

PILKINGTON AEROSPACE LIMITED

(Company Registration Number: 1999018)

REPORT AND ACCOUNTS

YEAR ENDED 31 MARCH 1998



PILKINGTON



PILKINGTON AEROSPACE LIMITED
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 MARCH 1998

The directors present their annual report and the audited accounts for the year ended 31 March 1998.

Principal activities

The principal activity of the company is the manufacture and sale of advanced transparencies principally to the aerospace, railway and security glazing industries.

Review of business

Following on from the cost reduction exercise of last year, there has been a significant improvement in the performance of the business. This improvement is seen by the directors as being sustainable in the coming year.

Results and dividend

The profit for the year on ordinary activities before taxation amounted to £1,845,000 (1997 £296,000 loss), taxation thereon was nil (1997 nil). The directors do not recommend payment of a dividend and the profit for the year will be transferred to reserves.

Research and development

The company pays for and receives the benefits of all appropriate research and development work undertaken by the ultimate holding company. The work and costs are agreed by the directors and, since much of the work is directly related to the business of the company, a large proportion of it is carried out in the company's manufacturing plant.

Directors

The following were directors of the company during the year:

Mr P Molineux	(Managing Director)
Mr R S Bruce	(Technical Director)
Mr C J Woodhouse	(Manufacturing Director)
Mr J R McCollough	(Chairman)

Mr R S Bruce left the company on 18 April 1997 and left the Board at this time.

PILKINGTON AEROSPACE LIMITED
REPORT OF THE DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 1998

Directors' interests

None of the directors had an interest in any contract of a material nature with the company during the financial year.

None of the directors had an interest in the shares of the company or its subsidiary company, either at the beginning or end of the financial year.

The undermentioned directors, who are not also directors of the ultimate holding company, Pilkington plc, had the following beneficial interests in the ordinary shares and in options to acquire shares in that company:

shares in that company:

		Pilkington plc Ordinary shares of 50p each			
		1.4.97	31.3.98		
Mr P Molineux		-	-		
Mr C J Woodhouse		10,514	4,000		
Mr J R McCollough		-	-		

		Shares under option				
	At 1.4.97	Options granted*	Options granted**	Options relinquished	Options exercised	At 31.3.98
Mr P Molineux	54,682	5,702	-	-	-	60,384
Mr C J Woodhouse	36,432	1,641	3,644	-	2,860	38,857
Mr J R McCollough	113,873	59,347	-	-	-	173,220

Options granted under the Pilkington Senior Executives' Share Option Scheme* were at 119.50p

Options granted under the Pilkington Saving Related Share Options Scheme** were at 107.00p

Employee involvement

The company encourages employee involvement through communication and consultation on a wide range of issues. Planned regular communications take place through briefing meetings, newspapers and bulletins, which keep employees aware of the financial and economic factors affecting the Pilkington Group.

The company encourages participation in decision making at all levels in the business and has a comprehensive training programme for all employee sectors.

Certain senior executives participate in the Pilkington Senior Executives' Share Option Scheme and the employees are able to participate in the Savings Related Share Option Scheme. Both schemes are seen as a valuable method of encouraging employee commitment and involvement with the company.

27 May 1998

PILKINGTON AEROSPACE LIMITED**REPORT OF THE AUDITORS TO THE MEMBERS OF
PILKINGTON AEROSPACE LIMITED**

We have audited the accounts on pages 5 to 19.

Respective responsibilities of directors and auditors

As described on page 3, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

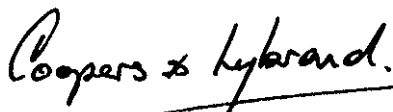
Basis of opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 March 1998 and of its profit and total recognised profits for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



COOPERS & LYBRAND
Chartered Accountants and Registered Auditors

Birmingham
27 May 1998

PILKINGTON AEROSPACE LIMITED**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 1998**

	Note	1998 £000	1997 £000
Turnover	3	<u>20,138</u>	<u>14,954</u>
Operating profit/(loss)	4	<u>1,918</u>	<u>(201)</u>
Interest payable	5	<u>(73)</u>	<u>(95)</u>
Profit/ (loss) on ordinary activities before taxation		<u>1,845</u>	<u>(296)</u>
Taxation	6	<u>-</u>	<u>-</u>
Profit/(loss) on ordinary activities after taxation		<u>1,845</u>	<u>(296)</u>
Dividends		<u>-</u>	<u>-</u>
Retained profit/(loss) for the year	17	<u><u>1,845</u></u>	<u><u>(296)</u></u>

All the above activities are in respect of continuing operations.

PILKINGTON AEROSPACE LIMITED

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 MARCH 1998**

	1998	1997
	£000	£000
Profit/(loss) for the year	1,845	(296)
Other recognised gains/(losses)	-	-
Total recognised gains/(losses)	<u>1,845</u>	<u>(296)</u>

There were no material differences between the reported profit on ordinary activities before taxation and the historical cost profit for the year. Similarly, there are no such adjustments in respect of 1997.

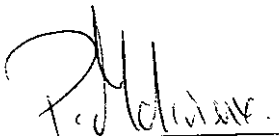
**RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS
FOR THE YEAR ENDED 31 MARCH 1998**

	1998	1997
	£000	£000
Profit/(loss) for the year attributable to shareholders	1,845	(296)
Shareholders' funds at beginning of year	<u>5,764</u>	<u>6,060</u>
Shareholders' funds at end of year	<u>7,609</u>	<u>5,764</u>

PILKINGTON AEROSPACE LIMITED
BALANCE SHEET AS AT 31 MARCH 1998

	Note	1998 £000	1997 £000
ASSETS EMPLOYED			
Fixed assets			
Tangible assets	9	3,441	3,147
Investments - subsidiary undertaking	10	14	32
Total fixed assets		<u>3,455</u>	<u>3,179</u>
Current assets			
Stocks	11	2,788	2,985
Debtors	12	4,578	3,438
Cash at bank and in hand		352	246
Creditors - amounts falling due within one year	13	<u>(2,966)</u>	<u>(3,300)</u>
Net current assets		<u>4,752</u>	<u>3,369</u>
Total assets less current liabilities		<u>8,207</u>	<u>6,548</u>
FINANCED BY			
Creditors - amounts falling due after more than one year	14	-	31
Provision for liabilities and charges	15	598	753
Capital and reserves			
Share capital	16	9,000	9,000
Profit and loss account	17	<u>(1,391)</u>	<u>(3,236)</u>
Equity shareholders' funds		<u>7,609</u>	<u>5,764</u>
		<u>8,207</u>	<u>6,548</u>

The accounts on pages 5 to 19 were approved by the Board of Directors on 27 May 1998.

 Director

27 May 1998

PILKINGTON AEROSPACE LIMITED**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 1998****1 Principal accounting policies**

The financial statements are prepared in accordance with the historical cost convention. The financial statements are also prepared in accordance with Accounting Standards applicable in the United Kingdom. A summary of the major accounting policies, which have been consistently applied, is set out below.

The company's holding company has included in its financial statements a consolidated group cash flow statement in compliance with the Financial Reporting Standard N° 1. The company has therefore taken advantage of the exemption under the Standard not to produce a cash flow statement.

Turnover

Turnover is based on the invoiced value of sales, excluding VAT, and includes the proportion of the sales value of long term contracts relevant to their state of completion. Turnover includes sales to other Group companies.

Deferred income

Regional development grants and other investment grants are taken to deferred income and are released to the profit and loss account in appropriate instalments relating to the type and nature of expenditure they are intended to fund.

Research and development

Revenue expenditure on research and development is charged against the profits of the year in which it is incurred.

Capital expenditure on research laboratories, equipment and plant is written off over its expected working life.

Pension costs

Pension costs have been accounted for in accordance with the United Kingdom Accounting Standard N° 24 - Accounting for Pension Costs.

The pension cost relates to defined contribution schemes and is the amount of contributions payable in the respective financial year.

PILKINGTON AEROSPACE LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 1998

1 Principal accounting policies (continued)

Tangible assets and depreciation

Tangible assets are stated at historical cost.

Freehold land is not depreciated.

Depreciation is charged on all other categories of tangible fixed assets so as to write off the cost by equal annual instalments over the expected lives of the assets, such depreciation commencing at the start of the half year after the asset is commissioned.

Depreciation is written off in accordance with the following lives of assets:

Freehold buildings and long leasehold buildings	20 years to 30 years
Plant & machinery	5 years to 15 years

Finance leases

Assets held under finance leases are included in tangible assets at cost and are depreciated over the shorter of the lease term or their useful life. Obligations relating to finance leases, net of finance charges in respect of future periods, are included as appropriate under creditors due within or after one year. Finance charges are allocated to accounting periods over the lease term to reflect a constant rate of interest on the remaining balance of the obligation.

Operating leases

Rentals under operating leases are charged to the profit and loss account as incurred.

Foreign currencies

Foreign currencies are translated into sterling at the rates of exchange ruling at the year end or, where appropriate, at forward contract rates. Exchange differences are taken to the profit and loss account.

Exchange differences on the translation of the net assets of overseas subsidiary undertakings, and on the translation of overseas borrowings for investment abroad, are taken to reserves.

PILKINGTON AEROSPACE LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 1998

1 Principal accounting policies (continued)

Stocks and work in progress

Stocks and work in progress are valued at the lower of cost and net realisable value. Cost includes all direct expenditure and works overhead expenditure incurred in bringing goods to their current state under normal trading conditions. The works overhead expenditure includes charges for depreciation of tangible assets, but excludes research and development, distribution, selling, divisional and head office expenses.

Group accounts

The company has taken advantage in Section 228 (1) (a) of the Companies Act 1985 under which group accounts need not be prepared where the company is itself a wholly owned subsidiary undertaking of another company.

Deferred taxation

Deferred taxation is provided under the liability method at current or expected future rates of tax in respect of timing differences between profits as computed for tax purposes and profits as stated in the accounts to the extent that, in the opinion of the directors, those differences will give rise to tax liabilities or reliefs in the foreseeable future.

Cash flow

In accordance with paragraph 5 (a) of FRS1, the company is not required to publish a cash flow statement.

2 Segmental analysis of continuing operations

The Company's directors consider that the Company is engaged in only one class of business.

3 Geographical analysis of turnover by markets

	1998		1997	
	Continuing £000	%	Continuing £000	%
United Kingdom	5,291	26	4,185	28
Europe (excluding UK)				
- EC	2,833	14	1,767	12
- Non EC	654	3	653	4
North America	8,517	43	6,530	44
Australasia	297	1	111	1
Rest of the World	2,546	13	1,708	11
	<u>20,138</u>	<u>100</u>	<u>14,954</u>	<u>100</u>

PILKINGTON AEROSPACE LIMITED

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 1998**

4 Statutory information

	1998 Continuing £000	1997 Continuing £000
Turnover	20,138	14,954
Cost of sales	(14,657)	(11,748)
Gross profit	5,481	3,206
Distribution costs	(475)	(404)
Administrative expenses	(3,048)	(2,623)
Exceptional administrative expenses	(40)	(380)
Operating profit/(loss)	1,918	(201)

Redundancy costs totalling £40,000 (1997 £380,000) have been classified as exceptional administrative expenses.

	1998 £000	1997 £000
Operating profit/(loss) is after charging/(crediting):		
Depreciation of tangible fixed assets	348	336
Profit/(loss) on disposal of tangible fixed assets	(4)	(2)
Operating lease costs - plant and machinery	36	30
Auditor's remuneration - audit	7	9
- other non-audit services	2	4
Research and development expenditure	410	721

5 Interest payable

	1998 £000	1997 £000
Interest payable on bank overdrafts and on loans:		
Repayable by instalments within 5 years		
- on bank overdraft	12	34
- to group companies	39	38
- to others	19	17
Finance leases	70	89
	3	6
	73	95

PILKINGTON AEROSPACE LIMITED

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 1998**

6 Taxation

	1998	1997
	£000	£000
United Kingdom corporation tax at 31% (1997 33%)		
Current	-	-
Deferred	-	-
	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>

7 Employee pay and numbers (excluding directors)

	1998	1997
	£000	£000
Employment costs		
Wages and salaries	4,966	4,423
Social security costs	387	369
Pension costs	376	352
	<hr/>	<hr/>
	5,729	5,144
	<hr/>	<hr/>
Average number of employees:-		
	1998	1997
	Nº	Nº
Birmingham	264	248
USA	-	1
	<hr/>	<hr/>
	264	249
	<hr/>	<hr/>
Number employed at 31 March	264	249
	<hr/>	<hr/>

PILKINGTON AEROSPACE LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 1998

8 Directors' emoluments

	1998 £	1997 £
Aggregate emoluments	126,973	178,195
Company pension scheme contributions to money purchase schemes	24,655	68,355
Compensation for loss of office	-	83,838

The emoluments of the Chairman are paid by Pilkington Aerospace Inc. Mr McCollough's services to this company are of a non-executive nature and his emoluments are deemed to be wholly attributable to his services to Pilkington Aerospace Inc. Accordingly, the details above include no emoluments in respect of Mr McCollough.

9 Tangible assets

	Land and buildings £000	Plant, machinery & vehicles £000	Total £000
At cost			
At 1 April 1997	2,104	5,829	7,933
Additions	-	617	617
Transfers from Group companies	-	94	94
Disposals	-	(151)	(151)
At 31 March 1998	<u>2,104</u>	<u>6,389</u>	<u>8,493</u>
Accumulated depreciation			
At 1 April 1997	(950)	(3,836)	(4,786)
Charge for the year	(76)	(272)	(348)
Transfers from Group companies	-	(61)	(61)
Disposals	-	143	143
At 31 March 1998	<u>(1,026)</u>	<u>(4,026)</u>	<u>(5,052)</u>
Written down value at 31 March 1998	<u>1,078</u>	<u>2,363</u>	<u>3,441</u>
Written down value at 31 March 1997	<u>1,154</u>	<u>1,993</u>	<u>3,147</u>

PILKINGTON AEROSPACE LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1998

9 Tangible assets (continued)

	Land and buildings £000
Land and buildings at net book value comprise:	
Freehold	2,104
Long leasehold	-
	<u>2,104</u>

Plant, machinery and vehicles include items acquired under finance leases comprising cost of £524,000 (1997 £524,000), accumulated depreciation of £305,000 (1997 £277,000) and written down value of £219,000 (1997 £247,000). Depreciation charged in the year on these assets amounted to £28,000 (1997 £30,000).

	Freehold land and buildings		Long leasehold land and buildings	
	1998 £000	1997 £000	1998 £000	1997 £000
At cost	2,104	465	Nil	1,639
Accumulated depreciation	(1,026)	(237)	Nil	(713)
Net book value	<u>1,078</u>	<u>228</u>	<u>Nil</u>	<u>926</u>

Included within plant, machinery and vehicles are four assets with a net book value of £179,000, which are depreciated over a period greater than 15 years.

10 Investments - subsidiary undertakings

	Shares £000
At cost	
At 1 April 1997	32
Additions	14
	<u>46</u>
Less: provision against investments	(32)
At 31 March 1998	<u>14</u>

PILKINGTON AEROSPACE LIMITED

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 1998**

10 Investment - subsidiary undertakings (continued)

Details of the subsidiary undertakings are as follows:

Name of company	% equity held	Principal activity
Pilkington INTG Glasveredelungs GmbH	51%	Exploitation of products using highly strengthened glass
Pilkington Aerospace do Brasil Ltda	99%	Sale of security glazing products

Pilkington INTG Glasveredelungs GmbH is incorporated in Germany and did not trade during the year. As at 31 March 1998, the company had aggregated capital and reserves of £(7,714).

Pilkington Aerospace do Brasil Ltda is incorporated in Brazil and did not trade during the year. As at 31 March 1998, the company had aggregated capital and reserves of £6,037

11 Stocks

	1998	1997
	£000	£000
Raw materials	717	717
Work in progress	1,191	1,182
Finished goods	880	1,086
	<u>2,788</u>	<u>2,985</u>

There is no material difference between the cost of stock as stated and its replacement cost.

12 Debtors

	1998	1997
	£000	£000
Trade debtors	3,854	2,839
Amounts owed by group undertakings		
- Parent company and fellow subsidiaries	16	333
Other debtors	628	178
	<u>4,498</u>	<u>3,350</u>
Debtors falling due within one year		
Debtors falling due after more than one year	80	88
Other debtors		
	<u>4,578</u>	<u>3,438</u>

PILKINGTON AEROSPACE LIMITED

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 1998**13 Creditors - amounts falling due within one year**

	1998 £000	1997 £000
Group company loan	-	900
Bank overdraft	81	55
Trade creditors	1,977	1,477
Amounts owed to group undertakings		
- Parent company and fellow subsidiaries	290	430
Other taxation and social security	134	95
Other creditors	453	314
Finance leases	31	29
	<u>2,966</u>	<u>3,300</u>

14 Creditors - amounts falling due after more than one year

	1998 £000	1997 £000
Amounts owing under finance leases		
- between 1 and 2 years	-	31
	<u>-</u>	<u>31</u>

15 Provisions for liabilities and charges

	Pensions £000	Other Provisions £000	Total £000
At 1 April 1997	208	545	753
Utilised during year	(19)	(136)	(155)
At 31 March 1998	<u>189</u>	<u>409</u>	<u>598</u>

PILKINGTON AEROSPACE LIMITED

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 1998**

15 Provisions for liabilities and charges (continued)

Other provisions consist of:-

	1998	1997
	£000	£000
Warranty	212	215
Cumulative leave	188	187
Redundancy	-	129
Other	9	14
	<hr/> 409 <hr/>	<hr/> 545 <hr/>

Deferred taxation

The deferred tax which has not been provided
amounted to:

	1998	1997
	£000	£000
Capital allowances in excess of related depreciation	431	391
Other timing differences	(183)	(213)
	<hr/> 248 <hr/>	<hr/> 178 <hr/>

16 Share capital

	1998	1997
	£000	£000
Authorised, allotted, called up and fully paid 9,000,000 ordinary shares of £1 each	<hr/> 9,000 <hr/>	<hr/> 9,000 <hr/>

PILKINGTON AEROSPACE LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 1998

17 Profit and Loss Account

	£000
At 1 April 1997	(3,236)
Retained profit for the year	1,845
At 31 March 1998	<u><u>(1,391)</u></u>

18 Commitments and contingent liabilities

	1998 £000	1997 £000
(a) Capital expenditure		
Contracts placed but not provided for in the accounts	Nil	Nil
Projects approved by the directors but not contracted for	162	444
	<u><u>162</u></u>	<u><u>444</u></u>
	1998 £000	1997 £000

(b) Operating lease commitments

The company's operating lease commitments for the following financial year are as follows:-

For non-property leases expiring
 Within one year
 Between two and five years

1	5
24	22
<u><u>25</u></u>	<u><u>27</u></u>

PILKINGTON AEROSPACE LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 1998

18 Commitments and contingent liabilities (continued)

(c) Other commitments and contingent liabilities

- i. At 31 March 1998, the company had contingent liabilities incurred in the ordinary course of business arising out of guarantees and other transactions including a joint and several liability for VAT under a Pilkington plc group registration. In the opinion of the directors no material amounts are expected to become payable under these arrangements.
- ii. It is impossible to estimate claims which might arise from an air disaster through the failure in use of windscreens and other glasses supplied for aircraft. The company has taken out product liability insurance for £300 million.

19 Pensions and similar obligations

The company's employees are members of the Pilkington Superannuation Scheme or the Pilkington Pension Scheme, both of which are in the nature of defined contribution schemes. The pension cost charge for the year amounted to £401,000 (1997 £421,000).

Details of the pension schemes are noted in the accounts of the ultimate holding company, Pilkington plc.

20 Ultimate holding company

The ultimate holding company is Pilkington plc, registered in England and Wales. Pilkington plc has prepared consolidated accounts for the whole of the Pilkington Group, a copy of which can be obtained from the Company Secretary, Pilkington plc, Prescott Road, St Helens, WA10 3TT.