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Waterford Wedgwood U.K. plc

Annual Report and Accounts 1997

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Waterford Wedgwood U.K. plc is an intermediate holding company, registered in England (Number 2058427), the ordinary share capital of which is wholly owned by Waterford Wedgwood plc. These financial statements have been prepared to comply with the requirements of the United Kingdom Companies Act, 1985. For a fuller understanding of the activities and financial position of the Waterford Wedgwood Group, readers are referred to the Annual Report and Accounts of Waterford Wedgwood plc.

Throughout this document, references to 'WW Group' relate to Waterford Wedgwood plc and all its operations worldwide and references to 'the Group' relate to Waterford Wedgwood U.K. plc and all its operations worldwide. 'Waterford' refers to Waterford Crystal activities worldwide, 'Wedgwood' refers to Wedgwood Group activities worldwide and 'Rosenthal' refers to Rosenthal AG activities worldwide.

Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended 31 December 1997.

Results

The financial statements for the year ended 31 December 1997 are set out in detail on pages 10 to 29. A full review of the WW Group's business is set out in the Operations Review contained in the Waterford Wedgwood plc Annual Report and Accounts for the year. A summary of the results is as follows:

	Year ended 31 December 1997 £m
Operating profit	23.0
Exceptional restructuring charge	(25.7)
Share of profits of associated undertaking	0.5
Net interest payable	(6.0)
Loss on ordinary activities before taxation	(8.2)
Taxation on profit on ordinary activities	(5.1)
Loss for the financial year	(13.3)
Dividends (paid and proposed)	(6.5)
Loss in the year	(19.8)

Translation adjustments totalling £1.1 million and a write-off of goodwill of £24 million have reduced the revenue reserves balance during the year.

An interim dividend of IR0.35p per share was paid on 25 November 1997. The Directors recommend the payment of a final dividend of the sterling equivalent of the final dividend of IR1.25p per ordinary share declared by Waterford Wedgwood plc as determined in accordance with the Articles of Association of the Company to be paid on 29 May 1998 to income shareholders on the Register of the Company as at the close of business on 27 March 1998 who are eligible and elect to receive the same in accordance with the Articles of Association of the Company. Subject to Waterford Wedgwood plc shareholder approval, a scrip dividend alternative will be available from Waterford Wedgwood plc in lieu of the cash dividend.

Principal activities, acquisitions and divestments

The Company is an intermediate holding company and the Group's principal activities are the manufacture, distribution and retailing of high quality bone china and earthenware tableware and giftware, under the Wedgwood brand together with quality earthenware tableware by Johnson Brothers (including the Franciscan brand), Mason's Ironstone fine tableware and giftware and Coalport bone china giftware. The Group also distributes crystal products in certain world markets and porcelain products, under the Rosenthal brands. During the year, the Group purchased a 26.2% equity interest in Rosenthal AG, a premium ceramics manufacturer based in Germany. This interest was subsequently increased to 61.5% by 31 December 1997. There were no material divestments during the year. The Company's principal subsidiary companies as at 31 December 1997 are listed on page 28.

Events since the year end

Following the closure of the tender offer to the shareholders of Rosenthal AG (announced on 8 December 1997) for all shares not held by the Group, the Group achieved an 84.62% holding at 5 February 1998, for a total consideration of £45 million.

Future developments

Future developments and prospects are outlined in the WW Group Chairman's Statement and Operations Review on pages 4 to 18 of Waterford Wedgwood plc's Annual Report for the year ended 31 December 1997.

Board of Directors

The Directors of the Company are:

Robert H. Niehaus (Chairman)
*Richard A. Barnes
*Paul A. Hick
*Edward V. Jenner
*Christopher J. S. Johnson
Leonard J. P. O'Hagan
Chryssanthie J. O'Reilly
*Brian D. Patterson
*George Stonier
*Denis J. Guillaumin (Appointed 19 November 1997)
*Christopher J. McGillivary (Appointed 11 December 1997)
P. Redmond O'Donoghue (Appointed 11 December 1997)
*Robin J. Ritchie (Retired 17 April 1997)
F. Alan Wedgwood
Lord Wedgwood (Appointed 19 November 1997)

(*Executive Directors)
Secretary: Wendy J. Jennings

Directors (except for directors of Waterford Wedgwood plc)

Paul A. Hick was appointed a Director of Waterford Wedgwood U.K. plc and Wedgwood Managing Director, International Operations, on 1 May 1996. He is also a director of Incorporated Society of British Advertisers Ltd.

Leonard J. P. O'Hagan was appointed to the Board of Waterford Wedgwood U.K. plc on 12 December 1996. He is also a director of a number of other companies including Fitzwilton Public Limited Company.

Edward V. Jenner was appointed a Director of Waterford Wedgwood U.K. plc and Wedgwood Finance Director on 19 October 1994. He is also a director of Hanley Economic Building Society.

Denis J. Guillaumin was appointed to the Board of Waterford Wedgwood U.K. plc on 19 November 1997. He is President of Waterford Wedgwood Japan Limited and was formerly Managing Director of Waterford Wedgwood, Continental Europe.

George Stonier was appointed to the Waterford Wedgwood U.K. plc Board on 31 December 1987. He is Wedgwood Operations Director.

Lord Wedgwood was appointed to the Board of Waterford Wedgwood U.K. plc on 19 November 1997. He acts on a freelance basis as Wedgwood's ambassador in world markets. He is also a director of Fired Earth plc.

In accordance with the Articles of Association, Denis J. Guillaumin, Christopher J. McGillivary, P. Redmond O'Donoghue and Lord Wedgwood each of whom were appointed Directors during the year, retire and, being eligible, will offer themselves for election. Richard A. Barnes, F. Alan Wedgwood, Christopher J. S. Johnson and George Stonier retire from the Board by rotation and, being eligible, will offer themselves for re-election.

Brian D. Patterson, Richard A. Barnes, Christopher J. S. Johnson and George Stonier all have service contracts, which can be terminated by three years' notice.

Edward V. Jenner has a service contract which can be terminated by one year's notice and Paul A. Hick a service contract which can be terminated by eighteen months' notice.

Directors' interests

Share capital

The interests of the Directors (except for directors of Waterford Wedgwood plc) and their immediate families in the share capital of Waterford Wedgwood plc are set out below:

	Description of shares or debentures	1.1.97 or date of appointment		31.12.97 or date of retirement	
		Beneficial	Non-beneficial	Beneficial	Non-beneficial
Director					
P. A. Hick	stock units	–	–	4,145	–
E.V. Jenner	stock units	2,184	–	4,857	–
R. J. Ritchie	stock units	2,798	–	2,798	–
G. Stonier	stock units	82,760	–	96,858	–
Lord Wedgwood	stock units	30,000	–	30,000	–

Waterford Wedgwood plc stock units each comprise one Waterford Wedgwood plc ordinary share of IR5p and one non voting income share of 1p in Waterford Wedgwood U.K. plc.

Directors' options

Details of executive share options, granted in accordance with the rules of the WW Group Executive Share Option Scheme, held by the Directors (except for Directors of Waterford Wedgwood plc) in the share capital of Waterford Wedgwood plc are set out below:

Director	1.1.97 or date of appointment	Granted during year	Exercised during year	Lapsed during year	31.12.97 or date of retirement	Option price	Exercisable date
D. J. Guillaumin	300,000	–	–	–	300,000	Stg 77.5p	Before 24.5.06
	500,000	–	–	–	500,000	Stg 76.5p	Before 13.12.06
	300,000	–	–	–	300,000	Stg 76.5p	Before 13.12.06
P. A. Hick	250,000	–	–	–	250,000	Stg 77.5p	Before 24.5.06
	200,000	–	–	–	200,000	Stg 76.5p	Before 13.12.06
	–	300,000	–	–	300,000	Stg 80.5p	Before 22.12.07
E. V. Jenner	250,000	–	–	–	250,000	Stg 77.5p	Before 24.5.06
	200,000	–	–	–	200,000	Stg 76.5p	Before 13.12.06
	–	300,000	–	–	300,000	Stg 80.5p	Before 22.12.07
R. J. Ritchie	222,000	–	222,000	–	–	Stg 63.0p	–
	250,000	–	–	–	250,000	Stg 77.5p	Before 24.5.06
G. Stonier	80,700	–	–	80,700	–	Stg 119.0p	–
	39,200	–	–	–	39,200	Stg 74.0p	Before 21.4.98
	44,000	–	–	–	44,000	Stg 79.0p	Before 11.4.99
	500,000	–	–	–	500,000	Stg 77.5p	Before 24.5.06
	500,000	–	–	–	500,000	Stg 76.5p	Before 13.12.06

The market price at exercise date for options exercised during the year was Stg 81.75p.

Details of options held by the Directors, other than Directors of Waterford Wedgewood plc, under WW Group Savings Related Share Option Schemes (SAYE) in the share capital of Waterford Wedgwood plc are set out below:

Director	1.1.97 or date of appointment	Granted during year	Exercised during year	Lapsed during year	31.12.97 or date of retirement	Option price	Exercisable date
D. J. Guillaumin	3,062	–	–	–	3,062	Stg 65p	Before 1.5.00
E. V. Jenner	1,857	–	–	–	1,857	Stg 63p	Before 1.2.00
R. J. Ritchie	3,103	–	–	–	3,103	Stg 29p	Before 1.7.99
	6,800	–	–	–	6,800	Stg 12.5p	Before 1.5.00
G. Stonier	2,586	–	2,586	–	–	Stg 29p	–
	5,800	–	5,800	–	–	Stg 12.5p	–
	2,225	–	–	–	2,225	Stg 31p	Before 1.5.99
	2,816	–	–	–	2,816	Stg 49p	Before 1.5.00
	3,285	–	–	–	3,285	Stg 63p	Before 1.2.02

The market prices at exercise dates for options exercised during the year were Stg 75p and Stg 70p respectively.

There have been no changes in any of the above interests between 31 December 1997 and 10 March 1998.

Directors' Remuneration

Emoluments of Executive Directors and senior management are determined by the Remuneration Committee which is chaired by the WW Group Chairman and comprises non-executive Directors only. At the beginning of each financial year the Remuneration Committee determines basic salaries as well as the parameters for bonus payments.

The Remuneration Committee applies the same philosophy in determining Executive Directors' remuneration as is applied in respect of all employees. The underlying objective is to ensure that individuals are appropriately rewarded relative to their responsibility, experience and value to the Group. The Remuneration Committee is mindful of the need to ensure that, in a competitive environment, the Group can attract, retain and motivate executives who can perform to the highest levels of expectation.

Annual bonuses are determined by the Remuneration Committee on the basis of objective assessments based on the WW Group's performance during the year in terms of key financial indicators, as well as qualitative assessment of the individual's performance.

Executive Directors' Pensions are, in the main, Revenue approved occupational pension schemes either based on final salary or on defined contributions. The normal pension age is 65 years and pension is payable at a maximum rate of two-thirds of final pensionable salary at normal retirement date, subject to service. Where pensions are capped to comply with legislation, benefits above the cap are provided by Funded Unapproved Retirement Benefit Schemes (FURBS) or an appropriate amount reserved in the accounts to purchase such pension. Alternatively, where individual contractual arrangements require, accelerated accrual rates and earlier normal retirement dates may apply.

In framing Remuneration Policy the Remuneration Committee has complied with Section A and has had regard to Section B of the Best Practice provisions annexed to the Listing Rules of The Irish Stock Exchange. It has considered it appropriate, in the current circumstances of the main operating businesses within the Group, to maintain service contracts with three year notice periods for certain Executive Directors, including the Operations Director (Wedgwood).

In accordance with the requirements of Listing Rule 12.43(x)(viii), each of R. A. Barnes, C. J. S. Johnson and G. Stonier have contracts of service that include an unexpired term to the date of their normal pension age – 16 October 2013; 4 March 2005 and 12 October 2011 respectively – subject to certain conditions. Termination can be given, in the absence of cause, by three years' notice. Termination for cause, as defined, requires no notice period in either contract.

Details of Directors' remuneration for the current year, together with prior year comparatives, are set out in note 7 to the financial statements.

Directors' contracts

With the exception of Lord Wedgwood who has a contract expiring 31 December 2000, to provide ambassadorial services to Wedgwood international markets on a freelance basis, there have been no contracts or arrangements with the Company or any subsidiary in which a Director of the Company was materially interested and which was significant in relation to the Company's business.

Corporate Governance

(i) General

The Directors support the Code of Best Practice, published in December 1992 by the Cadbury Committee on the Financial Aspects of Corporate Governance.

The WW Group has had within its Board structures both an Audit Committee and a Remuneration Committee since 1987. Membership of these Committees comprises non-executive Directors only. The Audit Committee met four times in 1997 to review the adequacy of the WW Group's systems of control, the range and findings of external and internal auditors' work, the interim and full year financial statements prior to their submission to the Board, the application of accounting policies and any changes to financial reporting requirements.

The WW Group Remuneration and Nomination Committee is responsible for advising on the appointment of Directors and determines terms, conditions of employment and remuneration of executive

Directors and senior managers, including performance-related elements of remuneration as appropriate. The Committee is also responsible for overseeing the granting of options under the WW Group Share Option Schemes. It meets when required throughout the year.

The Group complies with all of the provisions of the Code of Best Practice as applied to its parent Waterford Wedgwood plc, by The Irish Stock Exchange.

(ii) Internal financial control

The Directors are responsible for ensuring that the Group maintains a system of internal financial controls. Internal financial controls are designed to give reasonable assurance with respect to:

- the reliability of financial information used in the business or for publication; and
- the maintenance of proper accounting records.

The Group's internal financial control and monitoring procedures include:

- a clearly defined organisation structure and the delegation of responsibility to appropriate levels within operating management;
- separation of incompatible functions;
- prescribed authorisation limits;
- required evaluation procedures for proposed capital expenditure and investment;
- the preparation of regular management accounts and the use of detailed operating budgets for each of the Group's business units against which performance is monitored on a monthly basis;
- Board committees for audit and remuneration; and
- a management committee to deal with corporate affairs matters including taxation and treasury.

The Group has an independent Internal Audit function, reporting to the Audit Committee, which is appropriately resourced, having regard to the Group's operations and circumstances. The Internal Audit function's ambit covers all the Group's operations and business units. Its plan is drawn up having regard to the materiality and risk of the individual units involved. The Audit Committee has reviewed the operation and effectiveness of the Group's internal financial control framework during 1997.

(iii) Going concern

After making appropriate enquiries and on the basis of current financial projections and facilities available, the Directors have concluded that the Group has adequate resources to continue operations for the foreseeable future and have therefore prepared the financial statements on a going concern basis.

(iv) Auditors' review of Corporate Governance disclosures

Price Waterhouse have reported to the Board that in their opinion the above statements on internal financial controls and going concern have provided the disclosures required by the Listing Rules of The Irish Stock Exchange and are consistent with the information which came to their attention as a result of their audit work on the financial statements; and that the Directors' other statement above about compliance with the Code appropriately reflects the Group's compliance with other paragraphs of the Code specified for their review by Listing Rule 12.43(j).

Directors' responsibilities in relation to the Financial Statements

The Directors are required by company law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that financial year.

In preparing those financial statements, the Directors are required to:

- select appropriate accounting policies and apply them consistently;
- make reasonable and prudent judgements and estimates; and
- state 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 at any time the financial position of the Company and which enable them to ensure that the financial statements comply with the UK Companies Acts 1985. The Directors confirm that the financial statements comply with the above requirements. The Directors also have responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Share capital

All of the Company's ordinary shares of 25p each, which carry the right to vote at general meetings of the Company, are held by Waterford Wedgwood plc. At 31 December 1997 the issued share capital of the Company comprised 760,868,866 income shares and 181,601,769 ordinary shares. 34,175,144 ordinary shares in the Company were cancelled with effect from 18 July 1997 following their repurchase from Waterford Wedgwood plc.

Research and product development

The Group maintains design and development departments in its main manufacturing divisions. Expenditure on design and development in 1997 amounted to £2.5 million and related mainly to the development of new processes and manufacturing technologies.

Employment policies

The Directors remain committed to providing the conditions best suited to encourage the personal involvement of all employees in the future development of the business. This involves open and regular communication with all employees, the provision of training and development opportunities and profit sharing and employee share schemes. Several employee share schemes operate within the Group and involve around 2,400 employees – approximately 60% of the U.K. workforce.

Quality Circles and Wedgwood's continuous improvement initiatives continue to be important features in improving the quality of working life.

With regard to the employment of disabled people, Wedgwood works in close co-operation with local disablement resettlement officers to recruit and train disabled employees and to provide, whenever possible, career development for those whose health no longer allows them to continue in their normal occupation.

Health, safety and the environment

Wedgwood pursues an active policy of providing safe systems of work and high standards of environmental management. Wedgwood's Health and Safety Policy Committee and Environmental Policy Committee meet on a quarterly basis to monitor developments in Health, Safety and Environmental legislation and set and monitor strategy and compliance with objectives for the year.

Additionally, regular meetings of the Group's health and safety committees for each factory and employee councils have been held.

The main objective for Health and Safety during 1997 was to continue to raise the profile of such issues in the Wedgwood Group primarily through integration into the Wedgwood Group's continuous improvement initiative and training.

The main Environmental objectives for 1997 have been achieved, including:

- Compliance with trade effluent discharge consent conditions.
- Full compliance with the Producer Responsibility (Packaging Waste) Regulations 1997.

Charitable donations

The Group donated approximately £103,000 for charitable purposes during the year.

Authority to allot shares

At the forthcoming Annual General Meeting, shareholders will be asked to renew the authority of the Directors to allot and issue the income share capital in the Company and to renew, until the Annual General Meeting in 1999 or on 30 June 1999 whichever is earlier, or on such earlier date as the authority and power is renewed in accordance with Article 11 of the Company's Articles of Association, the authority not to apply the strict statutory pre-emption provisions in the event of a Rights or other Issue.

Auditors

The auditors, Price Waterhouse, have expressed their willingness to continue in office and a resolution for their re-appointment and authorising the Directors to fix their remuneration will be submitted at the forthcoming Annual General Meeting.

Company status

So far as the Directors are aware, the close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Company. There has been no change in this respect since the end of the financial year.

By order of the Board
Wendy J Jennings,
Secretary

10 March 1998

Auditors' report to the Members of Waterford Wedgwood U.K. plc

We have audited the financial statements on pages 10 to 29 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 10 and 11.

Respective responsibilities of Directors and Auditors

As described on page 6, 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 Group's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 1997 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act, 1985.

Price Waterhouse

Price Waterhouse
Chartered Accountants
and Registered Auditors
London.

10 March 1998

Accounting Policies

The significant accounting policies adopted by the Group are as follows:

Basis of accounting

The financial statements are prepared under the historical cost convention, modified by the revaluation of certain properties and in accordance with applicable accounting standards.

Turnover

Turnover represents goods invoiced during the year, excluding sales taxes.

Foreign currencies

In the Group balance sheet, assets and liabilities denominated in foreign currencies are translated into Sterling at the year-end exchange rates unless matched by related future forward currency contracts. Trading results of overseas subsidiaries are translated into Sterling at the average rates of exchange for the year. Exchange differences arising from the restatement of opening balance sheets of overseas subsidiaries at year-end exchange rates and from the translation of the results of those subsidiaries at average exchange rates are dealt with through reserves, net of exchange differences on related currency borrowings. Other exchange gains and losses are taken to the profit and loss account.

It is the Group's policy to protect income, where appropriate, by means of forward currency contracts entered into to fix the exchange rates applicable to estimated future foreign currency receipts. Profits or losses arising from these arrangements are accounted for in the financial year in which the related sales arise.

Tangible assets and depreciation

Tangible assets are stated at cost or valuation less accumulated depreciation. Depreciation is calculated to write off the cost or valuation of tangible assets other than freehold land over their estimated useful lives. The profit or loss on the disposal of an asset is calculated as the difference between the net sale proceeds and the net book value.

Stocks

Stocks are stated at the lower of cost and net realisable value. In the case of finished goods and work-in-progress manufactured by the Group, cost comprises the cost of labour and materials together with appropriate factory and other overheads. In the case of other stocks, cost is ascertained by reference to purchase price plus duty where appropriate. Net realisable value is the actual or estimated selling price (net of trade discounts) less all further costs to completion and less all costs to be incurred in marketing, selling and distribution.

Goodwill

Goodwill arising on acquisition of subsidiary undertakings is set off against reserves in the years of acquisition. Goodwill comprises the excess of the purchase price over the fair value of the net assets acquired.

Consolidation and equity accounting

The Group profit and loss account and Group balance sheet represent a consolidation of the financial statements of the parent company and its subsidiaries and the Group's share of results and net assets of its associated companies. Where subsidiary or associated undertakings have been acquired or disposed of, the financial statements include only the proportion of the results arising since the date of acquisition or up to the effective date of disposal.

A merger reserve arises where the fair value of net assets acquired, excluding goodwill, exceeds the purchase consideration which, for this purpose, includes only the nominal value of share capital issued where benefit is taken of merger relief under Section 131 of the Companies Act, 1985.

Investments in subsidiary undertakings

The Company records investments in overseas subsidiaries in the currency in which they are denominated, translating this amount into Sterling at each successive balance sheet date using the balance sheet exchange rate. Exchange gains and losses arising on translation of these investments are taken directly to revenue reserves, along with the corresponding exchange gain or loss arising on foreign currency denominated liabilities used to hedge anticipated foreign exchange fluctuations in the value of overseas investments.

Taxation

Deferred taxation is accounted for, to the extent that a liability or an asset is expected to crystallise. Advance corporation taxation not recoverable against the mainstream corporation taxation liability for the current or previous years is written off to the profit and loss account unless its future recovery is foreseen.

Research and development

All expenditure on research and development, including the cost of patents and trade marks, is written off to the profit and loss account in the year in which it is incurred.

Pensions

The expected cost of providing pensions to employees is charged to the profit and loss account over the period of employment of pensionable employees. The cost is calculated, with the benefit of advice from independent actuaries, at what is expected to be a reasonably stable proportion of pensionable pay. Any surpluses or deficits in the pension schemes, identified by periodic actuarial valuations, are taken to the profit and loss account over the remainder of the expected service lives of current employees.

Leasing

Where tangible assets are financed by leasing arrangements which give rights approximating to ownership ('finance lease'), they are treated as if they have been purchased outright at the present values of the minimum lease payments; the corresponding obligations are shown in the balance sheets as finance leases. Depreciation on the assets is calculated in order to write-off the amounts capitalised over the shorter of the estimated useful lives of the individual assets or the terms of the lease. Interest arising on finance leases is charged to the profit and loss account in proportion to the amounts outstanding under the lease.

Operating lease rentals are charged to the profit and loss account in the year in which they arise.

Consolidated profit and loss account

	Notes	1997 £m	1996 £m
		Year ended 31 December	
Turnover	1	**338.9**	340.2
Cost of sales		**(195.3)**	(194.2)
Gross profit		**143.6**	146.0
Distribution costs		**(92.6)**	(87.7)
Administrative expenses		**(29.7)**	(32.5)
Other operating income	2	**1.7**	–
		(120.6)	(120.2)
Operating profit	1	**23.0**	25.8
Exceptional restructuring charge	3	**(25.7)**	–
Share of profits of associated undertakings		**0.5**	–
Net interest payable	4	**(6.0)**	(3.8)
(Loss)/profit on ordinary activities before taxation	5	**(8.2)**	22.0
Taxation on profit on ordinary activities	6	**(5.1)**	(5.8)
(Loss)/profit for the financial year		**(13.3)**	16.2
Dividend	8	**(6.5)**	(7.3)
(Loss)/profit retained in year	20	**(19.8)**	8.9
(Loss)/earnings per income share	10	**(1.75p)**	2.13p
Earnings per income share before exceptional charge	10	**1.63p**	2.13p

Turnover and operating profit arose solely from continuing activities.

R. H. Niehaus Chairman

R. A. Barnes Director

Consolidated balance sheet

	Notes	1997 £m	1996 £m
		31 December	
Fixed assets			
Tangible assets	11	**97.1**	69.1
Financial assets	13	**4.9**	2.1
		102.0	71.2
Current assets			
Stocks	14	**129.8**	89.8
Debtors	15	**77.5**	66.1
Cash and deposits		**37.9**	28.9
		245.2	184.8
Creditors (amounts falling due within one year)	17	**(134.2)**	(79.4)
Net current assets		**111.0**	105.4
Total assets less current liabilities		**213.0**	176.6
Creditors (amounts falling due after more than one year)	17	**(169.4)**	(57.8)
Provisions for liabilities and charges	19	**(1.9)**	(2.0)
		41.7	116.8
Capital and reserves			
Called up share capital	21	**53.0**	61.5
Merger reserve	20	**2.2**	2.2
Revaluation reserve	20	**5.5**	5.8
Capital redemption reserve	20	**8.5**	–
Revenue reserve	20	**(35.7)**	45.8
Shareholders' funds – equity interests		**33.5**	115.3
Minority interests – equity interests		**8.2**	1.5
		41.7	116.8

Approved by the Board of Directors on 10 March 1998

R. H. Niehaus Chairman

R. A. Barnes Director

Company balance sheet

	Notes	1997 £m	1996 £m
		31 December	
Fixed assets			
Financial assets	13	**108.8**	146.0
Debtors	15	**36.2**	32.8
Creditors (amounts falling due within one year)	17	**(70.3)**	(69.4)
Net current liabilities		**(34.1)**	(36.6)
Total assets less current liabilities		**74.7**	109.4
Creditors (amounts falling due after more than one year)	17	**(7.1)**	(3.1)
		67.6	106.3
Capital and reserves			
Called up share capital	21	**53.0**	61.5
Capital redemption reserve	20	**8.5**	–
Revenue reserve	20	**6.1**	44.8
Shareholders' funds – equity interests		**67.6**	106.3

Other than £1 million of exchange losses taken directly to reserves, there were no recognised gains and losses during the year other than those which are reflected in the profit for the year.

Approved by the Board of Directors on 10 March 1998.

R. H. Niehaus Chairman RH Niehaus

RABarnes
R. A. Barnes Director

Statement of total recognised gains and losses

	Year ended 31 December	
	1997 £m	1996 £m
(Loss)/profit for the financial year	**(13.3)**	16.2
Exchange translation effect on net overseas investments	**(1.1)**	(3.2)
Total recognised (losses)/gains for the year	**(14.4)**	13.0

Note of historical cost profits and losses

The difference between the reported profits and those calculated on an unmodified historical cost basis is not material.

Reconciliation of movement in shareholders' funds

	Year ended 31 December	
	1997 £m	1996 £m
(Loss)/profit for the financial year	**(13.3)**	16.2
Dividends	**(6.5)**	(7.3)
Goodwill written off	**(24.0)**	–
Buy back of share capital	**(36.9)**	–
Exchange translation effect on net overseas investments	**(1.1)**	(3.2)
Net (reduction)/addition to shareholders' funds	**(81.8)**	5.7
Opening shareholders' funds	**115.3**	109.6
Closing shareholders' funds	**33.5**	115.3

Notes to the financial statements

1. Segment information

(a) Classes of business

	1997 Turnover £m	1997 Operating profit £m	1997 Net assets £m	1996 Turnover £m	1996 Operating profit £m	1996 Net assets £m
Waterford Wedgwood brands	**338.9**	**23.0**	**146.6**	340.2	25.8	148.9
Rosenthal*	**–**	**–**	**17.2**	–	–	–
Net borrowings	**–**	**–**	**(122.1)**	–	–	(32.1)
	338.9	**23.0**	**41.7**	340.2	25.8	116.8
Share of associated company profits*	**–**	**0.5**	**–**	–	–	–
Minority interests	**–**	**–**	**(8.2)**	–	–	(1.5)
Total Group	**338.9**	**23.5**	**33.5**	340.2	25.8	115.3

Turnover between the above classes of business is not material.

(b) Geographical segment by country of operation

	1997 Turnover by destination £m	1997 Turnover by country of operation £m	1997 Operating profit £m	1997 Net assets £m	1996 Turnover by destination £m	1996 Turnover by country of operation £m	1996 Operating profit £m	1996 Net assets £m
Europe	**108.3**	**167.8**	**15.6**	**120.3**	101.7	166.7	12.5	75.7
North America	**161.0**	**159.1**	**4.5**	**25.4**	156.5	149.3	7.4	57.0
Asia Pacific	**49.4**	**43.6**	**2.4**	**14.6**	56.2	47.6	5.8	11.1
Rest of world	**20.2**	**16.0**	**0.5**	**3.5**	25.8	17.7	0.1	5.1
	338.9	**386.5**	**23.0**	**163.8**	340.2	381.3	25.8	148.9
Inter segment sales	**–**	**(47.6)**	**–**	**–**	–	(41.1)	–	–
Net borrowings	**–**	**–**	**–**	**(122.1)**	–	–	–	(32.1)
Total	**338.9**	**338.9**	**23.0**	**41.7**	340.2	340.2	25.8	116.8
Share of associated company profits*	**–**	**–**	**0.5**	**–**	–	–	–	–
Minority interests	**–**	**–**	**–**	**(8.2)**	–	–	–	(1.5)
Total Group	**338.9**	**338.9**	**23.5**	**33.5**	340.2	340.2	25.8	115.3

*For a description of accounting for Rosenthal AG see note 12.

All inter segment sales originate from Europe.

2. Other operating income

	1997 £m	1996 £m
Other operating income	**0.2**	0.2
Exchange gain/(loss)	**1.5**	(0.2)
	1.7	–

3. Exceptional restructuring charge

	1997 £m	1996 £m
Rosenthal integration and supply chain improvements	**5.7**	–
Restructuring of earthenware operations	**6.7**	–
Manufacturing rationalisation	**7.8**	–
Business simplification and overhead reduction	**5.5**	–
Charged to profit and loss	**25.7**	–
Utilised during the year	**(4.1)**	–
Balance at 31 December 1997	**21.6**	–

There is no effect on the 1997 taxation charge arising from the above exceptional item.

In December 1997 the Board of Waterford Wedgwood plc announced a fundamental restructuring programme for the Wedgwood business. This restructuring will further improve the supply chain, distribution and customer service, including Rosenthal integration; restructure and refocus Wedgwood's earthenware business, including the closure of one manufacturing facility; further substantially rationalise production facilities in the U.K.; and simplify the business including backroom amalgamation with Rosenthal.

4. Net interest payable

	1997 £m	1996 £m
Interest payable on borrowings	**8.2**	5.3
Interest payable on finance leases	**0.1**	0.2
	8.3	5.5
Interest receivable from third parties	**(2.1)**	(1.2)
Interest receivable from Waterford Wedgwood Group companies	**(0.2)**	(0.5)
Net interest payable	**6.0**	3.8

5. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation has been arrived at after charging:

	1997 £m	1996 £m
Depreciation – owned assets	**9.0**	8.0
– leased assets	**0.8**	0.7
Operating lease rentals – plant and equipment	**1.4**	1.6
– others	**3.1**	2.8
Research and development	**2.5**	1.9
Auditors' remuneration (Company: £18,000 (1996: £18,000))	**0.3**	0.3

Fees paid to Price Waterhouse by the Company and its U.K. subsidiaries in respect of non audit services amounted to £159,000 (1996: £201,000).

6. Taxation on profit on ordinary activities

	1997 £m	1996 £m
Based on the loss for the year		
U.K. corporation taxation at 31.5% (1996: 33%)	**2.9**	1.5
Overseas taxation	**2.2**	4.3
	5.1	5.8

The Group has taxation losses carried forward at 31 December 1997 of £21.1 million (1996: £5.8 million), which includes £18.3 million of losses acquired with subsidiary undertaking.

7. Directors' emoluments and other contracts

Directors' remuneration	1997 Executive Directors £'000	1997 Non-executive Directors £'000	1996 Executive Directors £'000	1996 Non-executive Directors £'000
Fees	–	15	–	–
Other remuneration	984	–	1,051	–
Benefits in kind	74	–	76	–
Annual bonus	107	–	519	–
Compensation for loss of office – paid by subsidiaries	–	–	341	–
Contributions to defined contribution pension scheme	50	–	14	–
Aggregate gains on the exercise of share options	52	–	–	–
Ex-gratia pensions paid to past Directors	7	–	7	–
Total	1,274	15	2,008	–
Number of Directors	9	6	8	4

Appointed during the year:

D. J. Guillaumin	19 November 1997
Lord Wedgwood	19 November 1997
C. J. McGillivary	11 December 1997
P. R. O'Donoghue	11 December 1997

Resigned during the year:

R. J. Ritchie	17 April 1997

The Directors' remuneration shown comprises all the fees, salaries, gains on the exercise of share options, company contributions to defined contribution schemes and any other benefits and emoluments payable to Directors.

Share options granted to Directors other than Directors of Waterford Wedgwood plc are set out in the Report of the Directors on page 4.

The highest paid Director in 1997 received total emoluments of £262,710 and had an accrued benefit entitlement under defined benefit pension scheme arrangements of £57,632 at 31 December 1997.

The following disclosures are made in respect of Directors' pension entitlements in accordance with the Listing Rules of The Irish Stock Exchange. Three Executive Directors are entitled to benefits under defined contribution scheme arrangements and the contributions in the aggregate, made in the year amounted to IR£50,000. Two of the foregoing Executive Directors and six other Executive Directors (eight in total) are entitled to benefits under defined benefit scheme pension arrangements. The aggregate amount of the increase in accrued pension entitlement (excluding inflation) for such Directors amounted to £33,000, the aggregate amount of the transfer value of this increase in accrued pension entitlement (excluding inflation) in the year amounted to £360,000 and the aggregate amount of the total accrued benefit entitlement to such Directors at 31 December 1997 amounted to £285,000. As noted on page 5 of the Report of the Directors, Lord Wedgwood entered into a three-year contract on 5 January 1998 for the provision of certain services to the Group for the period up to 31 December 2000, under which an amount of £36,000 per annum is payable to him.

8. Dividends

	1997 £m	1996 £m
Paid:		
Interim dividend	**1.5**	1.3
1996 final dividend	**-**	6.2
Adjustment relating to final dividend*	**(1.3)**	(0.2)
Proposed:		
Final dividend in respect of year ended 31 December 1997	**6.3**	–
	6.5	7.3

*At each year end an estimate is made of the number of shareholders who would elect to receive dividends from the United Kingdom and the exchange rate prevailing at the date the dividend is paid. The difference between the estimates used and the actual dividend paid was £1.3 million reduction in relation to the 1996 final dividend and £200,000 reduction in relation to the 1995 final dividend.

The total amount of the proposed dividend to income shareholders represents the estimated amount payable to income shareholders who will elect to receive a dividend on their income shares in lieu of a dividend on Waterford Wedgwood plc ordinary shares comprised in their stock unit. The proposed dividend represents the estimated sterling equivalent of the proposed dividend of Waterford Wedgwood plc.

9. Particulars of staff

	1997 Number	1996 Number
Average number of employees:		
Production	**3,172**	3,254
Marketing, selling and distribution	**2,359**	2,091
Administration	**456**	477
	5,987	5,822

	£m	£m
Staff costs:		
Wages and salaries	**92.1**	87.2
Social security costs	**8.7**	8.1
Pension costs	**6.2**	5.9
	107.0	101.2

10. Earnings per income share

	1997 £m	1996 £m
Profit for the financial year before exceptional charge	**12.4**	16.2
Exceptional charge	**(25.7)**	–
(Loss)/profit for the financial year after exceptional charge	**(13.3)**	16.2
Earnings per share (pence) before exceptional charge	**1.63p**	2.13p
(Loss)/earnings per share (pence) after exceptional charge	**(1.75p)**	2.13p

The calculation of earnings per share is based on 760.9 million shares being the weighted average number of income shares in issue during the year ended 31 December 1997 (1996: 760.9 million).

If all shares which may be issued under share option schemes were to be included, the earnings per share would not be materially affected.

11. Tangible assets

	Land and buildings freehold £m	Land and buildings short leasehold £m	Plant and equipment £m	Total £m
Group				
At 31 December 1996				
– cost	1.6	8.1	100.2	109.9
– valuation	26.3	–	–	26.3
	27.9	8.1	100.2	136.2
Additions	4.7	–	12.3	17.0
Acquisition of subsidiary	34.6	–	80.3	114.9
Reclassified	–	(1.7)	1.7	–
Property valuation	(2.5)	–	–	(2.5)
Disposals	(0.7)	(0.1)	(1.6)	(2.4)
Translation adjustment	–	0.1	(0.7)	(0.6)
At 31 December 1997	**64.0**	**6.4**	**192.2**	**262.6**
– cost	34.7	6.4	192.2	233.3
– valuation	29.3	–	–	29.3
	64.0	**6.4**	**192.2**	**262.6**
Accumulated depreciation				
At 31 December 1996	2.1	4.5	60.5	67.1
Charge for year	0.5	0.4	8.9	9.8
Acquisition of subsidiary	23.7	–	69.3	93.0
Property valuation	(2.5)	–	–	(2.5)
Disposals	(0.1)	(0.1)	(1.4)	(1.6)
Translation adjustment	–	–	(0.3)	(0.3)
At 31 December 1997	**23.7**	**4.8**	**137.0**	**165.5**
Net book amounts				
At 31 December 1997	**40.3**	**1.6**	**55.2**	**97.1**
At 31 December 1996	25.8	3.6	39.7	69.1

Type of asset	**Basis of depreciation**	**Useful lives**
Freehold buildings	Straight line	25 to 50 years
Short leasehold buildings	Straight line	Period of the lease
Plant and equipment	Straight line	4 to 30 years

No depreciation is charged on freehold land with a book value of £7.4 million (1996: £5.4 million).

Valuations of the Group's United Kingdom land and buildings were carried out at 31 December 1997 by Louis Taylor, Chartered Surveyors, Stoke-on-Trent, Staffordshire.

The principal manufacturing plant at Barlaston, Stoke-on-Trent was valued on the basis of depreciated replacement cost. Other properties were valued on an open market value for the existing use, for properties not surplus to requirements and open market value for other properties.

The net book value of plant and equipment includes £1.7 million (1996: £1.9 million) in respect of assets held under finance leases.

Land and buildings included at cost or valuation would have been stated on the historical cost basis at:

	1997 £m	1996 £m
Cost	**72.4**	36.7
Accumulated depreciation	**(34.4)**	(10.5)
	38.0	26.2

12. Acquisition of Rosenthal AG

As at 30 April 1997, the Group had accumulated a 26.2% equity interest in Rosenthal AG. This shareholding was subsequently increased to 61.5% by year end 1997 for a total consideration of DM88.1 million (£30 million) satisfied entirely by cash. The Group accounted for the initial 26.2% shareholding on an equity accounting basis. Following the increase, during December, in the shareholding to over 50%, Rosenthal has been consolidated as a subsidiary undertaking with effect from 31 December 1997.

Goodwill arising on the acquisition of Rosenthal AG has been written off against reserves. The net assets of Rosenthal AG have been included in the Group's balance sheet at their fair value at the date of acquisition.

Net assets of Rosenthal AG at date of acquisition:

	Book value £m	Fair value adjustments £m	Alignment of accounting policies £m	Fair value to the Group £m
Tangible fixed assets	21.9	–	–	21.9
Financial assets	0.9	1.6(a)	–	2.5
Stocks	28.5	–	–	28.5
Debtors	25.7	–	(0.3)(b)	25.4
Net borrowings	(15.5)	–	–	(15.5)
Creditors due within one year	(14.9)	–	–	(14.9)
Restructuring and rationalisation provisions*	(13.4)	–	–	(13.4)
Creditors due after more than one year	(17.4)	–	–	(17.4)
Net assets	15.8	1.6	(0.3)	17.1
Group's share of fair value of net assets (61.5%)				10.5
Share of profits during which investment was accounted for as an associate				(0.5)
Goodwill arising on acquisition				24.0
				34.0
Discharged by:				
Cash consideration				30.0
Costs associated with acquisition				4.0
				34.0

The fair values reflected above are provisional and may be subject to revision.

*Of the £13.4 million restructuring and rationalisation provision £7.7 million relates to provisions established in 1996 and £5.7 million relates to provisions established in 1997.

Adjustments

(a) Increase in value of investment in associated company.

(b) Realignment of accounting policy to write off design fees as incurred.

In view of the fact that Rosenthal AG has been consolidated with effect from 31 December 1997, it has not impacted the results of the Group other than for the share of profits of £0.5 million for the period in which Rosenthal AG was accounted for as an associated undertaking. Rosenthal AG has reported a loss of £6.4 million (1996: £20.5 million loss) for the year ended 31 December 1997. The summarised profit and loss account for 1997 is as follows:

	£m
Turnover	110.5
Operating profit	1.5
Interest payable	(1.8)
Exceptional restructuring charge	(6.0)
Loss on ordinary activities before taxation	(6.3)
Taxation on loss on ordinary activities	(0.1)

13. Financial assets

	Associated undertakings			
	Goodwill arising on acquisition £m	Share of net assets £m	Other loans and investments £m	Total £m
Group				
At 31 December 1996	–	–	2.1	2.1
Acquisitions	9.1	6.5	0.1	15.7
Additions	–	–	0.7	0.7
Disposals	–	–	(0.1)	(0.1)
Share of increase in net assets	–	0.5	–	0.5
Reclassification on consolidation*	(9.1)	(4.7)	–	(13.8)
Exchange	–	–	(0.2)	(0.2)
At 31 December 1997	**–**	**2.3**	**2.6**	**4.9**

*Relates to accumulation of associated company shareholding in Rosenthal AG effective 30 April 1997 and subsequent increase to over 50% in December 1997, following which Rosenthal was consolidated as a subsidiary (see note 12).

	£m
Company	
Investments in subsidiary companies	
At 31 December 1996	146.0
Share buy-back during the year	(36.9)
Exchange differences on investments	(0.3)
At 31 December 1997	**108.8**

The Group's principal subsidiaries are listed in note 28.

During the year one of the Company's subsidiary companies bought back part of its share capital for a consideration of £36.9 million.

14. Stocks

	1997 £m	1996 £m
Group		
Raw materials and consumables	**10.2**	6.6
Work-in-progress	**9.1**	7.4
Finished goods and goods for resale	**110.5**	75.8
	129.8	89.8

The estimated replacement cost of stocks is not materially different from the above amounts.

15. Debtors

	Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
Amounts falling due within one year:				
Trade debtors	**62.4**	44.4	**–**	–
Amounts owed by Waterford Wedgwood Group companies	**4.6**	14.7	**–**	–
Amounts owed by subsidiary companies	**–**	–	**36.2**	32.8
Other debtors	**5.7**	4.5	**–**	–
Prepayments and accrued income	**4.8**	2.5	**–**	–
	77.5	66.1	**36.2**	32.8

Prepayments include £0.8 million (1996: £0.6 million) falling due after more than one year.

16. Group net borrowings

	Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
Cash and deposits	**37.9**	28.9	**–**	–
Bank loans and overdrafts (Note 17)	**(9.4)**	(4.2)	**–**	–
Long term debt (Note 18)	**(149.7)**	(55.7)	**(7.1)**	(3.1)
Finance leases	**(0.9)**	(1.1)	**–**	–
	(122.1)	(32.1)	**(7.1)**	(3.1)

17. Creditors

	Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
Amounts falling due within one year:				
Current instalments due on loans	**0.8**	–	**–**	–
Bank loans and overdrafts	**8.6**	4.2	**–**	–
Trade creditors	**22.3**	16.2	**–**	–
Other creditors	**3.7**	2.0	**–**	–
Restructuring and rationalisation provisions	**35.0**	–	**–**	–
Accruals and deferred income	**20.9**	16.6	**–**	–
Amounts owed to Waterford Wedgwood Group companies	**20.7**	19.0	**–**	–
Amounts owed to subsidiary companies	**–**	–	**64.0**	63.2
Finance lease obligations (Note 22)	**0.2**	0.5	**–**	–
Taxation and social security	**15.7**	14.7	**–**	–
Proposed dividend	**6.3**	6.2	**6.3**	6.2
	134.2	79.4	**70.3**	69.4
Amounts falling due after more than one year:				
Long term debt (Note 18)	**149.7**	55.7	**7.1**	3.1
Finance lease obligations (Note 22)	**0.7**	0.6	**–**	–
Pension commitments	**18.0**	–	**–**	–
Other creditors and accruals	**1.0**	1.5	**–**	–
	169.4	57.8	**7.1**	3.1

18. Long term debt

	1997 £m	1996 £m
Term loans:		
Irish pound loans	**15.6**	22.8
U.S. dollar loans	**43.8**	7.8
Sterling loans	**22.0**	22.0
Deutschmark loans	**62.0**	–
Yen loans	**7.1**	3.1
	150.5	55.7
Amounts falling due:		
In one year or less	**0.8**	–
Between one and two years	**0.8**	–
Between two and five years	**144.8**	55.7
In five years or more	**4.1**	–
	150.5	55.7
Included within amounts falling due within one year	**(0.8)**	–
	149.7	55.7

Details of loans not wholly repayable within five years are as follows:

	1997 £m	1996 £m
5.75% secured loan of DM10 million repayable in half yearly instalments of DM625,000 commencing on 30 June 1998	**3.4**	–
6.50% secured loan of DM10 million repayable in half yearly instalments of DM625,000 commencing on 30 June 2000	**3.4**	–
5.80% secured loan of DM4.5 million repayable in annual instalments of DM500,000 commencing on 1 December 1998	**1.5**	–
5.90% secured loan of DM4 million repayable in annual instalments of DM500,000 commencing on 1 December 1998	**1.4**	–
	9.7	–

These loans are secured by fixed charges over various properties owned by Rosenthal AG. In addition there is a loan of £37.7 million secured by deposits held by other Group companies.

19. Provisions for liabilities and charges

	1997 £m	1996 £m
Group		
Deferred taxation	**1.9**	2.0

Deferred taxation arises as follows:	Provided in financial statements		Full potential liability	
	1997 £m	1996 £m	1997 £m	1996 £m
Group				
Accelerated capital allowances	**0.4**	0.5	**6.5**	6.5
Other timing differences	**1.5**	1.5	**(6.5)**	(0.6)
	1.9	2.0	**–**	5.9

Deferred taxation has not been provided on future remittances of the accumulated reserves of overseas subsidiaries as there is no current intention to distribute these reserves. Deferred taxation has also not been provided on capital gains which might arise on the disposal of certain revalued properties as there is no intention to dispose of these properties.

20. Reserves

	Merger reserve £m	Revaluation reserve £m	Capital redemption reserve £m	Revenue reserve £m	Total £m
Group					
At 31 December 1996	2.2	5.8	–	45.8	53.8
Loss for the year	–	–	–	(19.8)	(19.8)
Goodwill written off	–	–	–	(24.0)	(24.0)
Realised on sale of property	–	(0.3)	–	0.3	–
Arising on buy-back of share capital	–	–	8.5	(36.9)	(28.4)
Translation of overseas subsidiaries	–	–	–	(1.1)	(1.1)
At 31 December 1997	**2.2**	**5.5**	**8.5**	**(35.7)**	**(19.5)**

The cumulative amount of goodwill written off the merger reserve amounts to £29.1 million (1996: £29.1 million). The cumulative amount of goodwill written off revenue reserves amounts to £24 million (1996: £nil).

The revaluation reserve arises from the revaluation of land and buildings.

	Capital redemption £m	Revenue reserve £m	Total £m
Company			
At 31 December 1996	–	44.8	44.8
Loss for the year	–	(0.8)	(0.8)
Arising on buy back of share capital	8.5	(36.9)	(28.4)
Translation of net investment in overseas subsidiaries	–	(1.0)	(1.0)
At 31 December 1997	**8.5**	**6.1**	**14.6**

As permitted by provision of the Companies Act, 1985, the profit and loss account of the Company is not presented in the financial statements. The amount of the consolidated profit for the year dealt with in the accounts of the Company is £5.6 million (1996: £13.1 million).

21. Share capital

	1997 £m	1996 £m
Authorised:		
220 million ordinary shares of 25p each	**55.0**	55.0
850 million income shares of 1p each	**8.5**	8.5
	63.5	63.5

	Ordinary shares of 25p each £m	Income shares of 1p each £m	Total £m
Issued, allotted and fully paid:			
At 31 December 1996 – ordinary shares – 215,776,913	53.9	7.6	61.5
– income shares – 760,868,866			
Shares bought back during the year – ordinary – 34,175,144	(8.5)	–	(8.5)
At 31 December 1997 – ordinary shares – 181,601,769	**45.4**	**7.6**	**53.0**
– income shares – 760,868,866			

During the year the Company bought back a total of 34,175,144 ordinary shares for a consideration of £36.9 million.

22. Obligations under leases

Net obligations to third parties at 31 December 1997 under leases were as follows:

	Finance leases £m	Operating leases Property £m	Plant and equipment £m
Group			
Amounts payable:			
Within one year	0.2	7.9	1.7
Two to five years	0.7	25.6	2.3
After five years	–	41.0	–
	0.9	74.5	4.0

Commitments under operating leases, payable in 1998 expire as follows:

	Property £m	Plant and equipment £m	Total £m
Amounts payable:			
Within one year	0.4	0.2	0.6
Two to five years	3.1	1.5	4.6
After five years	4.4	–	4.4
	7.9	1.7	9.6

23. Capital commitments

	1997 £m	1996 £m
Contracted for but not provided	**2.9**	0.7

24. Pensions

The majority of the Group's employees participate in funded defined benefit pension schemes based on final pensionable pay. The assets of all the schemes are invested separately from those of the Group in trustee administered funds. The contributions to the schemes by the companies are charged to the profit and loss account so as to spread the cost of pensions as incurred over employees' working lives with the Group. Contributions are determined by qualified actuaries on the basis of periodic valuation using the projected unit method. The most recently completed actuarial valuation of the Wedgwood Group Pension Plan which is by far the largest scheme was as at 30 June 1997.

The market value of the assets in the Wedgwood Group Pension Plan at 30 June 1997 was £153.2 million. The actuarial valuation showed that this exceeded the value of the benefits that had accrued to members based on service to, and pensionable pay at the valuation date. The actuarial value of the assets was sufficient to cover 113% of the liability for benefits that had accrued to members after allowing for expected future pay increases. The principal assumption in this valuation was that the investment return would exceed general salary inflation by 2% per annum and limited price indexation of pensions by 4.5% per annum. Contributions to the pension scheme during the year were at the rate recommended at the previous valuation. With effect from 1 January 1998, contributions were reduced to the minimum level.

The pension cost charged to the profit and loss account in respect of defined benefit pension schemes was £5.1 million (1996: £4.6 million) of which £1.0 million (1996: £0.3 million) relates to special contributions arising from a rationalisation in the year. For certain Group employees outside the United Kingdom, the pension entitlements are secured by defined contribution schemes the cost of which amounted to £1.1 million (1996: £1.3 million).

Rosenthal AG operates defined benefit pension arrangements for certain current and past employees. In common with most German schemes, these arrangements are unfunded, that is, benefit payments are met by the Company as they fall due.

A provision of £17.4 million is included in creditors at 31 December 1997 being the excess of the accumulated pension liability over the amounts funded. This provision has been calculated, using the projected unit method, in accordance with the advice of a professionally qualified actuary as at 31 December 1997.

25. Foreign currency contracts

The Group uses forward currency contracts in the normal course of business to hedge exchange risk on anticipated foreign currency transactions. These transactions are converted at the contract rate upon expiry.

At 31 December the Group had the following forward sales commitment:

	1997	1996
U.S. dollars	**$31.3m**	$21.0m
Canadian dollars	**$1.0m**	$1.0m
Australian dollars	**$3.0m**	$6.0m
Japanese yen	**¥6,700.0m**	¥6,505.0m

26. Guarantees

The Company has entered into guarantees with a syndicate of banks in respect of Group borrowings under a financing agreement.

Certain of the Group's subsidiaries have given guarantees in respect of items leased in the normal course of business.

27. Cash flow statement

As permitted by paragraph 5.(a) of Financial Reporting Standard 1 (Revised 1996), no cash flow statement is included within these financial statements as the Group is a wholly owned subsidiary of Waterford Wedgwood plc which publishes consolidated financial statements including a consolidated cash flow statement.

28. Principal subsidiary companies

Listed below are the principal subsidiary companies that comprise the Waterford Wedgwood U.K. plc Group:

Name	Country of incorporation and registered office	Issued capital	Nature of business
Manufacturing			
Josiah Wedgwood & Sons Ltd.	Barlaston, Stoke-on-Trent, England	51,717 £1 Ord. shares	Ceramic tableware/giftware manufacturer
**Rosenthal AG	Selb, Germany	960,000 DM 50 Ord. shares	Ceramic tableware/giftware manufacturer
Distribution			
Waterford Wedgwood Australia Ltd.	Barlaston, Stoke-on-Trent, England	485,240 £1 Ord. shares	Distributor
Waterford Wedgwood Canada Inc.	Toronto, Canada	110 Class A shares 363 Class B shares	Distributor
Waterford Wedgwood U.S.A. Inc.	Delaware, U.S.A.	20 Class A shares 16 Class B shares	Distributor
Waterford Wedgwood Japan Ltd.	Tokyo, Japan	4,000 ¥50,000 shares	Distributor
Waterford Wedgwood Retail Ltd.	Barlaston, Stoke-on-Trent, England	100 £1 Ord. shares	Retailer
Josiah Wedgwood & Sons (Exports) Ltd.	Barlaston, Stoke-on-Trent, England	499 £1 Ord. shares	Exporter
*Waterford Wedgwood Trading Singapore Pte. Ltd.	Singapore	52 S$50,000 shares	Retailer
Wedgwood GmbH	Frankfurt, Germany	1 DM 50,000 share	Sales office
Finance			
Kilsallaghan Holdings	Kilbarry, Waterford, Ireland	14,558,484 IR£1 Ord. shares	Finance
Statum Limited	Barlaston, Stoke-on-Trent, England	50,000 £1 Ord. shares	Finance
Waterford Wedgwood International Financial Services	Dublin, Ireland	27,000,000 £1 Ord. shares 2 IR£1 Ord. shares	Finance
Other			
*Wedgwood Ltd.	Barlaston, Stoke-on-Trent, England	46,195,052 25p Ord. shares	Subsidiary holding company
*Waterford Wedgwood Inc.	Delaware, U.S.A.	430 shares no par value	Subsidiary holding company
Waterford Wedgwood GmbH	Düsseldorf, Germany	1 DM 99,000 share 1 DM 1,000 share 1 DM 1,900,000 share 1 DM 500 share 1 DM 1,000,000 share	Subsidiary holding company

With the exception of Waterford Wedgwood Canada Inc. which is 77% owned and Rosenthal AG where the Group owns 61.5% as at 31 December 1997, all subsidiary companies are 100% owned. Immediate subsidiaries of Waterford Wedgwood U.K. plc are marked*.

All companies operate primarily in their country of incorporation with the exception of Waterford Wedgwood Australia Limited which operates in Australia.

**Companies audited by professional firms other than Price Waterhouse.

29. Ultimate holding company

The Directors consider Waterford Wedgwood plc, a company incorporated in the Republic of Ireland, to be the ultimate holding company. Waterford Wedgwood plc is the parent company of the smallest and largest group, of which the Company is a member, which prepares consolidated financial statements. Copies of the accounts of Waterford Wedgwood plc can be obtained from The Secretary, Waterford Wedgwood U.K. plc, Barlaston, Stoke-on-Trent, Staffordshire, ST12 9ES, England. As permitted by Financial Reporting Standard No. 8, 'Related Party Disclosures', transactions with other entities within the Waterford Wedgwood Group have not been separately disclosed.