinary share capital of Rexam Combibloc Limited or Rexam PLC.

Mr A F Waters has been granted options to subscribe for the following shares in Rexam PLC:

	1 January 1998 (50p shares)	31 December 1998 (50p shares)
Executive Share Option Scheme 1984	18386	18386
Executive Share Option Scheme 1987	10945	22923
Savings Related Share Option Scheme 1988	3889	6869



The details of shares held and options granted to Mr W H Moran are shown in the accounts of Rexam Packaging Limited.

POLITICAL AND CHARITABLE DONATIONS

During the year, the Company made various Charitable donations totalling £2081.

DIRECTORS RESPONSIBILITIES

Preparation of the Financial Statements

This statement, which should be read together with the auditors report set out on page 3, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the financial statements.

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of financial year and of the profit or loss for the financial year.

The directors are required to prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors consider that in preparing the financial statements on pages 4 to 14 appropriate accounting policies have been used, consistently applied and supported by reasonable and prudent judgements and estimates and that all accounting standards which they consider to be applicable have been followed.

The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

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

CREDITOR PAYMENT POLICY AND PRACTICE

It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers, provided that all trading terms and conditions have been complied with.

At 31 December 1998, the Company had an average of 32 days purchases outstanding in trade creditors.

YEAR 2000 COMPLIANCE

Rexam Combibloc Limited, as part of the Rexam Group, has implemented a programme for addressing the problems associated with the Year 2000 date issue. The programme has been co-ordinated to identify the risks and address compliance within business, production and facility systems. It also involves a review of customer and supplier systems where failures could impact on the Company. Regular reporting of the status of the Company's plans is made via Sector

management to the Board of Rexam PLC and this will continue throughout the coming year.

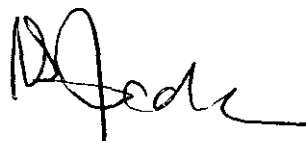
Whilst we are confident that our systems will be compliant we cannot be certain that those we trade with will achieve compliance. We are therefore continuing to discuss these issues with our key suppliers and customers so as to reduce the possible disruption to our business.

A large proportion of the compliance effort has been in the normal upgrades and replacement of existing business systems, some of which have been accelerated so as to address the Year 2000 issue. The majority of these costs have therefore been capitalised in accordance with our normal accounting policies. Specific costs for rectifying systems solely to address the Year 2000 issue have been modest and the amounts charged to the profit and loss account in 1998 are less than £25,000. It is expected that the direct cost to be charged to the profit and loss account for the current financial year will be in the region of £20,000.

AUDITORS

Ernst & Young have expressed their willingness to continue in office as auditors and a resolution proposing their reappointment will be submitted at the Annual General Meeting.

BY ORDER OF THE BOARD



Secretary

Date: 3rd June 1999

REPORT OF THE AUDITORS TO THE MEMBERS OF REXAM PKL LIMITED

We have audited the accounts on pages 5 to 15, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 8 and 9.

Respective responsibilities of directors and auditors.

As described on page 2 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of Opinion

We conducted an audit in accordance with the 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 preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the 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 at 31st December 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Registered Auditor
Newcastle upon Tyne

Date: 3/5/99

REXAM COMBIBLOC LIMITED*(Formerly Rexam PKL Limited)***PROFIT AND LOSS ACCOUNT - YEAR ENDED 31ST DECEMBER 1998**

	Note	1998 £'000	1997 £'000
TURNOVER	(2)	29971	24797
OPERATING COSTS	(4a)	25931	21495
OPERATING PROFIT		<u>4040</u>	<u>3302</u>
INTEREST	(5)	<u>1177</u>	<u>1321</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		5217	4623
TAXATION	(6)	<u>1631</u>	<u>1396</u>
PROFIT FOR THE FINANCIAL YEAR AFTER TAXATION		3586	3227
DIVIDENDS PROPOSED	(7)	<u>3000</u>	<u>1858</u>
PROFIT RETAINED FOR THE FINANCIAL YEAR		<u>586</u>	<u>1369</u>

The movement on reserves is shown in Note 19 to the accounts.

There are no recognised gains or losses other than the profit attributable to shareholders of the Company of £3,586,000 in the year ended 31st December 1998 and of £3,227,000 in the year ended 31st December 1997.

REXAM COMBIBLOC LIMITED

(Formerly Rexam PKL Limited)

BALANCE SHEET - 31ST DECEMBER 1998

	Note	1998 £'000	1997 £'000
FIXED ASSETS			
Tangible Assets	(11)	9313	9154
		<u>9313</u>	<u>9154</u>
CURRENT ASSETS			
Stocks	(12)	7691	5347
Debtors	(13)	23182	24892
Cash at Bank and in hand	(14)	1552	1534
		<u>32425</u>	<u>31773</u>
CREDITORS			
Amounts falling due within one year	(15)	8911	9459
		<u>23514</u>	<u>22314</u>
NET CURRENT ASSETS			
		<u>32827</u>	<u>31468</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
DEFERRED INCOME	(16)	0	0
PROVISIONS FOR LIABILITIES AND CHARGES	(17)	991	218
		<u>31836</u>	<u>31250</u>
		<u>=====</u>	<u>=====</u>
CAPITAL AND RESERVES			
Called up Share Capital	(18)	1500	1500
Profit and Loss Account	(19)	30336	29750
Shareholders Funds	(19)	<u>31836</u>	<u>31250</u>
		<u>=====</u>	<u>=====</u>

Approved by a Board Resolution dated 3rd June 1999.

A F Waters

W W Schafers



Directors

REXAM COMBIBLOC LIMITED

(Formerly Rexam PKL Limited)

CASH FLOW STATEMENT - YEAR ENDED 31ST DECEMBER 1998

	Note	1998 £'000	1997 £'000
NET CASH FLOW FROM OPERATING ACTIVITIES	(4b)	3272	3914
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		1177	1321
		1177	1321
TAXATION			
Corporation Tax Paid (Including ACT)		(575)	(559)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire tangible fixed assets		(2421)	(3372)
Receipts from sales of tangible fixed assets		423	31
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(1998)	(3341)
EQUITY DIVIDENDS PAID		(1858)	(1206)
NET CASH INFLOW BEFORE FINANCING		18	129
		=====	=====
FINANCING		nil	nil
INCREASE IN CASH	(14)	18	129
		18	129
		=====	=====

REXAM COMBIBLOC LIMITED

(Formerly Rexam PKL Limited)

NOTES TO THE ACCOUNTS - YEAR ENDED 31ST DECEMBER 1998

1. ACCOUNTING POLICIES

Accounting Convention - the accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Depreciation - depreciation is calculated to write off the book value of tangible assets over their expected life by equal annual instalments, except that depreciation is not provided on the cost of freehold land or assets under construction.

Tangible assets are depreciated at the following rates:

Freehold buildings	2%
Plant, machinery and vehicles	7.5 to 33.3%

Investment Grants - investment grants and regional development grants are credited to the profit and loss account at average rates reflecting the expected life of relevant assets, depreciation having been provided on the cost of assets before deducting grants.

Stocks - stocks are stated at the lower of cost incurred in bringing each product to its present location and condition and net realisable value, as follows:

Raw materials and goods for resale - purchases on an average cost basis.

Work in progress and finished goods - cost of direct materials, labour plus attributable overheads based on a normal level of activity.

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

Foreign Currencies - assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the year end or which are appropriate to a transaction.

Differences arising from fluctuations in exchange rates are taken to profit and loss account where they relate to items of a trading nature.

Those arising on long term assets and liabilities are taken to reserves.

Deferred Taxation - deferred taxation is provided at appropriate rates on any significant timing differences between accounting and taxable profits, except where it can be demonstrated with reasonable probability that a tax liability is unlikely to crystallise in the foreseeable future.

REXAM COMBIBLOC LIMITED

(Formerly Rexam PKL Limited)

NOTES TO THE ACCOUNTS - YEAR ENDED 31 ST DECEMBER 1998 (cont'd)**1. ACCOUNTING POLICIES (cont'd)**

Development expenditure is charged in the year it is incurred.

Deferred Operating Expenditure - the net costs of filling machine placements are charged against profit over a three year period. Any such net costs not yet charged are held in the balance sheet as "Deferred Operating Expenditure".

Pensions - the expected cost of providing pensions in respect of defined benefit schemes is charged to the profit and loss account over the estimated service lives of the employees in the schemes.

2. TURNOVER

Turnover is defined as the net amount receivable (excluding VAT) for goods supplied and services provided and includes sales to group undertakings within the UK and Eire. Turnover is attributable to one continuing activity, the manufacture and sale of liquid packaging cartons and the sale of associated machinery for the forming and filling of cartons.

An analysis of turnover by geographical market is not given as in the directors' opinion it would be seriously prejudicial to the business.

3. ULTIMATE PARENT UNDERTAKING

The ultimate parent undertaking is Rexam PLC, a company incorporated in England.

4.a OPERATING COSTS

	1998 £'000	1997 £'000
Raw materials and consumables	17072	13641
Employee costs (Note 8)	5351	4017
Depreciation - owned assets	1935	2199
Other operating charges	1772	1836
(Increase)/decrease in stocks of finished goods	(143)	(83)
Other operating income	(56)	(115)
	<u>25931</u>	<u>21495</u>
	=====	=====
Other operating charges include:		
Auditors remuneration	20	19
Other fees paid to Auditors	nil	nil
	=====	=====

REXAM COMBIBLOC LIMITED

(Formerly Rexam PKL Limited)

NOTES TO THE ACCOUNTS - YEAR ENDED 31ST DECEMBER 1998 (cont'd.)**4.b RECONCILIATION OF OPERATING PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES**

	1998 £'000	1997 £'000
Operating Profit	4040	3302
Depreciation	1935	2199
Profit on sale of Tangible Fixed Assets	(96)	(27)
Deferred Government Grants Released	0	(75)
Increase in Stocks	(2344)	(2890)
Decrease in Debtors	1710	1562
Decrease in Creditors	(1973)	(157)
	<u>3272</u>	<u>3914</u>
	=====	=====

5. INTEREST

	1998 £'000	1997 £'000
Receivable		
Third Party - Other	48	53
Group Companies	1129	1268
	<u>1177</u>	<u>1321</u>
	=====	=====

6. TAXATION

	1998 £'000	1997 £'000
Based on the profit for the year:		
UK Corporation tax at 31.5 per cent (1997:31.5 per cent)	1270	1130
Deferred tax (note 17)	376	283
Adjustment to prior years	(15)	(17)
	<u>1631</u>	<u>1396</u>
	=====	=====

7. DIVIDENDS

	1998 £'000	1997 £'000
Dividend proposed	3000	1858
	=====	=====

REXAM COMBIBLOC LIMITED

(Formerly Rexam PKL Limited)

NOTES TO THE ACCOUNTS - YEAR ENDED 31ST DECEMBER 1998 (cont'd.)

8. EMPLOYEES		1998	1997
		£'000	£'000
a)	Employee Costs		
	Wages and salaries	4681	3487
	Social Security costs	361	285
	Other pension costs	309	245
		<u>5351</u>	<u>4017</u>
		=====	=====
b)	Number of Employees		
	Weekly average number of employees:		
	Operatives	102	67
	Staff	111	89
		<u>213</u>	<u>156</u>
		=====	=====
9. EMOLUMENTS OF DIRECTORS		1998	1997
		£'000	£'000
	Emoluments	111	67
		=====	=====
	Company Contributions to defined pension schemes	15	15
		=====	=====
	Members of pension schemes	1	1
		=====	=====

10. PENSION COSTS

The majority of employees belong to the Rexam Employee Benefit Plans (formerly the Bowater Employees Benefit Plan), a pension scheme of the defined benefit type. The charge in these accounts represents contributions paid to the scheme.

The charge does not take full account of the surplus disclosed in the scheme by the last actuarial valuation which was carried out as at 6th April 1994 and details of which are disclosed in the consolidated accounts of Rexam PLC. The prepayment arising in respect of the group as a whole under the scheme is also disclosed in those accounts.

REXAM COMBIBLOC LIMITED

(Formerly Rexam PKL Limited)

NOTES TO THE ACCOUNTS - YEAR ENDED 31ST DECEMBER 1998 (cont'd.)**11. TANGIBLE ASSETS**

	Freehold Land & Buildings	Plant Machinery & Vehicles	Total
	£'000	£'000	£'000
Cost			
1st January 1998	1776	16375	18151
Additions	-	2421	2421
Disposals	-	(1896)	(1896)
31st December 1998	1776	16900	18676
	=====	=====	=====
Depreciation			
1st January 1998	330	8667	8997
Charge for year	29	1906	1935
Disposals	-	(1569)	(1569)
31st December 1998	359	9004	9363
	=====	=====	=====
Net book amounts:			
31st December 1998	1417	7896	9313
	=====	=====	=====
31st December 1997	1446	7708	9154
	=====	=====	=====

Included in freehold land and buildings is land which cost £326,000 which is not depreciated.

12. STOCKS

	1998 £'000	1997 £'000
Raw materials	2152	1666
Work in progress	163	163
Finished products	626	483
Wholesaling and merchanting goods	4750	3035
	7691	5347
	=====	=====

In the opinion of the Directors the replacement value of the above stocks is not materially different from the valuation shown above.

REXAM COMBIBLOC LIMITED

(Formerly Rexam PKL Limited)

NOTES TO THE ACCOUNTS - YEAR ENDED 31ST DECEMBER 1998 (cont'd.)

13. DEBTORS	1998 £'000	1997 £'000
Amounts due from fellow subsidiary undertakings	18303	19887
Trade debtors	4107	3957
Deferred Operating Expenditure	631	859
Other debtors	141	189
	<u>23182</u>	<u>24892</u>
	=====	=====

Amounts falling due after more than one year included in deferred operating expenditure and other debtors.	418	676
	=====	=====

14. RECONCILIATION OF NET CASH FLOW TO MOVEMENTS IN NET FUNDS	1998 £'000	1997 £'000
Increase in cash	18	129
	<u>18</u>	<u>129</u>
MOVEMENT IN NET FUNDS		
NET FUNDS AT 1 JANUARY 1998	1534	1405
	<u>1552</u>	<u>1534</u>
NET FUNDS AT 31 DECEMBER 1998	=====	=====

15. CREDITORS	1998 £'000	1997 £'000
Amounts falling due within one year:		
Amount due to fellow subsidiary undertakings	29	33
Trade creditors	2878	4933
Corporation Tax	1625	1342
Indirect taxation and Social Security	118	97
Other creditors	1261	1196
Dividends	3000	1858
	<u>8911</u>	<u>9459</u>
	=====	=====

REXAM COMBIBLOC LIMITED

(Formerly Rexam PKL Limited)

NOTES TO THE ACCOUNTS - YEAR ENDED 31ST DECEMBER 1998 (cont'd.)

16. DEFERRED INCOME - INVESTMENT GRANTS	1998	1997
	£'000	£'000
Balance at 1st January	nil	75
Released in the Year	nil	(75)
	<hr/>	<hr/>
Balance at 31st December	nil	nil
	<hr/>	<hr/>

17. PROVISIONS FOR LIABILITIES AND CHARGES

The movements in deferred taxation during the current and previous years are as follows:

	1998	1997
	£'000	£'000
At 1st January	218	131
Charge for the year (note 6)	376	283
Transfers from Corporation Tax	397	(196)
	<hr/>	<hr/>
At 31st December	991	218
	<hr/>	<hr/>

The full potential deferred tax account, calculated at 33% included above consists of:

	1998	1997
	£'000	£'000
Capital allowances in excess of depreciation	1035	647
Short term timing differences	(44)	(32)
Advance Corporation Tax	0	(397)
	<hr/>	<hr/>
	991	218
	<hr/>	<hr/>

18. SHARE CAPITAL

	1998	1997
	£'000	£'000
Ordinary shares of £1 each		
Authorised, allotted, called up and fully paid	1500	1500
	<hr/>	<hr/>

REXAM COMBIBLOC LIMITED

(Formerly Rexam PKL Limited)

NOTES TO THE ACCOUNTS - YEAR ENDED 31ST DECEMBER 1998 (cont'd.)**19. RECONCILIATION OF SHAREHOLDERS' FUNDS & MOVEMENT ON RESERVES**

	Share Capital	Profit & Loss	Total Shareholders' Funds
	£'000	£'000	£'000
At 1st January 1997	1500	28381	29881
Profit for the year	-	3227	3227
Dividend	-	(1858)	(1858)
	<hr/>	<hr/>	<hr/>
At 1st January 1998	1500	29750	31250
Profit for the year	-	3586	3586
Dividend	-	(3000)	(3000)
	<hr/>	<hr/>	<hr/>
At 31st December 1998	1500	30336	31836
	=====	=====	=====

20. CAPITAL EXPENDITURE COMMITMENTS

	1998 £'000	1997 £'000
Contracted but not provided for	nil	nil
	<hr/>	<hr/>
Authorised but not contracted	978	nil
	=====	=====

21. CONTINGENT LIABILITIES

As a member of the Rexam United Kingdom Group for VAT purposes, the Company has joint and several liability for all amounts due to Customs and Excise under this arrangement.

22. RELATED PARTIES

In the directors' opinion the ultimate parent company and controlling party is Rexam PLC which is incorporated in England. Copies of its group accounts, which include the Company, are available from 114 Knightsbridge, London, SW1X 7NN.

During the year the Company continued to loan funds to a subsidiary undertaking of Rexam PLC, Rexam Finance Limited, which owed the company £18.3 million at 31 December 1998. Interest of £1.1 million was received on this loan from Rexam Finance Limited during the year.

The Company also made purchases totalling £11.3 million from, and sales of £4.1 million to SIG Combibloc, a minority shareholder, and its subsidiaries. The Company owed SIG Combibloc £2.0 million at 31 December 1998.