Company No. 3543

Vickers P.L.C.

Annual Report and Accounts 1996

ANNUAL REPORT AND ACCOUNTS

1996

automotive
defence systems
propulsion technology
medical equipment

Vickers

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PATRON

Vickers P.L.C. is an engineering company with products which command global leadership in niche markets with growth potential.

Its principal activities include Rolls-Royce and Bentley motor cars; Cosworth racing engines, highly-skilled automotive engineering, manufacturing, and precision castings; land defence systems and equipment; marine propulsion systems and motion control equipment; superalloys and components for the gas turbine and automotive industries; and medical equipment.

HIGHLIGHTS OF FINANCIAL PERFORMANCE

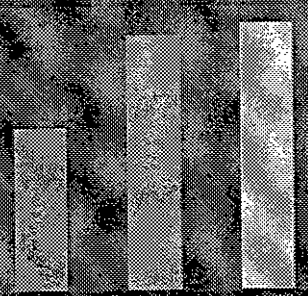
Operating profit before restructuring and other exceptional costs increased by 6% from £78.4m to £83.3m.

Turnover improved by 5% from £1,143.8m to £1,197.6m.

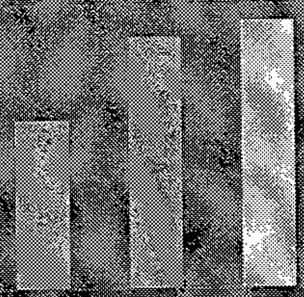
Net borrowings at year end were £36.1m after capital and research and development expenditure of £135.2m.

Earnings per share advanced by 7% from 15.6p to 16.7p.

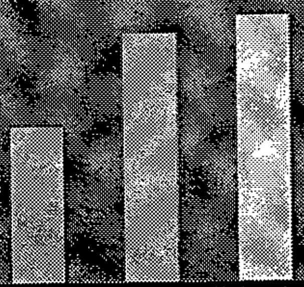
Dividend per 50p Ordinary Share up by 7% from 6.7p to 7.2p.



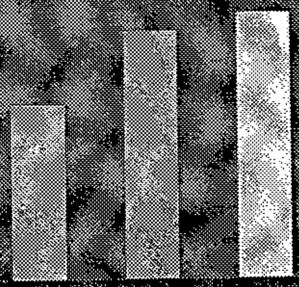
£727.2m £1,143.8m £1,197.6m
1994 1995 1996
TURNOVER



£52.5m £78.4m £83.3m
1994 1995 1996
OPERATING PROFIT BEFORE RESTRUCTURING AND OTHER EXCEPTIONAL COSTS



9.8p 15.6p 16.7p
1994 1995 1996
EARNINGS PER 50p ORDINARY SHARE



4.75p 6.7p 7.2p
1994 1995 1996
DIVIDEND PER 50p ORDINARY SHARE

CHAIRMAN'S STATEMENT

SIR RICHARD LLOYD, Bt
Chairman

RESULTS. After the previous year's results, within which the build-up in the Challenger 2 production rate, the Aquamaster-Rauma and Vickers Bridging acquisitions, and an unusually rich mix of sales of Rolls-Royce and Bentley motor cars, were key contributors, 1996 represented a competent performance for your Company as a whole. Sales were up 5% to £1,197.6m compared to 1995, and margins slightly improved over that year to 7%. There were no restructuring or other exceptional costs in 1996 and profit before tax improved by 11% to £83.3m (1995: £75.0m). The taxation charge increased from £23.2m to £26.7m and earnings per share by 7% from 15.6p to 16.7p.

These results were achieved in the context of a demanding investment programme, which saw further substantial expenditure during 1996 over the high levels achieved in 1995. The Medical Division, although slightly improved over its poor 1995 performance, still held back the Group figures in 1996.

DIVIDEND. Against the need for continuing profitable investment of retained earnings for the Company's growth, the Board is recommending a final dividend to shareholders of 4.5p (1995: 4.3p) which, together with the interim dividend of 2.7p, makes a proposed total of 7.2p (1995: 6.7p).

BUSINESS HIGHLIGHTS. The Propulsion Technology Division was the best performer in the year, with both the Turbine Components and Marine groupings producing noteworthy results in sectors which are growing strongly. Certified Alloy Products in the US, in particular, continued its penetration of the aerospace and industrial gas turbine markets, and achieved a healthy increase in turnover. Rolls-Royce and Bentley motor car retail performance also increased very satisfactorily during 1996 by 12% over the previous year, particularly through the introduction of the Rolls-Royce Silver Dawn and up-rated Bentley Brooklands. Although, after an exceptional 1995, the model mix was less rich in 1996, the success of the highly profitable Bentley two-door range did much to limit that reduction.

THE BOARD. On 31 December Roger Head retired from the Board after ten years of distinguished service; he was succeeded by David Essex as Managing Director, Finance and Planning. David Essex, before joining your Board, was a partner with Ernst & Young and previously was Group Financial Controller with British Aerospace. He comes up for election by shareholders at the Annual General Meeting. At that meeting, as already intimated at the time of the interim results, I am, after five years, relinquishing the Chairmanship into the outstandingly capable hands of Sir Colin Chandler, who will continue as Chief Executive. As already announced, Chris Woodwark becomes Chief Operating Officer, Jeffrey Herbert becomes Senior Vice Chairman, and Lord Gillmore Vice Chairman. In my view, Vickers' shareholders are especially fortunate to have a Board which combines the distinction of its members and unity of its purpose with the give and take of mutual respect and informality. It is from this important combination of qualities that I derive my strong confidence in the future of your Company and its direction for shareholders' best benefit.

MY THANKS. My very considerable thanks are due to the Board and shareholders for their continual support, and to Vickers' people throughout the Group worldwide for their dedication and hard work.

PROSPECTS. Because of the effects on export orders and earnings of the rise in the trade-weighted value of sterling against other currencies which began last Autumn, it is unusually difficult to foresee the trends of sales and profits in 1997. However, the strategies for each main activity are thoroughly founded, with continued growth as the objective. So taking, say, a two-year view, with the considerable programme of investment in plant and equipment reinforcing competitiveness, your Board believes that another better performance should be achieved to build onto the recovery and growth in your Company's fortunes since 1992.

CHIEF EXECUTIVE'S OPERATING REVIEW

VICKERS ACHIEVED CONTINUOUS STEADY GROWTH IN 1996. With wide-ranging investment programmes in place across our Divisions, management continued to pursue forward-looking policies designed to capitalise on our investments, enhance our position in international markets and consolidate our reputation for quality products. Against this background, and in a highly competitive marketplace, we produced an 11% increase in profit before tax.

RESPONSIVE MANAGEMENT IN A STRONG ECONOMY. The increase in turnover for 1996 compared with 1995 demonstrates that Vickers' management continues to exploit sales opportunities worldwide. Excepting the impact of NHS budgetary constraints on our medical business, we have flourished in the prevailing economic climate in the UK and in the majority of our overseas markets. At the same time, the increase in the value of sterling against other currencies will always be of concern to an organisation with such a high export profile.

Our managerial style encourages tightly-run business units in which well-led teams are empowered to take decisions in the context of an agreed strategy. We have taken action to develop and produce managers who respond to this style. One aspect of this is a comprehensive management training programme embracing every level from Director to graduate trainee, which is designed to ensure that we continually produce the right people, able to grow our business now and in the future. As a result Vickers is becoming a more cohesive Group in which each of our individual units can benefit from being part of the larger organisation. As an indication of our commitment to this process, the appointment of Chris Woodwark to the position of Chief Operating Officer will help our top management team to drive this style more deeply into the Group and to strive for customer responsiveness as a Group-wide culture.

FURTHER CONTRIBUTIONS FROM EXISTING BRANDS AND ACQUISITIONS. Divisional results were mixed in 1996. In Automotive, Rolls-Royce Motor Cars achieved good volume sales growth, although the contribution from the top end of the bespoke business was weaker, and substantial investment continued to be made in developing the factory at Crewe. Cosworth Racing [redacted] is now working with the new Stewart Grand Prix team in Formula 1, utilising the V10 engine. Overall prospects for Cosworth are good, and the Castings business continues to exploit its unique patented process. Cosworth's activities during the year included the start-up in the delivery of cylinder heads for the engines of the exciting new Jaguar XK8.

Within the Defence Systems Division, Vickers Bridging, acquired in 1995, had a successful year and continues to fulfil the British Army's requirements for Bridging for the Nineties (BR90) Close-Support and General-Support bridging systems.

Propulsion Technology increased its operating profit before restructuring and other exceptional costs by 40% on a 23% higher turnover in comparison with 1995. The 1995 acquisition of Aquamaster-Rauma and its subsidiaries further helped the Kamewa Group to consolidate its position as the world's leading supplier of marine propulsion systems in 1996.

While remaining profitable, as in previous years, due in no small part to the dominant position of its neonatal intensive care business Air-Shields Vickers, our Medical Division underperformed for a second year. Our Danish monitoring business continued to suffer against firmly entrenched competitors, while the UK distribution arm was adversely affected by constrained NHS budgets which led to the deferral of many equipment purchasing decisions. Management, led by the new divisional Chief Executive, Philip Monks, is actively implementing a series of new initiatives to take the Division forward.

TECHNICAL EXCELLENCE BRINGS WORLD LEADERSHIP. Vickers' most successful businesses draw their strength from an ability to match the demands of growing yet highly competitive niche markets. Rapid growth and prudent management have brought several successes. The marine business of our expanding Propulsion Technology Division, for example, is now a world leader in large water jet propulsion systems. Increased demand has enabled us to take the decision to expand water jet production into a discrete manufacturing facility in Sweden.

Elsewhere, we are continually examining the benefit of strategic alliances which can enable us to harness the latest technology and expertise in pursuit of market opportunities. This applies particularly to Defence Systems, where we have elected to join with companies of international renown to compete for UK, European and other programmes. For example, Defence Systems has joined forces with the US company, Caterpillar, to offer optimum solutions to the MoD on TERRIER, an armoured earth-mover for the Royal Engineers; and in Europe, our joint venture with Henschel and Panhard on the Multi-Role Armoured Vehicle has so far positioned us well in this tri-national programme.

CHALLENGER 2. Now widely regarded as the world's most advanced battle tank, Challenger 2 achieved very good results in the first series of reliability growth trials staged by the MoD and the Army. Customer response is highly satisfactory, and inspires confidence in the tank's export potential. Challenger 2 is already in service with the Royal Army of Oman. In 1996 a version of the tank especially tailored to desert conditions further enhanced the vehicle's reputation by passing a series of gruelling tests in the Saudi Arabian desert during the height of the summer.

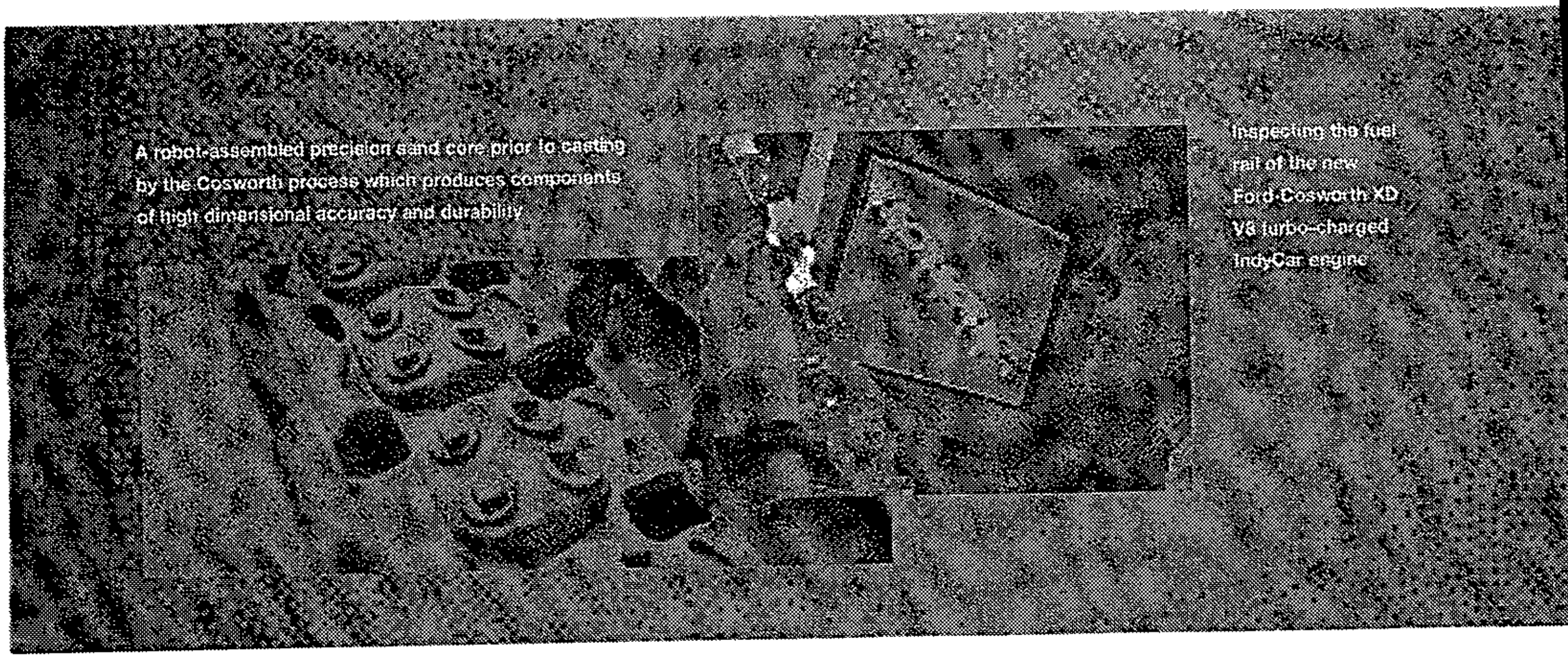
LONG-TERM INVESTMENT CONTINUES. Vickers continues to identify and invest in growth opportunities and the product development necessary to maintain a leading position in the high-technology marketplace. Capital expenditure in 1996 reached a record level of £94m, representing nearly three times depreciation. Highlights included the continued investment at Crewe, completion of the new Cosworth Castings facility at Worcester, comprehensive investments at Kamewa Water Jets and Kamewa Propellers, aimed at securing the business' long-term competitiveness, substantial investment in new test equipment at Vickers Bridging, the start-up of Trucast's new US facility and strong product development expenditure at Air-Shields and Medelec.

THE HUMAN FACTOR. None of these achievements would have been possible without the efforts of our people. We recognise that good management makes all the difference between success and mediocrity and we have continued to place strong emphasis on the investment in training and resources necessary to maintain this position.

I should like to pay particular tribute to our retiring Chairman, Sir Richard Lloyd, whose experience, wise counsel and enthusiasm have proved invaluable to his colleagues, especially during the period of recovery and stabilisation of the Group, when sound judgement was essential in the choice of decisions we had to make.

As we look forward to the twenty-first century, our new management team is working towards the next phase in the Group's development: that of positioning it for the next decade.

SIR COLIN CHANDLER
Deputy Chairman
and Chief Executive



MEETING INDIVIDUAL NEEDS. Much of the business' success has stemmed from its ability to meet the individual needs of its client base: the proportion of all motor cars incorporating some degree of customisation increased in 1996 to over 40%. At the pinnacle of this type of work are the individual bespoke vehicles which involve a very high degree of specialised engineering and craftmanship and which, by their very nature, represent an important but somewhat volatile sector. Inevitably, even a small downturn in demand for these highly specialised motor cars can dilute overall margins, which was the case in 1996.

As further demonstration of the business' ability to build and design motor cars for discerning individuals, three new models have made their debut at the 1997 Geneva Motor Show: the Rolls-Royce Park Ward, the pinnacle of the Rolls-Royce range; the Bentley Continental T, a limited edition sporting coupe; and the Bentley Turbo R Sport, a high-performance grand tourer for the European market. Each combines precision, individualism and insight to produce a unique mixture of technological and craft skills. Continued sales of the Bentley Continental R and the convertible Azure helped maintain motor car volumes.

INVESTMENT FOR THE FUTURE. The significant investment programme at the Crewe factory anticipates the changing customer needs of the next century. In 1996 RRMC continued the installation of a body assembly facility, the first in its history, while successfully overseeing an extensive reorganisation of the motor car manufacturing facility. This has been accompanied by a programme of improvements designed to keep our motor cars ahead of environmental legislation developments.

At the heart of this investment lies a focus on the woodshop, trimshop and unit dashboard build areas - 'feeder areas' that supply the assembly line. Here the old system of moving cars by hand from one work station to the next will be superseded by a powered track running the length of the assembly hall, thereby streamlining the entire assembly process.

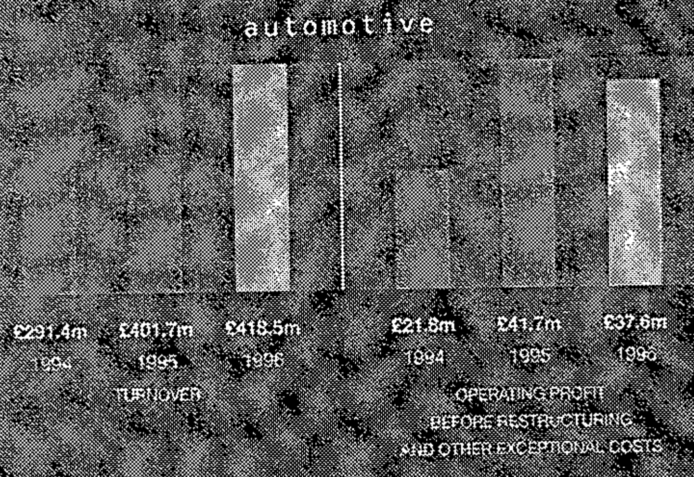
These changes will be reinforced by new automated test facilities. In particular, the rolling road, shake rig and monsoon test allow 'virtual' driving conditions in any environment to be created in the factory. At the same time further investment in our paint shop, including the use of robots, will enable this world-class facility to maintain a 'best in class' status, recognised by a variety of prestigious clients.

Substantial resources have also been allocated to upgrading the factory environment at Crewe with the aim of enhancing its attraction to the 1,000 or more potential customers who visit us each year.

EXTENDING THE SKILLS BASE. These achievements are a tribute to the skills and commitment of our people. Recognising this, the business has focused on the continuing development of its associates* at every level of the business by introducing a wide-ranging programme of training and skills enhancement that includes the retraining of those involved in engine manufacture to take up new roles elsewhere in the factory. Our Associate Learning Centre currently handles over 200 separate courses, attended by more than 800 people. This ongoing programme, one of the most satisfying and rewarding undertaken by the business in recent years, was marked by the award of an Investors in People accreditation in 1996.

Naturally, this development programme has a clear-cut commercial rationale - nothing less than the streamlining of the entire supply chain, from the initial contact with potential customer, through to manufacturing and supply. The result is a decisive and responsive communication channel which can fulfil orders with maximum efficiency to the needs of the individual customer.

Assembly of the Cosworth-designed and built Ford-Zetec R V10 engine which is powering the Stewart-Ford Formula 1 team in 1997



A CONTINUALLY EVOLVING ORGANISATION. Building on major investment programmes and the recent reorganisation into four business units, Cosworth has continued to develop the structures and processes necessary to obtain maximum benefit from this integration, and substantial progress has been made despite low activity in the main markets. While Cosworth Manufacturing felt the effect of reduced demand for the Ford Scorpio with the Cosworth-designed 24-valve engine and the end of engine production for the Ford Escort Cosworth, the business has made successful attempts to broaden both product and customer bases. In addition, long-term agreements are now in place for some diesel engine and other manufacturing programmes, including work for Rolls-Royce Motor Cars.

Cosworth Engineering, the international automotive consultancy, has embarked on similar product reorientation and customer awareness programmes. Strong progress has been made in developing contacts with new customers, despite reduced activity in the first half of the year. Immediate prospects are encouraging, with new opportunities emerging in both sub-assembly and whole-engine design. The Cosworth Intelligent Controls business, acquired in 1995, has had a difficult year in the face of reduced demand, and some cost reduction initiatives have been necessary.

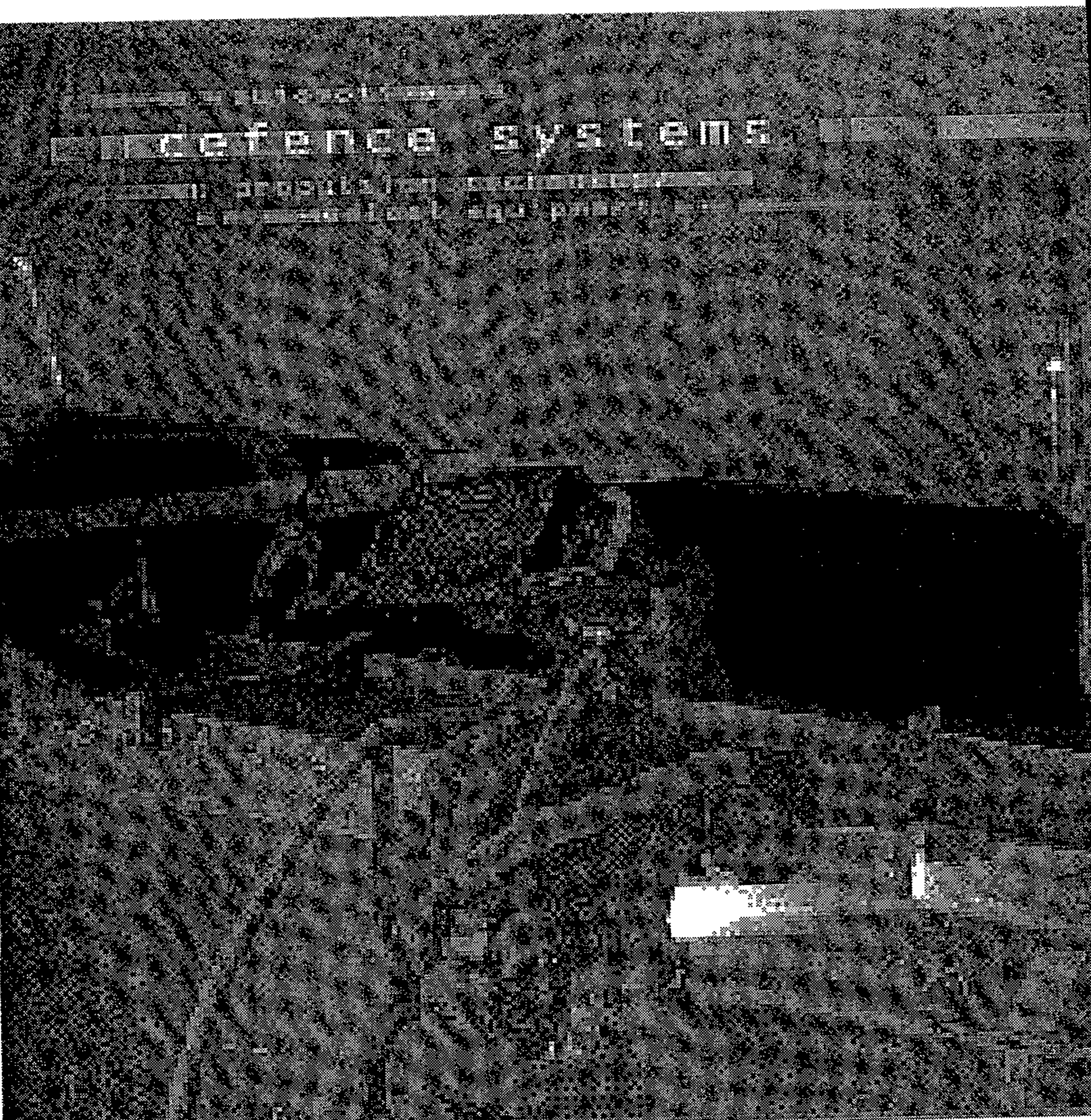
PROCESS INNOVATION FUELS DEMAND. The installation of the new £25m automated casting facility at Worcester-based Cosworth Castings completes a strategic initiative begun in 1994. The unique Cosworth casting process, originally designed for racing engines but successfully utilised in road cars for high-quality aluminium engine components, is highly regarded by car manufacturers: production has begun on programmes for Jaguar (components for the AJ26 engine used in its new XK8 sports model) and General Motors. Further potential programmes are being pursued with other manufacturers.

SUCCESS ON THE TRACK. In 1995 two-thirds of cars in the North American IndyCar series were powered by Cosworth engines. This year has seen the business consolidate its dominant position in racing, with strong performances in IndyCar with Michael Andretti finishing second in the drivers' championship, and with Opel, in the International Touring Car series. While the latter has now ended, following a withdrawal by two of the participating manufacturers, the final programme produced a championship winning performance using the new V6 engine designed by Cosworth last year.

In Formula 1, the new V10 engine, used by the Sauber-Ford team improved steadily during the season: the engine continues to be developed, and will be used by the new Stewart-Ford team in 1997 and beyond. Cosworth's pursuit of technical innovation is matched by high levels of investment, with increased spending on facilities for Cosworth Racing during the year. In addition, the business is committed to enhancing its computer-automated design and test facilities.

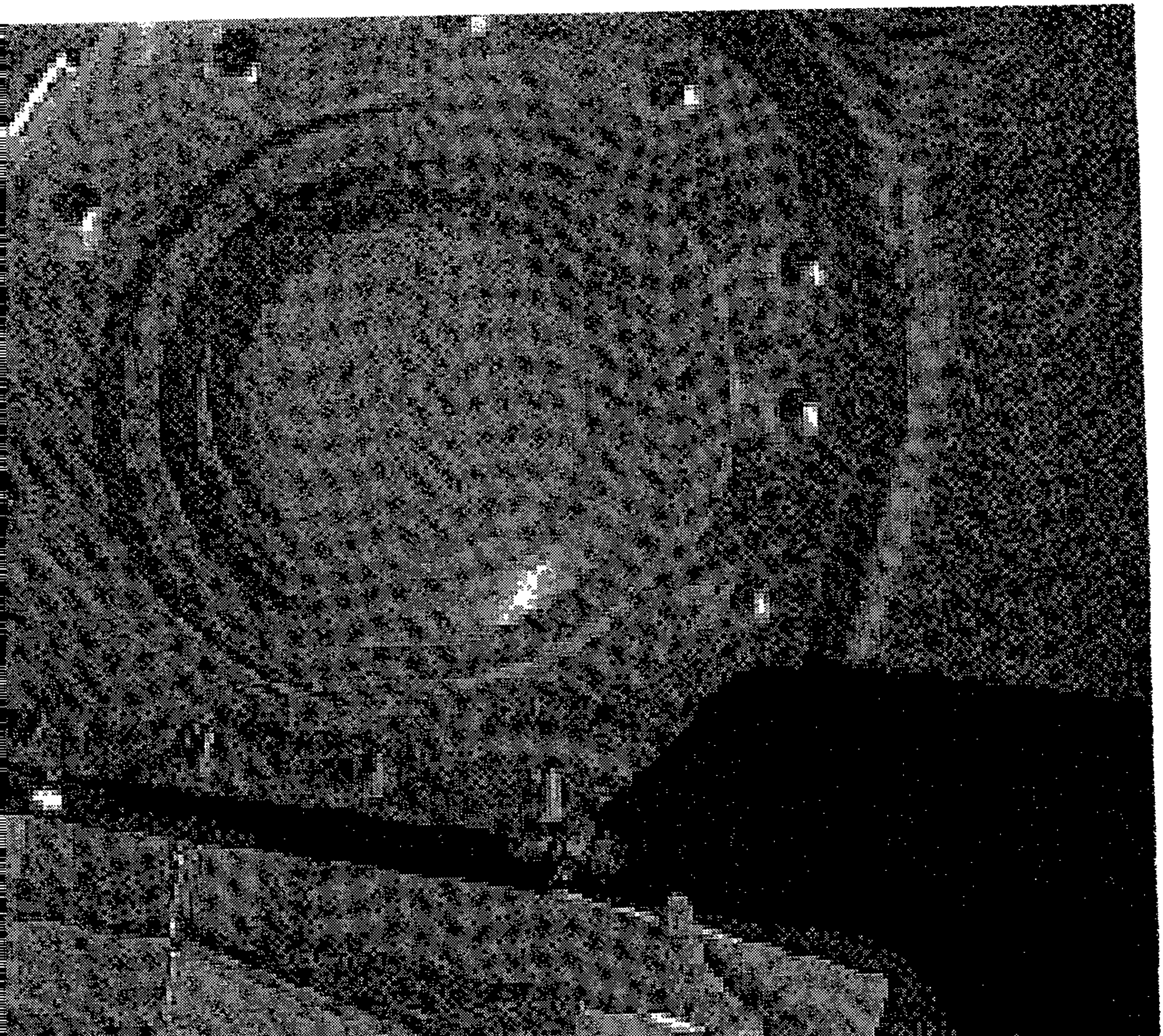
CRITICAL ACCLAIM FOR NEW RIVA MODELS. Although Cantieri Riva underperformed in profit terms, the business continued the comprehensive modernisation of its range of luxury powerboats. In particular the year saw the launch of the new 24 metre flybridge cruiser, the Opera - flagship of its range - together with a fully updated version of its sports cruiser, the Bahamas 60 special. According to Boat International's review of the new models, "...Riva epitomises all that is good about Italian yacht building. The attention to detail is superb, the performance breathtaking and the style magnificent." All current efforts are being directed to achieving the sales levels necessary to move the business into profit.

* 'Associates' is the self-description chosen by our employees at RRMC.

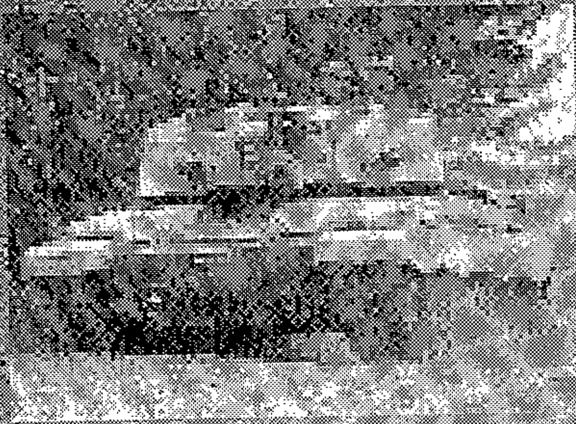


OPERATING REVIEW: DEFENCE SYSTEMS

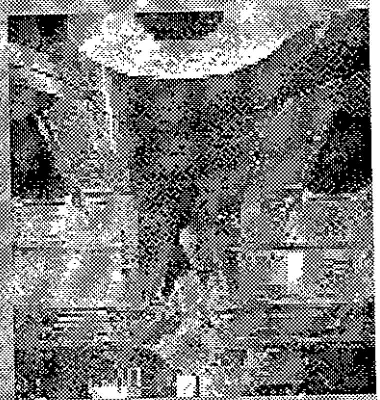
VICKERS DEFENCE SYSTEMS has enhanced its position as a world-leader in the supply of integrated, high-technology systems for land defence equipment. The Division's current prominence relies on a highly-sophisticated technological capacity as well as a commitment to succeed in a fast-changing international marketplace.



Challenger 2 was selected by the British Army after the most rigorous and comprehensive design and development programme ever devised for an armoured fighting vehicle.



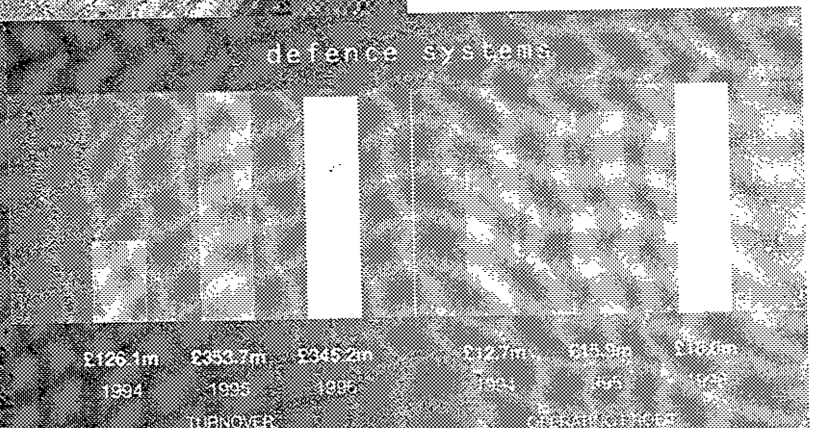
Seen from the underside, the hinge panel of a BR90 Close-Support bridging section under inspection at Vickers Bridging



Welding an 8 metre ramp panel for a Vickers Bridging BR90 system at the Wolverhampton factory

CHALLENGER 2 IN ACTION. Challenger 2 has been hailed as the world's most advanced and formidable Main Battle Tank, and 1996 brought further confirmation of its position at the leading edge of land defence systems development. In particular, the MoD accepted the first deliveries of Challenger 2 to the British Army, and during the summer three production models underwent the first of a series of production reliability growth trials. Targets for this first trial - and the second as well - were comfortably exceeded, and final confirmation of the tank's unparalleled operational and performance features is anticipated, following continued reliability growth trials planned for the first half of 1997. These trials will ensure that Challenger 2's formidable capabilities can be deployed in a sustained fashion, thus giving it the additional status of the world's most cost-effective Main Battle Tank.

Challenger's potential has already been widely advertised to an international audience. In September Challenger 2 and the Close-Support element of Bridging for the Nineties (BR90) took a leading role in demonstrations, as required under the Vienna Convention. The three-day event at Lulworth attracted an audience of 26 military delegations from countries around the world. The equipment performed superbly throughout these highly impressive demonstrations.



The Division continues to explore opportunities in the highly-competitive export market. Challenger 2 is already in service with the Royal Army of Oman. Additionally, Desert Challenger, the most developed version of the model to date, completed a trial in Saudi Arabia. Here the tank's automotives, firepower and efficiency were subjected to a rigorous series of tests over almost 3,000kms of tough desert conditions and temperatures of over 50 degrees C.

The Vickers Mark 3 battle tank has also been considerably upgraded. It has historically enjoyed strong overseas sales, and the new version, the Vickers Mark 3 (M), was the centrepiece of the business' presentation at the 1996 Defence Services Asia exhibition in Kuala Lumpur. Further minor enhancements are continuing in line with the requirements of prospective customers in South East Asia.

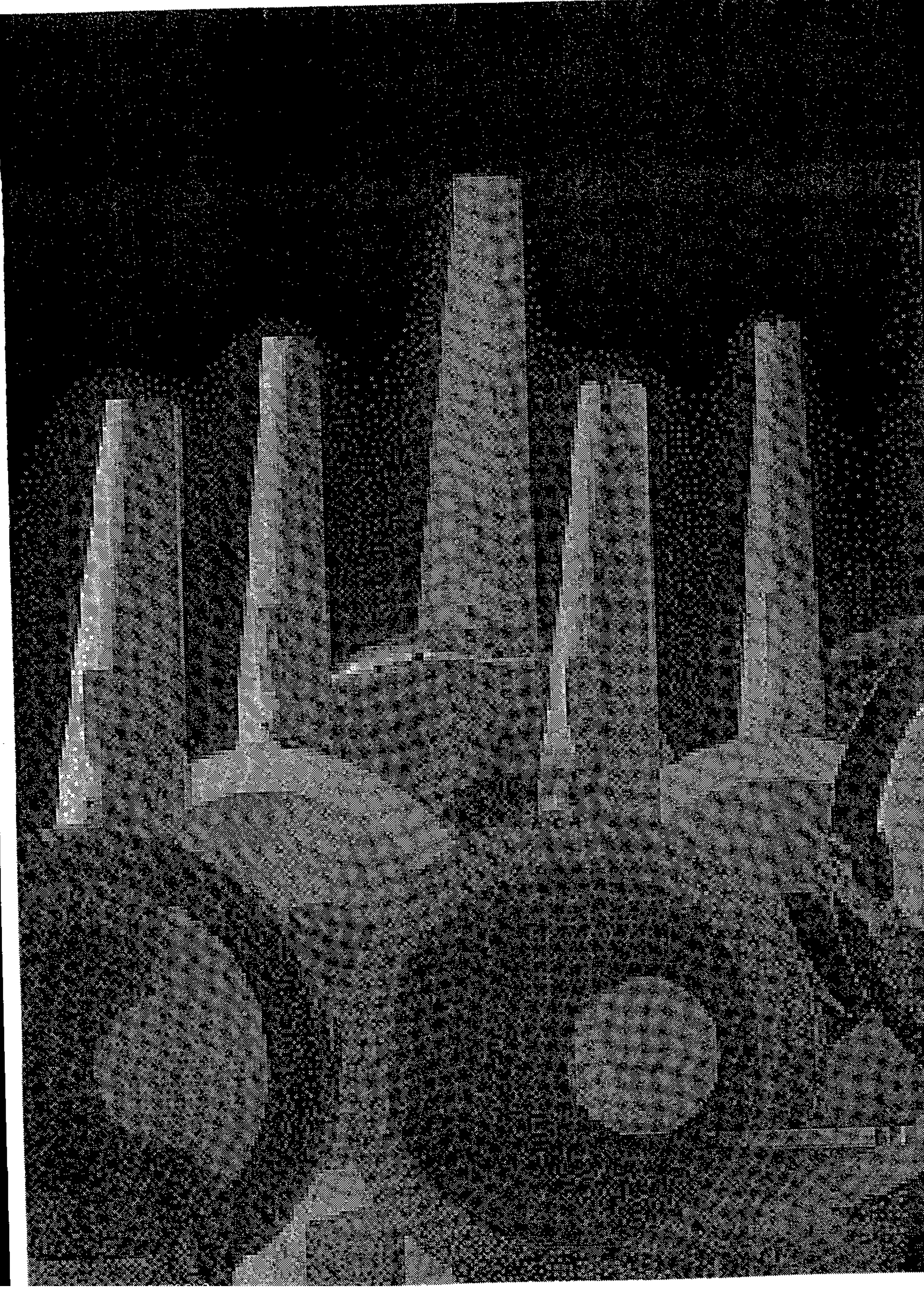
Vickers Bridging, acquired as Thompson Defence Projects in 1995, had a notably successful year, with the Wolverhampton factory now in full production of the BR90 Close-Support and General-Support bridging systems for the British Army. By the end of the year over 50 bridging systems and 50 support vehicles had been delivered to the customer. Elsewhere, the last of a contract for 42 bridge launch mechanisms for the Korean K1 tank was delivered in July. More than 30 of these mechanisms are now in service with the Korean Army. Technology transfer is a feature of the contract and the mechanisms are now being manufactured in Korea by Hyundai.

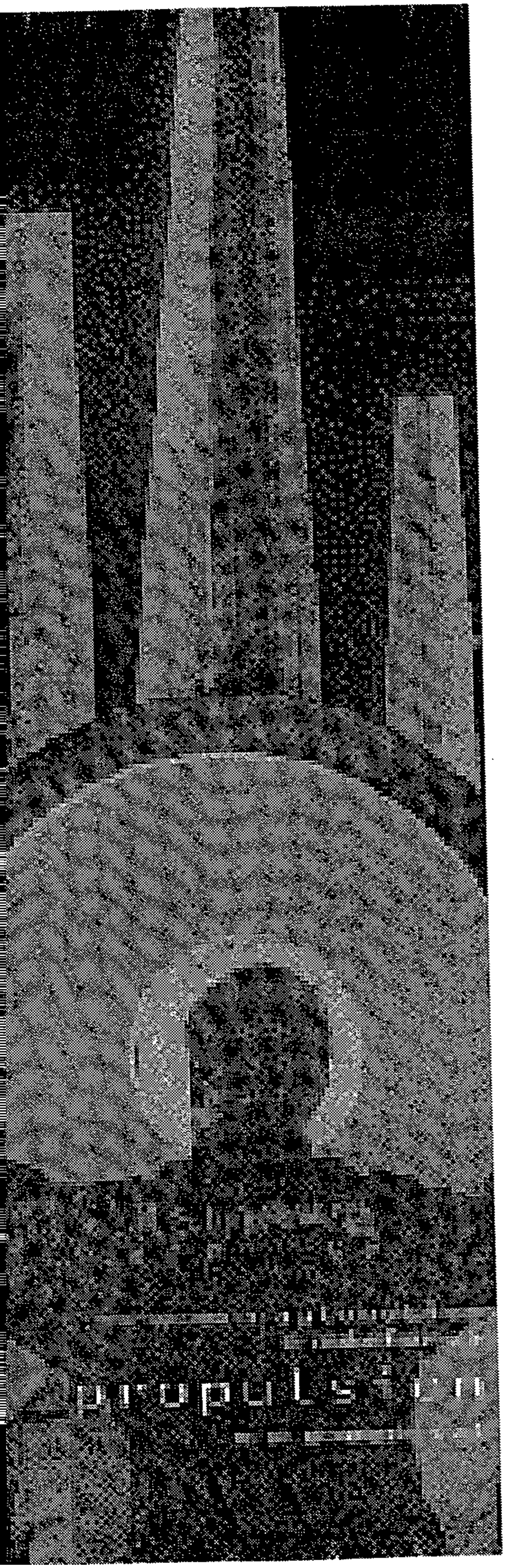
JOINT VENTURE AGREEMENTS TO MEET FUTURE NEEDS. In pursuit of European and other international contracts, the Division is increasingly entering into agreements with leading contractors to produce the pool of resources and expertise necessary to ensure succesful strategic positioning for programme opportunities as and when they arise. For example, following the British Government's decision to participate in a European initiative to develop a new generation of general-purpose vehicles known as MRAV (Multi-Role Armoured Vehicle), Defence Systems has formed a joint venture company with Henschel and Panhard, supported by Alvis and KUKA of Germany. Similarly, the Division has a teaming arrangement with GIAT of France to develop a new bridge launch mechanism that will fit both Leclerc, the French Main Battle Tank, and Challenger 2.

Other partnerships have considerable potential. During the year we began work on Project TERRIER, a bid for a vehicle to replace the British Army's Combat Engineer Tractor, undertaken in conjunction with leading US earth-mover manufacturer, Caterpillar. Although a purely British requirement at present, the chosen solution to TERRIER may bring opportunities for overseas sales. Similarly, the £2 billion TRACER programme has begun to acquire an international dimension. TRACER (Tracked Reconnaissance Armoured Combat Equipment Requirement) began life purely as a UK requirement. In parallel, the US Army has evolved a requirement for a Future Scout Cavalry System. The possibility has emerged that the UK and the USA might be able to co-ordinate their requirements and, accordingly, the Division is actively pursuing partnerships.

A CRUSADE FOR QUALITY. The Division is continually enhancing its systems integration ability for the high-technology, systems-based fighting vehicles of the future. Also, in 1996 it continued to implement new manufacturing methods and systems, while, on a wider front, positive steps were taken to develop a customer-focussed culture in which every employee participates in the recognition and fulfilment of customer needs. This move has been emphasised by the introduction of a new senior position, that of Quality Director, created and filled in the course of the year.

INVESTING IN PEOPLE. As a major employer, operating in a high-profile industry, the Division is keenly conscious of its wider responsibilities, and anxious to encourage both the development of its employees and their involvement in the wider community. The receipt in September 1996 of an Investors in People award, alongside a number of other Vickers' businesses, was a welcome testimony to these efforts. This prestigious Government-initiated standard links training and development to business needs for the mutual benefit of business and employees. In the local community, Defence Systems also took part in a number of projects involving schools as part of the Engineering Education Scheme.





OPERATING REVIEW: PROPULSION TECHNOLOGY

PROPULSION TECHNOLOGY achieved strong growth in 1996, with significant increases in both turnover and profit levels. Operating in niche sectors of the marine, aerospace and automotive markets, Divisional businesses each turned in excellent performances.

INTERNATIONAL BRANDS IN AN EXPANDING MARKET.

Primarily serving the aerospace, automotive and marine markets, the businesses in the Propulsion Technology Division comprise international brands in the fields of superalloys, ceramic cores, specialised components and machining for gas turbine engines, as well as precision castings for automotive and other sectors and bearings for industrial and marine applications. Elsewhere in the marine market, businesses within the Division enjoy an unparalleled reputation in the design and manufacture of high-technology marine propulsion systems and motion control equipment.

Strong growth in the majority of its market sectors enabled the Division to record an increase in operating profit before restructuring and other exceptional costs of 40% in 1996. With wide-ranging programmes of capital investment in operation and committed management teams in pursuit of productivity gains and efficiency improvements, we are confident that we can continue to meet the demands of a rapidly-changing commercial environment.

KAMEWA CONSOLIDATES ON EARLY SUCCESS.

Following 1995's acquisition of Aquamaster-Rauma, the Finnish manufacturer of rotatable thrusters and marine winches, the management of Vickers' marine businesses was re-formed into the Kamewa Group, comprising Stone Vickers, Kamewa and Aquamaster-Rauma. Taking advantage of the genuine synergies of scale, marketing and technology, Kamewa is a world leader in the manufacture of marine propulsion systems. In 1996 the group took additional steps to strengthen its international network and increase its representation in the world's leading ship-owning and shipbuilding markets. An example of these developments was the opening of the new Kamewa representative office in Shanghai in October. In line with the considerable growth experienced by the different businesses, a three-year plan designed to meet future market challenges and secure long-term competitiveness includes comprehensive investments at Kamewa Propellers, based at Kristinehamn, Sweden as well as a move by Kamewa Water Jets into a separate factory nearby.

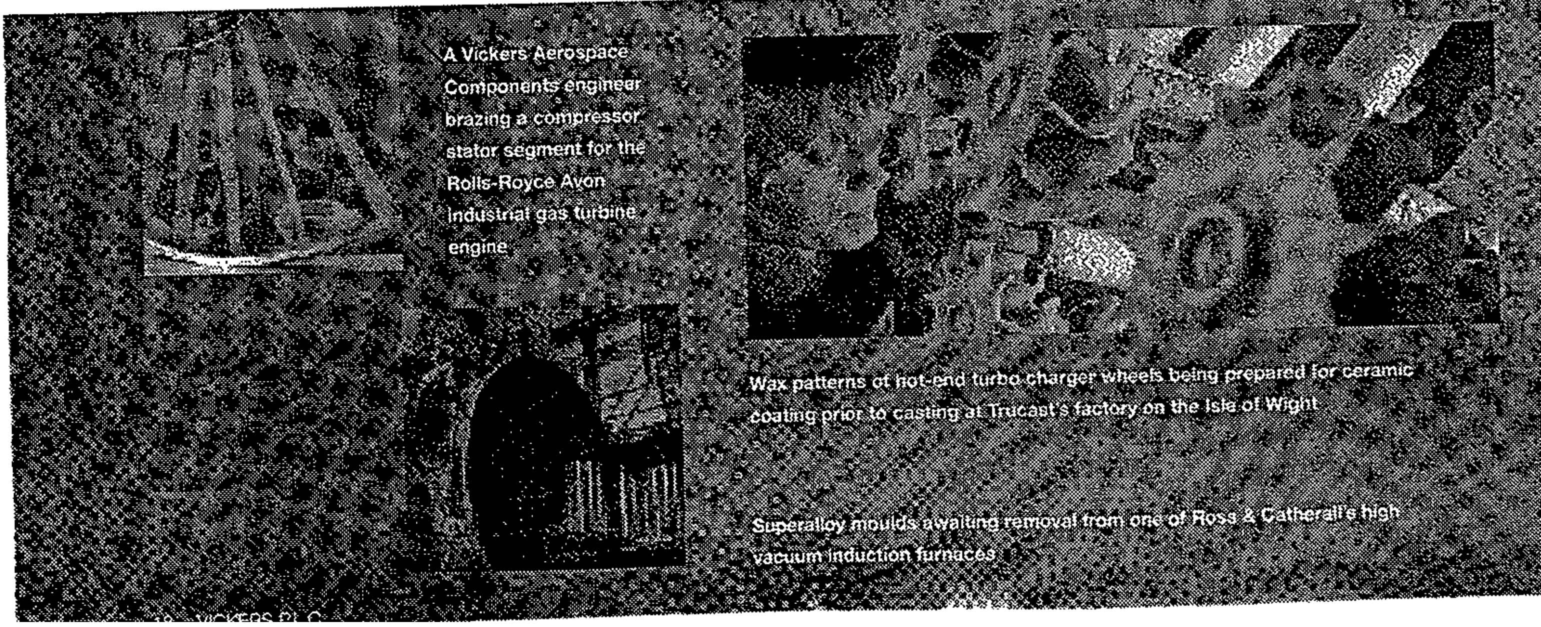
A number of initiatives in the areas of marketing and internal efficiency have combined to improve the competitive ability of Kamewa Propellers. Taking advantage of expanding markets, Kamewa has been able to consolidate further its position as the preferred supplier in this high-technology field. A substantial proportion of the prestigious cruise vessels recently delivered are equipped with Kamewa's propellers and thrusters.

1996 also reinforced the outstanding position in the market occupied by Kamewa Water Jets. A highlight of the year was the introduction to service of two of Stena's new HSS vessels, equipped with the most powerful water jet installations so far developed. Each incorporates four water jets with a combined output of 100,000hp; the initial market response is very positive and a number of other similarly impressive vessels are under construction. The water jet market continues to expand, and with increasing interest from the world's navies, the business secured a number of orders for naval applications.

Market prospects for Aquamaster Azimuth Thrusters are also favourable. Benefiting from access to Kamewa's expertise in the field of controllable-pitch rotatable thrusters, the business unit has moved rapidly into new markets: new orders secured have come from both offshore and other advanced application areas. In particular the Contaz™, a recently-introduced azimuth thruster with contra-rotating propellers, has been successfully launched and has attracted significant market interest.

HIGH-PERFORMANCE TURBINE AND TURBOCHARGER COMPONENTS.

With the recovery in the aerospace gas turbine market in 1996, there was increased demand for the superalloys supplied by Ross & Catherall and its US sister company, Certified Allied Products, which together raised annual sales by nearly 10%. 15% In a market sector which holds promise of buoyancy until well into the next century, Certified Alloy Products consolidated its position as a leading supplier of superalloys and secured a number of long-term contracts for this technically demanding product. In addition, the industrial gas turbine and medical market sectors both remained strong during the year.



A Vickers Aerospace Components engineer brazing a compressor stator segment for the Rolls-Royce Avon industrial gas turbine engine

Wax patterns of hot-end turbo charger wheels being prepared for ceramic coating prior to casting at Trucast's factory on the Isle of Wight

Superalloy moulds awaiting removal from one of Ross & Catherall's high vacuum induction furnaces

Trucast produced flat sales in 1996, as the previous year's strong sales growth for turbochargers was followed by a decline in demand for heavy trucks. Despite this fall-off, capital investment aimed at improving the manufacturing process and realising productivity gains enabled the business to increase its annual profit. With Trucast's new US manufacturing facility at Newberry, South Carolina, completed on time and the first validation castings produced ahead of schedule, production volumes are set to begin during the second quarter of 1997. North American customers have responded favourably to this investment, and prospects are favourable.

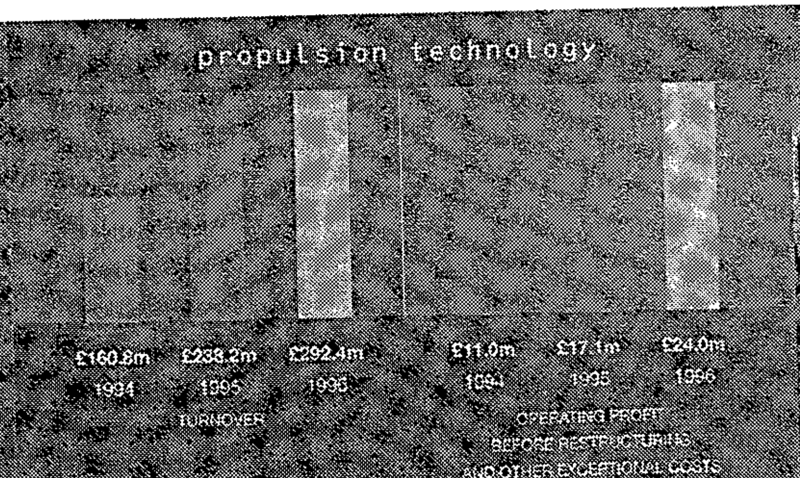
Similar investments in additional capacity and new process technology have helped Ross Catherall Ceramics respond to increases in demand for its ceramic cores, used in the production of turbine airfoil components for aero and land-based gas turbine engines. Consistent demand for the business' products in Japan, the USA and Europe is expected to continue.

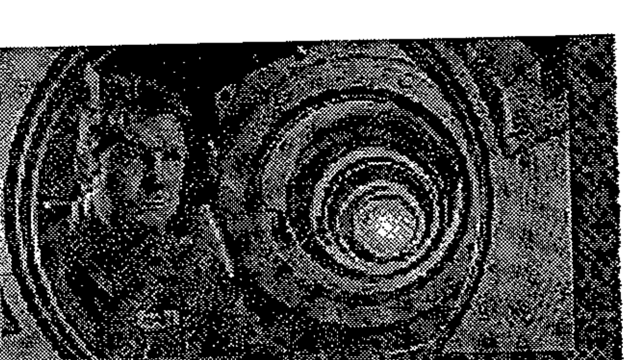
Last year's recovery in world aerospace markets continued into 1996, and Shrewsbury-based Vickers Aerospace Components achieved a healthy increase in sales. Further growth is anticipated as new engine programmes enter volume production. The business' profit growth can be attributed to a combination of efficiency improvements and increased volumes. Vickers Airmotive, also housed on the Shrewsbury site and specialising in the repair of hot-end gas turbine engine components, broadened its customer base during the year to record a significant increase in annual sales.

Having successfully managed the move into new premises, based on a cellular manufacturing layout, Vickers Precision Machining generated good sales growth. A number of new machine tools were installed in 1996 to meet the requirements for both new and current aero and industrial gas turbine engine programmes.

MICHELL BEARINGS, the leading designer and manufacturer of self-contained tilting-pad whitemetal bearings, saw the benefits of its re-engineering programme helping to deliver both higher sales and profit. A valuable feature of this continuing programme has been the commitment and enthusiasm of the employees in meeting the demands of a rapidly changing environment.

BROWN BROTHERS continued to improve performance and recorded another successful year. The business consolidated its position in the offshore market, supplying high-pressure swivels to the offshore oil and gas industry whilst maintaining strong market leadership in commercial and naval ships stabiliser and steering gear systems. Successful implementation during the year of a major change programme gave rise to more effective focus on markets, customers and competitiveness, and contributed towards winning business.

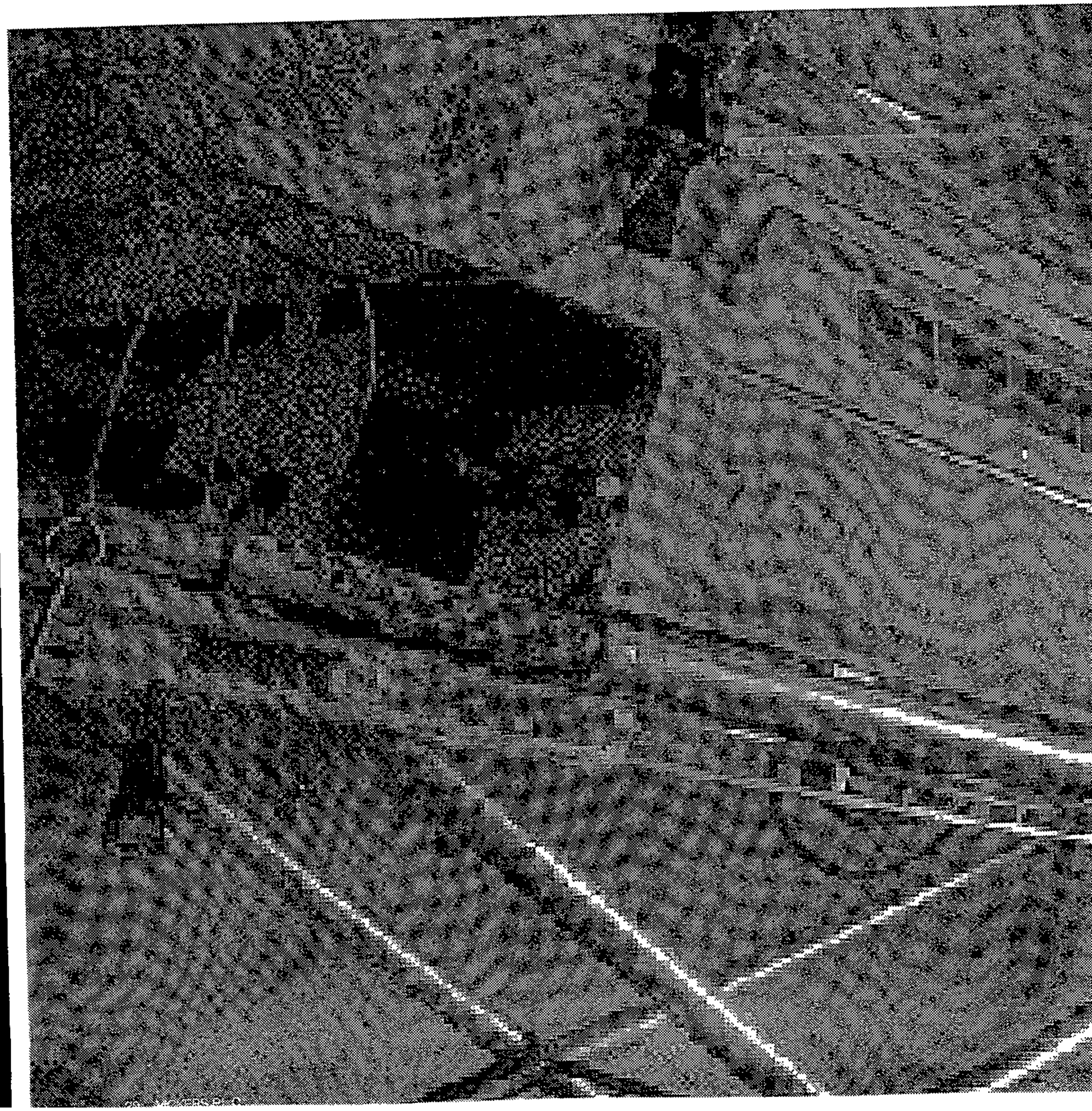




A Michell Bearings inspector checking one of a series of propeller shaft bearings for a cruise ship built by Fincantieri of Italy

OPERATING REVIEW: MEDICAL EQUIPMENT

MEDICAL showed the first signs of its promised turnaround during 1996, as the new management team continued to strive for performance improvements and greater operational efficiency. Despite continuing difficult market conditions, and disappointing profit performance, a number of the initiatives begun in 1995 were successfully carried through and the Division is continuing to implement its medium-term strategic and product objectives.




medical equipment

BRAND STRENGTH IN A TOUGH MARKET. Medical Division operates in five discrete areas, supplied by three main businesses. Its world leadership in the manufacture and supply of neonatal intensive care and neurophysiology systems is buttressed by additional activities in the areas of patient monitoring, anaesthesia and resuscitation equipment. Allying strong brands, good international coverage of market niches, and effective distribution businesses across the UK, the USA and Continental Europe, each of the Division's activities withstood a third year of adverse trading conditions. However, our patient monitoring and resuscitation business suffered from lack of critical mass - the differentiating element necessary to expand its customer base - in a highly competitive market.

Whilst still relatively sluggish, the US market has stabilised somewhat after the uncertainty of the early '90s. The greatest difficulties have been experienced in the vital European arena. Here competition and public spending constraints have combined to depress results. In particular, our Danish monitoring and defribrillator business, S&W, continues to be held back in world markets by strong international competitors, while Vickers Medical, the UK distribution business, experienced very difficult trading, brought about by one of the most constricted capital expenditure environments in the history of the NHS. To set against this, Air-Shields had an excellent year and enhanced its reputation as the world's leading supplier of perinatal intensive care equipment. Similarly, the neurophysiology businesses, Medelec and TECA, together with some of the European distribution businesses, maintained their historical profit contributions to the Division.

R&D INVESTMENT BRINGS REWARDS. With customer needs in international medical and healthcare markets continuing to change at a rapid pace, we have continued to invest substantial resources in the development of new products throughout the Division. Air-Shields has confirmed its reputation for innovation and excellence by producing an entirely new generation of incubators in twelve months - an achievement that sets new standards for the industry while simultaneously providing better margins for the business.

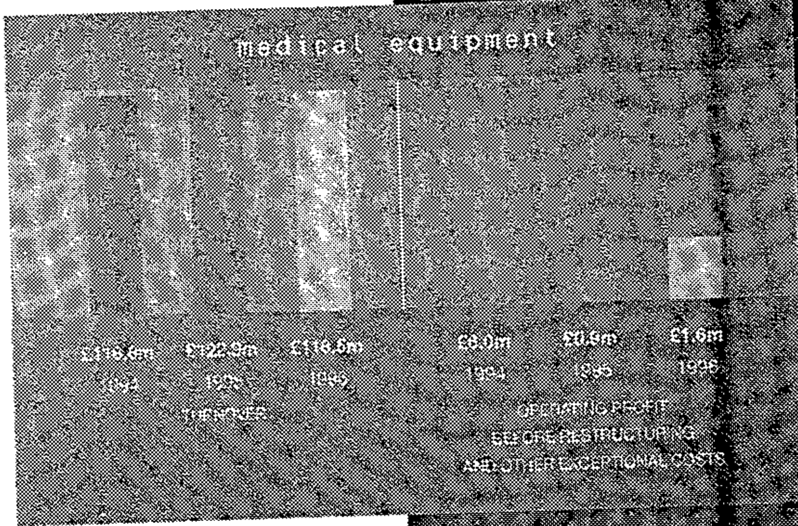
Similar initiatives have taken place elsewhere in the Division. In the second year since the acquisition of MIE by Vickers, the new management team has continued with a wide-ranging programme of product development.

Medelec, aiming to maintain its leadership position in neurodiagnostic instrumentation and consumables, has embarked on a concurrent programme of enhancement and development of a new generation of products across the field of neurophysiological investigation. Responding to high levels of competition in its market segment, S&W has continued to focus on reducing costs in its range of portable monitoring products.

AIR-SHIELDS LEADS THE WAY. There have been some excellent individual contributions to the overall performance of the Division. In particular Air-Shields' results showed a rapid recovery to the levels of profitability expected from a world leader. With tight management and a focus on streamlining manufacturing processes and marketing, the business has enjoyed notable export success. Trading performance at Medelec was virtually unchanged in all major territories, including the USA and Europe, although profit potential was diluted by the high level of investment in product development.

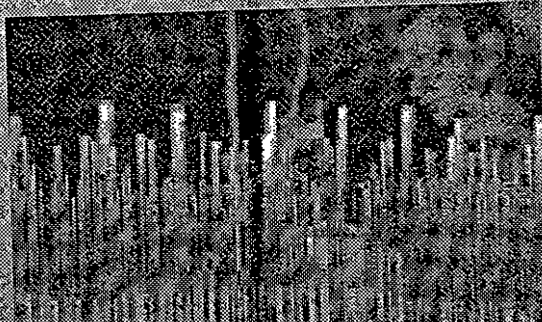
Faced by heavy international competition in its specific markets, S&W had a disappointing year, and continues to refocus the business by concentrating its energies on product cost reduction programmes and sales into specific market niches. In the UK Vickers Medical maintained its market share in an environment constrained by the NHS cash crisis.

EXPORT FOCUS TOWARDS RECOVERY. A number of export sales markets registered strong performances. Vickers Medical's direct sales operations in Poland, Italy and Spain exceeded expectations, while success in other territories helped to compensate for low growth in the major developed markets. Vickers continues to take a leading role in encouraging the export potential of the UK medical industry. Sir Colin Chandler's chairmanship of the Overseas Projects Board Healthcare Sector Group is only one of a number of activities designed to increase our focus on the Tiger economies of the Asia-Pacific region and ensure that we play a leading part in supplying the equipment needs of these rapidly developing economies.



Manufacture of the internationally famous Isolette® incubator at Air-Shields Inc., world leader in neonatal intensive care systems

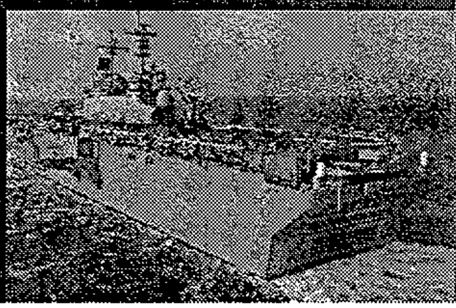
Assembling the Medelec Sapphire II, a versatile system used by clinicians in the diagnosis of neuro-muscular problems

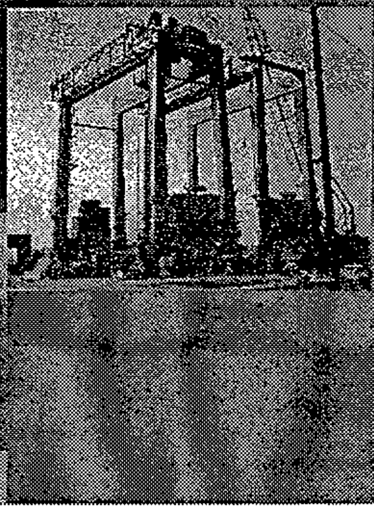


Manufacture at Medelec of pre-sterilised concentric needles, which provide the interface between patient and EMG diagnostic equipment

OPERATING REVIEW: OTHER ACTIVITIES

Jered Brown Brothers, whose range includes all types of elevators for both merchant and naval vessels, supplied the deck-edge elevators and steering gear for the US Navy's Landing Helicopter Dock vessel 'Kersage'





Rubber-tyred gantry cranes manufactured under licence by Jered Brown Brothers for Virginia International Terminals, Norfolk, Virginia, USA

JERED BROWN BROTHERS. Jered Brown is a leading supplier of engineered equipment to the US and other world navies. The business has continued its successful diversification strategy of recent years, and is moving further towards its goal of becoming a leading supplier of material handling equipment to ports and intermodal facilities. Testimony to the increasingly high quality of its products came with the award of certification to ISO 9000 quality standards compliance, in addition to the business' normal commercial and military quality standards.

Highlights included the continued production of Elevated Causeway platform pontoons, and the receipt of advance US Navy funding for follow-on production during 1997. Jered was also awarded a major contract for several items of mechanical/hydraulic equipment for LHD-7 (Landing Helicopter Dock vessel) during the year.

1996 also brought confirmation of the successful relationship with Virginia International Terminals. Having delivered the three rubber-tyred gantry cranes commissioned for the organisation's Newport News port in the previous year, Jered received a similar order to supply Virginia International's Norfolk, Virginia operations.

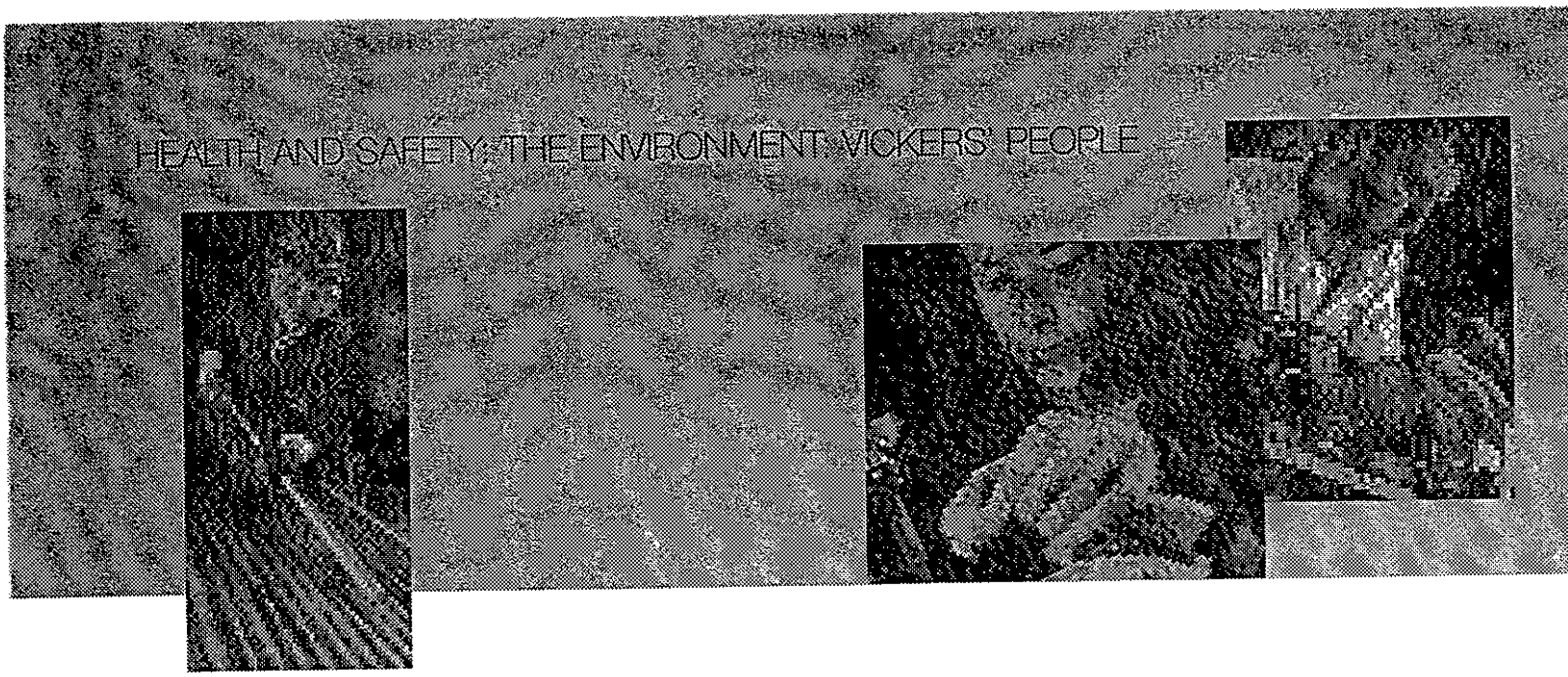
A marketing agreement concluded with a local US company to promote the use of pontoons for bridges and barging in South East Asia, while yet to produce quantifiable benefits, is a measure of Jered's approach to international markets.

Platform pontoons for the Elevated Causeway System (ELCAS) manufactured by Jered Brown Brothers for the US Navy, undergoing acceptance and sea-state trials

VICKERS PROPERTIES. With all operating units aligning their property requirements to changing markets, 1996 was a particularly active year for Vickers Properties Limited. The business continues to provide expert service to Group operating companies on all property matters.

The business' major asset is South Marston Park near Swindon, where over 1.2 million sq. ft. has already been developed, and occupiers include Honda, BOC and the Royal Mail. Progress in 1996 was modest, however, with activity limited to the sale of 3.33 acres of land to an existing occupier to meet the latter's future expansion needs. Elsewhere, the sale of the redundant Crabtree Vickers factory in Leeds and the redundant Vickers Medical factory in Basingstoke were completed during the year. In general, though, the industrial and distribution sectors of the UK property market in which the business operates remained flat.

HEALTH AND SAFETY: THE ENVIRONMENT: VICKERS' PEOPLE



PERFORMANCE. In previous years, a number of important building blocks were put in place as part of the process of improving the Group's Health, Safety and Environmental (HSE) performance. These included a combined and revised policy statement, health and safety training for senior management and a series of environmental seminars.

In 1996, work continued on a broad front to further the progress made and to develop new initiatives.

Vickers' Health, Safety and Environmental Steering Committee, chaired by the Chief Executive, continued to oversee HSE activities at the corporate level. In addition, the Health and Safety Group, which consists principally of HSE practitioners from the operating businesses, was instrumental in maintaining communication throughout Vickers. The Health and Safety Group has operated for several years and has helped to make greater use of the HSE expertise in-house by providing a forum for exchange of information and ideas.

During the year, many of the operating businesses were active in refining and updating their HSE policy statements. Procedures for the maintenance of safe systems of work have been reviewed and updated in several cases.

Health and Safety training, always a vital element in ensuring that objectives laid down in policy statements are translated into reality, has featured strongly at many businesses. To attain a higher degree of professionalism in the management of HSE issues, a number of the HSE practitioners are seeking improved qualifications.

As well as developing its own in-house resources, Vickers continues to work closely with external agencies and consultants. As part of an on-going relationship, a number of businesses were visited by the Group's employers' liability insurers and by the Health and Safety Executive during 1996. In all cases, recommendations made by these external bodies were actioned promptly.

MANAGING ENVIRONMENTAL ISSUES. The use of specialist external consultants, amongst other things, assists the Group to achieve compliance with existing and proposed legislation and provides a fuller understanding of the possible effects a business may have on the surrounding environment.

One way in which Vickers' own management combines with external resources is in the programme of environmental site assesments. External consultants visit the sites selected for assessment and then work with the site management, focusing on ways to achieve compliance with local and/or national regulations and to reduce potential liabilities. The environmental seminars referred to earlier support this work by helping to create a better understanding of the issues.

An initiative during the second half of the year was the commencement of a Waste Minimisation programme. Although still at an early stage, it is anticipated that benefits to the environment, and to the health and safety of employees and others, together with cost savings, will start to be realised in 1997.

TRAINING FOR THE FUTURE. Successful companies operating in the global business environment must be responsive to the need for constant change and innovation. As well as ensuring that we remain competitive, we are committed to extending the training development opportunities offered to our people at every level. A mark of our success in these areas came in 1996 with the accreditation of many of our businesses, including our Head Office, to the National Training Standard: 'Investors in People'. The roll of honour included Rolls-Royce Motor Cars, Cosworth Castings, Vickers Defence Systems and Medelec, and more of our businesses will be pursuing this much-coveted standard in 1997.

Recognising the need continually to develop our people and our businesses, Vickers has broken new ground by placing nine of its managers on the intensive two-year Executive MBA programme at the prestigious Cranfield University School of Management. The financial commitment by Vickers to this programme is matched by the commitment of the managers who will continue with their full time jobs during the two years. In the short-term, the managers are immediately able to bring their new found skills to their businesses, while in the long-term the intention is to create 'Vickers people' with a lasting commitment to the Group.

Vickers continues to explore training opportunities in conjunction with external specialists, and we have selected Cranfield as our partner for a number of other management development activities. Courses scheduled to run under Cranfield's auspices include a Top Team Workshop, Directors' Programme and Project Management. We continue to enjoy productive relationships with other training organisations such as Ashridge Management College, Interactive Skills and the Alexander Corporation.

Tailoring our training programme to future business requirements remains a key priority. During the year we developed a framework of key competencies designed to underpin future training and development activity. Using this common benchmark, managers' ability to meet criteria for business success in a changing environment can be evaluated both by their assessors and themselves.

ALL-ROUND WORK PRACTICE IMPROVEMENT. People development is not just confined to management. At all levels we achieved considerable success in improving our work practices. Cell manufacture, self-managed work groups, multi-skilling and project teams now feature in the operational lexicon at every level of Vickers' organisation. As ever, the rationale is to challenge our employees and enhance their ability to meet the challenges of a change programme that continues throughout Vickers. A good example of the willingness of the Group's people to embrace these changes came at the Rolls-Royce Motor Cars site at Crewe, where 360 employees in the machine shop are being retrained and redeployed to other parts of the business.

COMMUNITY RELATIONS. During 1996 Vickers continued its practice of fostering good relationships with communities close to its operating establishments and a total of £175,000 was donated to local and national charities. The British Heart Foundation, Understanding Industry and the Soldiers, Sailors, Airmen and Families Association - Forces Help, were major beneficiaries.

FINANCIAL REVIEW

DAVID ESSEX
Managing Director
Finance and Planning

BUSINESS PERFORMANCE. On turnover of £1,197.6m (1995: £1,143.8m) the Group recorded an operating profit before restructuring and other exceptional costs of £83.3m, up from £78.4m in 1995, with improved performances from the Defence Systems, Propulsion Technology and Medical Divisions. The Group profit margin, at the operating profit before exceptional items level, was 7.0%, marginally above that in 1995.

Total sales in the Automotive businesses increased by 4% to £418.5m, but operating profit before exceptional items fell by £4.1m to £37.6m. Rolls-Royce Motor Cars (RRMC) experienced good volume demand throughout the year. A decline in margins from 1995 reflected the change of mix, with fewer highly-customised vehicles and significantly increased sales of entry level models. ~~Whilst Cosworth Racing had a good year~~, Reduced demand at Cosworth Manufacturing impacted Cosworth's sales and profits, which were both lower than in 1995.

In Defence Systems 1996 sales and profits benefited from a full year's results from Vickers Bridging. Overall sales levels were, however, slightly lower than in 1995 as final deliveries under our contract with Oman were completed early in the year. We continue to be prudent in our profit take on our major contract with the MoD for Challenger 2. The combined effect of the above, including the benefit of ~~increased~~ profit on completed contracts, was a £2.1m improvement in Divisional operating profit before exceptional items to £18.0m.

1996 was an outstanding year for Propulsion Technology, and almost all businesses in the Division enjoyed an increase in sales. This reflects the Division's significant market shares and its ability to capitalise on the growth in the underlying markets, particularly in the marine, aerospace and industrial gas turbine sectors. Operating profit before exceptional items rose by 40% to £24.0m, on a 23% increase in sales to £292.4m.

In the Medical Division the much improved contribution from Air-Shields was offset by the continuing problems at S&W, and the tough markets experienced by our UK distribution business. S&W was adversely affected by low volumes and strong international competition. The Division as a whole increased operating profit before exceptional items to £1.6m (1995: £0.9m) on slightly smaller turnover of £118.5m.

Turnover in our Other Activities decreased by 15% to £24.4m and operating profit before exceptional items to £2.1m (1995: £2.8m). This mainly reflects a lower level of activity at Jered Brown Brothers.

INTEREST. Net interest in 1996 was nil compared with net interest receivable of £2.1m in 1995, reflecting the change from a net cash position of £22.0m at the end of 1995 to net borrowings at the end of 1996 of £36.1m. The £58.1m outflow stems largely from the funding of the continuing high levels of capital expenditure and research and development expenditure.

TAXATION. The 1996 taxation charge was £26.7m. This represents an effective rate of 32% which compares with a Group tax rate of 31% for 1995. The 1995 figures benefited from the utilisation of £2.4m of ACT previously written off. The Group now has no unused ACT, and the Group tax charge has increased accordingly. The overall tax rate is also adversely affected by losses in overseas countries, notably at S&W and Riva, for which no tax relief is currently available. The current high rate of capital expenditure is giving us a favourable tax impact, but this is effectively offset by timing differences on contract provisions.

EARNINGS AND DIVIDEND. Earnings per share increased 7.1% to 16.7p in 1996, compared to 15.6p in 1995.

The Board is recommending a final dividend to shareholders of 4.5p. This compares to 4.3p in 1995. Together with the interim dividend of 2.7p, this makes a proposed total dividend for the year of 7.2p (1995: 6.7p), an increase of 7.5%. Such a return is consistent with the Board's declared dividend policy of raising the returns distributed to shareholders in line with the Group's growth in earnings, while maintaining dividend cover of at least twice earnings (1996: 2.3 times, 1995: 2.3 times). This policy will continue to allow the Group to sustain its growth by profitably investing retained earnings.

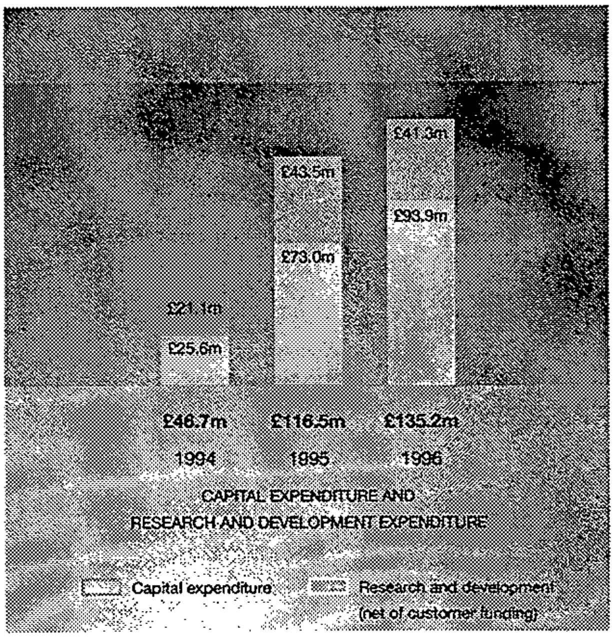
CASH FLOW. We have adopted FRS 1 (Revised 1996) in setting out the cash flow statement on page 51. Cash flow from operating activities amounted to £75.0m, a decrease of £51.7m from 1995. The main components of the operating cash flow are given in the table that follows. It can be seen that the cash inflow peaked in 1995. That year marked a major improvement in profitability over 1994. At the underlying cash flow level, and in comparison with 1995, 1996 suffered in part from a higher level of spend against amounts provided in the previous year. 1995 also benefited from a favourable timing of contract payments, including customer advances, relative to 1996.

OPERATING CASH FLOW

	1994 £m	1995 £m	**1996 £m**
Underlying cash flow	102.8	167.4	**152.8**
Research and development	(21.1)	(43.5)	**(41.3)**
Reorganisation costs	(1.7)	(6.4)	**(2.6)**
Customer advances – decrease	(2.7)	(1.1)	**(29.1)**
Other working capital movements – decrease/(increase)	(1.4)	10.3	**(4.8)**
Cash flow from operating activities	75.9	126.7	**75.0**

The cash flow from operating activities was used to fund capital expenditure, financing costs, taxation and dividend costs, resulting in an increase in net debt of £58.1m.

CAPITAL EXPENDITURE AND RESEARCH AND DEVELOPMENT EXPENDITURE. 1996 brought the continuation of our significant investment programme extending to the majority of Vickers' business areas. Capital expenditure was £93.9m (1995: £73.0m), compared with a depreciation charge of £32.9m (1995: £34.4m). Research and development costs incurred during the year amounted to £65.8m (1995: £67.0m); after deduction of contributions from customers the amount charged to profit was £41.3m, compared to £43.5m in 1995.



CAPITAL EXPENDITURE AND RESEARCH AND DEVELOPMENT EXPENDITURE

Significant investments begun or continued in 1996 included the latest stage of a substantial reorganisation of the motor car manufacturing facility at RRMC's Crewe factory, together with work on new automated test facilities and the paint shop. In all, investment at RRMC during the year, including product research and development costs, reached £86m. Additionally, £16m was spent at Cosworth, including expenditure on both the completion of the casting facility at Worcester and a substantial upgrading of the Cosworth Racing facility at Northampton. Both the Defence Systems and Propulsion Technology Divisions added to ongoing investment programmes designed to enhance their ability to compete in their respective market niches; in particular Kamewa began work on its new water jet production facility. The major investment in our Medical Division continues to be in research and development, where a further £6.9m was incurred in the year.

CAPITAL STRUCTURE AND FUNDING. At 31 December 1996 the Group's net borrowings were £36.1m (1995: £22.0m net cash), representing gearing (net debt:equity) of 12%. During the course of 1996 the Group utilised £68.2m of its cash and deposits (both overnight and longer term) to fund the net cash outflow, leaving £66.1m of cash and deposits at 31 December 1996.

The Group's gross borrowings, which at 31 December 1996 totalled £102.2m (1995: £112.3m), comprised overdrafts of £3.4m, other external borrowings by overseas subsidiaries of £1.9m, and £96.9m of foreign currency borrowings by the Company in the UK as follows:-

UK FOREIGN CURRENCY BORROWINGS

	£m
US Dollars	47.3
Finnish Marks	21.6
Swedish Kroner	12.9
Danish Kroner	6.5
Italian Lira	4.8
Other	3.8
	96.9

In the main these borrowings are used to finance loans to the Company's overseas subsidiaries. Translation exposure arising on consolidation of the Group's net assets overseas, which are predominantly in these areas, is also partly hedged by these borrowings.

The bulk of the Group's borrowings are drawn under bank credit lines. At 31 December 1996 the Company had committed bank facilities of £170m maturing in 2000 or later and a further £25m maturing in 1999. The Group currently borrows the majority of its funds on a variable interest basis. At 31 December 1996 £29.6m equivalent of US dollar borrowings were hedged on a fixed rate basis (by forward rate agreements and interest rate swaps) for an average period of 2 years 8 months from November 1996.

TREASURY POLICIES. The Company has a central treasury which provides a service to the corporate centre and the operating businesses within specific Board policies. Principal objectives are to arrange adequate competitively priced funding and to identify and manage interest rate and foreign currency risks arising from operational activities. Treasury is not a profit centre and no speculative transactions are undertaken. Under the Group's foreign exchange policy, all firm contracts, together with such limited proportion of forward exposures as can be estimated with reasonable certainty, are hedged - either through netting or by a transaction in the external market. The Group's major trading exposures are net sales in US dollars from our UK and Scandinavian operations. Operating businesses are required to ensure that cover is executed to hedge trading exposures as they arise and to arrange such cover in conjunction with Group Treasury. As a result of these hedging policies the hardening of sterling in the last quarter of 1996 had only minimal impact on Group results for the year.

Interest rate exposures are monitored carefully and hedging actions taken when market conditions are considered appropriate. Surplus funds are placed on deposit, either overnight or in longer term investments depending on their forecast utilisation. Investments, limited by amount and maturity, are spread across a number of highly-rated financial institutions.

BOARD OF DIRECTORS

Sir Richard Lloyd Bt. ◊ Δ
Chairman

Aged 68. Appointed to the Board in 1978, becoming Chairman in 1992. Chairman of Argos. Other directorships include Siebe, Simon Engineering and Jupiter Split Trust. He is Vice-Chairman of the advisory committee to the O.E.C.D. in Paris and President of the British Heart Foundation.

Sir Colin Chandler ◊ † Ø
Deputy Chairman and Chief Executive

Aged 57. Joined Vickers in 1989 becoming Managing Director in 1990 and Chief Executive in 1992. He was additionally appointed Deputy Chairman in September 1996. He previously held a number of senior appointments at Hawker Siddeley and British Aerospace. In 1985 he was appointed Head of Defence Export Services at the MoD. He is a Non-Executive Director of Guardian Royal Exchange and TI Group.

David Essex M.Sc., F.C.A. † Ø
Managing Director, Finance and Planning

Aged 50. Appointed to the Board in January 1997. Formerly a senior partner with Ernst & Young, which he joined in 1985. He moved there from British Aerospace which he joined in 1979, where his last position was as Group Financial Controller.

Andrew John LL.B. † Ø
Commercial Director

Aged 44. Joined Vickers in 1981 as Company Solicitor, subsequently becoming Head of Group Legal and Contracts Department between 1986 and 1989. He rejoined Vickers in 1991 as Director of Commercial Affairs. Appointed to the Board in June 1994.

Chris Woodwark B.Sc.(Econ.), Dip.M., F.C.I.M. †
Chairman, Cosworth

Aged 50. Joined Vickers as Chief Executive, Cosworth in 1993, becoming Chairman of Cosworth and an Executive Director of Vickers in 1995. He was Chief Executive of Rolls-Royce Motor Cars from January 1995 until March 1997.

Jeffrey Herbert D.I.C., B.Eng., F.Eng., F.I. Mech.E., M.I.E.E., F.R.S.A. ◊ Δ

Aged 54. Chief Executive of Charter, he is also Chairman of ESAB A.B., Nederman A.B. and the British South Africa Company. He is a Non-Executive Director of M&G Recovery Investment Trust. Appointed to the Vickers Board in 1991.

Sipko Huismans B.A.(Com.) ◊ Δ

Aged 56. Special advisor to Chairman of Texmaco in Indonesia. Elected a Director of Courtaulds in 1984, becoming Managing Director in 1990 and Chief Executive between 1991 and 1996. Became a Non-Executive Director of Imperial Tobacco Group in October 1996. Joined the Vickers Board in October 1994.

Martin Taylor C.B.E. M.A., F.C.A. ◊ Δ

Aged 62. A member of the Industrial Development Advisory Board of the DTI. He is Deputy Chairman of Charter and a Director of National Westminster Bank and Millennium Chemicals Inc.. He is Chairman of National Westminster Life Assurance. Formerly Vice Chairman of Hanson. Appointed to the Vickers Board in 1986.

Lord Gillmore of Thamesfield G.C.M.G. ◊ Δ

Aged 62. Director of the Prudential Corporation, senior advisor to BZW and Chairman of Ditchley Foundation. He held a number of UK and overseas posts in British Government Service between 1970 and 1994, including Permanent Under-Secretary of State and Head of HM Diplomatic Service during 1991 to 1994. Appointed to the Vickers Board in October 1995.

MEMBERSHIP OF BOARD COMMITTEES

In addition to their membership of the Board, the Directors are members of Board committees as follows.

◊ Member of the Chairman's and Nominations committees.
† Member of the Executive Committee.
Δ Member of the Audit and Remuneration committees.
Ø Member of the Finance Committee.

Mr. Peter Boxer, Director of External Relations, and Mr. Bernard Le Bargy, Director of Corporate Personnel, are members of the Executive and Finance committees.

The Divisional Chief Executives are members of the Executive Committee.

Mr. Philip Clarke, the Company Secretary, attends or is represented at all meetings of the Board and its committees.

REPORT OF THE DIRECTORS

PRINCIPAL ACTIVITIES

Vickers P.L.C.'s principal activities include Rolls-Royce and Bentley motor cars; Cosworth racing engines, highly-skilled automotive engineering, manufacturing and precision castings; land defence systems and equipment; marine propulsion systems and motion control equipment; superalloys and components for the gas turbine and automotive industries; and medical equipment.

A review of activities during the financial year is presented in the earlier sections of the Annual Report, together with information concerning events which have occurred since the end of the financial year and likely future developments in the business of the Group.

DIVIDENDS

An interim dividend of 2.7p (1995: 2.4p) net per Ordinary Share was paid on 16 October 1996. The Directors are recommending a final dividend of 4.5p (1995: 4.3p) net per Ordinary Share, making a total for the 1996 financial year of 7.2p (1995: 6.7p) net per Ordinary Share. Subject to approval by shareholders of this recommendation at the forthcoming Annual General Meeting, the final dividend will be paid on 2 May 1997 to shareholders registered on 7 April 1997.

Dividends paid on Preference Stock in respect of the 1996 financial year amounted to a total of £0.4m.

After taking account of these dividends, which amount to £24.7m, a sum of £31.8m has been transferred to reserves.

DIRECTORS

Brief biographical details of the Directors are given on page 31.

Mr. R. B. Head retired from the Board on 31 December 1996. Mr. D. A. D. Essex was appointed a Director on 1 January 1997.

In accordance with the Articles of Association, at the forthcoming Annual General Meeting Mr. D. A. D. Essex will vacate office and offer himself for election and Mr. J. W. Herbert and Mr. S. Huismans will retire by rotation and offer themselves for re-election. Mr. D. A. D. Essex has a service contract which is subject to 24 months' notice by the Company. Mr. J. W. Herbert and Mr. S. Huismans, being Non-Executive Directors, do not have service contracts.

DIRECTORS' INTERESTS

The Directors and their families had the following beneficial interests in the Company's Ordinary Shares:

	At 31 December 1996	At 1 January 1996
Sir Richard Lloyd, Bt.	12,499	12,499
Sir Colin Chandler	48,624	22,500
Lord Gillmore	1,000	1,000
Mr. R. B. Head	21,030	16,010
Mr. J. W. Herbert	1,250	1,250
Mr. S. Huismans	2,000	2,000
Mr. A. L. John	7,430	1,080
Mr. M. G. Taylor	6,250	6,250
Mr. C. J. S. Woodwark	1,000	1,000

Mr. D. A. D. Essex was beneficially interested in 1,000 of the Company's Ordinary Shares when he became a Director on 1 January 1997.

There have been no changes in the Directors' interests in Ordinary Shares of the Company or in share options between the end of the 1996 financial year and the date of this Report.

None of the Directors has or has had material interests, direct or indirect, in any contract of significance entered into by the Company or any of its subsidiary undertakings.

Details of the Directors' share options are given in the table on pages 42 to 43, which forms part of the Report of the Remuneration Committee.

CORPORATE GOVERNANCE

The Company has complied throughout the financial year with the provisions of the Code of Best Practice recommended by the Committee on the Financial Aspects of Corporate Governance.

The auditors, KPMG Audit Plc, have confirmed that in their opinion, with respect to the Directors' statements on internal financial control and going concern on page 35, the Directors have provided the disclosures required by The Listing Rules of the London Stock Exchange and such statements are not inconsistent with the information of which they are aware from their audit work on the financial statements; and that the Directors' statement above appropriately reflects the Company's compliance with the other paragraphs of the Cadbury Code of Best Practice specified by The Listing Rules for their review. The auditors have carried out their review in accordance with the relevant guidance issued by the Auditing Practices Board, which does not require them to perform any additional work necessary to express a separate opinion on the effectiveness of either the Group's system of internal financial control or corporate governance procedures, or on the ability of the Group to continue in operational existence.

REPORT OF THE DIRECTORS

THE BOARD AND ITS COMMITTEES

The Board of Directors, which meets regularly, comprises five Non-Executive and four Executive Directors. The Non-Executive Directors represent a strong element on the Board. They are independent of Vickers' management and free of any material connection with the Company.

The Board reserves to itself a range of key decisions to ensure that it retains proper direction and control of the Group. However, there are also a number of committees of the Board, each with individual terms of reference, which underpin its activities.

Chairman's Committee

Chaired by the Chairman and comprising the Non-Executive Directors and the Deputy Chairman and Chief Executive, this Committee provides a forum for the Chairman and the Non-Executive Directors to provide advice to the Chief Executive. It meets regularly throughout the year.

Nominations Committee

Chaired by the Chairman and comprising the Non-Executive Directors and the Deputy Chairman and Chief Executive, this Committee considers and nominates, for the approval of the Board, candidates for membership of the Board.

Audit Committee

Chaired by Mr. Martin Taylor, a Non-Executive Director, it comprises the Chairman and the remaining Non-Executive Directors. Meetings take place at least twice a year and the Committee has access to external professional advice. Its main remit is to review the Accounts and Accounting Policies, compliance with accounting standards and with legal and Stock Exchange requirements, and the audit management letters and internal financial controls.

Remuneration Committee

This Committee is chaired by the Chairman and comprises the Non-Executive Directors. It meets at such times as may be deemed necessary by the Chairman and determines the level of remuneration, in all its forms, payable to the Executive Directors. This Committee and its work are considered in detail in the Report of the Remuneration Committee on pages 38 to 43.

Executive Committee

Chaired by the Deputy Chairman and Chief Executive and comprising the Executive Directors, the Divisional Chief Executives, the Director of External Relations and the Director of Corporate Personnel, this Committee provides a forum for joint discussion of all major matters affecting the Group.

Finance Committee

This Committee is chaired by the Deputy Chairman and Chief Executive and comprises the Managing Director, Finance and Planning, the Commercial Director (both of whom are Executive Directors), the Director of External Relations and the Director of Corporate Personnel. The Committee considers proposals, particularly those involving capital expenditure or submission of tenders, within limits defined by the Board.

The Company Secretary attends, or is represented, at Board meetings and at all of the meetings of the above committees.

Mr. Jeffrey Herbert, a Non-Executive Director, will chair all of the committees currently chaired by Sir Richard Lloyd following the latter's retirement from his position as Chairman of Vickers P.L.C. on 24 April 1997. The Chairman's Committee will become known as the Advisory Committee at that time.

GOING CONCERN

The Directors have confirmed that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors continue to adopt the going concern basis in preparing the Accounts.

STATEMENT ON INTERNAL FINANCIAL CONTROL

The Directors recognise their responsibility for a system of internal financial control, which can provide reasonable, but not absolute, assurance against material misstatement or loss. The main purposes of the internal financial controls are:

- to safeguard the Group's assets against unauthorised use or disposition
- to ensure the maintenance of proper accounting records and the reliability of the financial information used within the business and provided to shareholders.

The major elements of the system of internal financial control include, but are not limited to, the following:

- clear definition of the functions and responsibilities of the various committees of the Board of Directors (including the Audit, Executive and Finance Committees)
- clear definition of authorisation procedures and delegated authority levels for major tenders, major capital expenditure projects, acquisitions and disposals of businesses, and other significant transactions
- clear definition of requirements for arrangements involving intellectual property, licenses, agency and distributorship agreements
- clear statement of the code of commercial conduct for the businesses within the Group
- control procedures and environments as documented in the manuals, at Group and individual business unit level, on accounting, Group treasury, management development and personnel.

The monitoring and review of the system of internal financial control includes:

- the formalised strategic planning and operating plan processes
- the monthly reporting and review of financial results and forecasts for all the businesses within the Group, including monitoring of performance against the operating plan
- the reports from relevant senior executives and divisional directors concerning the operation of those elements of the system for which they are responsible
- the preparation of interim and full year results, as published to shareholders and reviewed by external auditors.

The Directors have reviewed the effectiveness of the system of internal financial control in operation during the financial year through the monitoring process set out above.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDINGS

Details of major holdings in the Company's Ordinary Shares and Preference Stocks are as follows:

Ordinary Shares	%
Schroder Investment Management Limited	16.0
National Westminster Bank PLC	10.0
Morgan Grenfell Asset Management Limited	6.3
Standard Life Investment Funds Limited	4.3
Royal & Sun Alliance Insurance Group PLC	4.1
Halifax Building Society and subsidiaries	3.2
Legal & General Investment Management	3.3
Preferred 5% Stock	
Mr. P. S. Allen	22.9
Co-operative Insurance Society Limited	15.0
Provincial Insurance plc	13.3
5% Preference Stock	
The Investment Company PLC	23.7
Provincial Insurance plc	16.8
Commercial Union PLC	16.8
Mr. P. S. Allen	15.9
Co-operative Insurance Society Limited	11.6
Cumulative Preference Stock	
Commercial Union PLC	22.9
Deutsche Morgan Grenfell Group plc	17.9
Phoenix Assurance plc	12.0

FIXED ASSETS

Details of significant changes in the fixed assets are given in Note 11 to the Accounts.

The Directors are of the opinion that the overall market value of the Group's properties, on an existing use basis, taking into account that they are held for the longer term and depreciated accordingly, is not materially different from that shown in the Accounts.

RESEARCH AND DEVELOPMENT

Continued investment in the development of the Group's various products and processes is essential if the Group is to remain competitive. Regular monitoring of research and development activities is undertaken during the annual planning cycle. Research and development costs incurred during the financial year were £65.8m (1995: £67.0m) which, after deduction of contributions from customers, amounted to £41.3m (1995: £43.5m).

EQUAL OPPORTUNITIES

The Company has a policy of equal opportunities and non-discrimination. This policy also specifically refers to the employment of people with disabilities to ensure that applications for employment by such people are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. The Company reaffirms that in the event of employees becoming disabled, every effort is made, including appropriate training, to ensure that their employment with the Company continues. It is the policy of the Company to further, as far as possible, the training, career development and promotion of disabled employees.

EMPLOYEES

Team briefing continues to be the bedrock upon which the Company's employee communications is built. The Company is constantly seeking ways of improving the effectiveness of this as its primary communication medium to employees.

A range of training and development initiatives is being implemented which recognises that operational effectiveness requires high quality and well trained people at all levels in the organisation.

In addition to the information given in earlier sections of the Annual Report, the Company has an Approved Savings-Related Share Option Scheme which, by encouraging share ownership, in turn encourages the involvement of employees in the Company's performance.

DONATIONS

During the financial year, Vickers made donations totalling £175,000 gross in support of a number of national and local charitable activities in the United Kingdom.

No donations were made to political parties during the financial year.

AUDITORS

A resolution for the re-appointment of KPMG Audit Plc as auditors and authorising the Directors to determine the auditors' remuneration will be proposed at the forthcoming Annual General Meeting.

PROMPT PAYMENT

In the United Kingdom, each member of the Group has subscribed to the Prompt Payment Code as published by and available from the Confederation of British Industry. The main features of the Code are that payment terms are agreed at the outset of a transaction and are adhered to by the parties concerned; that bills will be paid in accordance with the contract; and that the payment terms are not altered without prior agreement. Overseas subsidiaries are encouraged to adopt equivalent arrangements by applying local best practice.

Signed on behalf of the Board

Philip Clarke
Secretary
18 March 1997

REPORT OF THE REMUNERATION COMMITTEE

This Committee of the Board comprises the Non-Executive Directors of Vickers P.L.C., namely:-

Sir Richard Lloyd, Bt. (Chairman)
Lord Gillmore of Thamesfield, G.C.M.G.
Mr. J. W. Herbert
Mr. S. Huismans
Mr. M. G. Taylor, C.B.E.

Biographical details and business experience are shown on page 31.

Mr. J. W. Herbert will become Chairman of the Committee on the retirement of Sir Richard Lloyd, Bt. on 24 April 1997. The Deputy Chairman and Chief Executive, Sir Colin Chandler, is normally consulted by the Committee, except when matters affecting his personal interest are under consideration.

The terms of reference of the Committee are to determine the Company's policy for executive remuneration and the entire individual remuneration package for each of the Executive Directors and certain senior executives and officers of the Company (some twelve in number), including their pension rights and any compensation payments. It has access to professional advice inside and outside the Company.

The Company's general policy on Executive Directors' remuneration is to maintain a system of remuneration which is sufficient to attract and retain the Company's top management and to motivate them to excel in their respective roles. The Committee ensures that the levels of remuneration paid to the Executive Directors and other senior executives are no more than required to meet these objectives and peer group comparisons are made to check on this.

The Committee has been advised on remuneration levels for Executive Directors by Monks Partnership Limited, whose principal source of information consisted of the annual reports of parent companies in the electrical and mechanical engineering and electronics sectors and its own survey-based databank of such companies. This information is further cross-referenced by participation in the Watson Wyatt Remuneration Committee Report. In setting appropriate levels of remuneration, account was taken of the functions and responsibilities of the Directors, the size and complexity of the business and the sectors and regions in which the Company operated.

The Company has complied throughout the financial year with Section A of the best practice provisions annexed to The Listing Rules of the London Stock Exchange. In framing its remuneration policy, the Committee and the Board have given full consideration to Section B of those best practice provisions.

Remuneration consists of the following elements:

BASIC SALARY

This is established by reference to the salaries indicated by the Monks Partnership's surveys and in accordance with the guidelines referred to above.

ANNUAL BONUS

The second component is an annual performance bonus. This is based upon specified performance measures of the Company generally, currently earnings per share and trading cash flow, and upon the achievement of specific qualitative and quantitative targets selected each year which will prove to be of long-term value to the Company and its shareholders. Thus the formula for calculation of bonus is reviewed and changed each year in order to reflect new challenges and changing circumstances. In the case of the Executive Directors, the bonus is 25% of salary for achieving target financial performance and the overall formula is capped at 60% of basic salary.

SHARE OPTION SCHEMES

The Company has an Approved Share Option Scheme for executives and an Approved Savings-Related Share Option Scheme. A Phantom Option Scheme has also been activated occasionally.

The Vickers Group 1994 Approved Share Option Scheme was adopted by shareholders at the 1994 Annual General Meeting on the basis that all options granted under the Scheme would be subject to performance conditions. These were designed so that options could not be exercised unless there was a sustained and measurable improvement in the underlying performance of the Company during the option period. Any share options which may be granted under the Scheme are subject to an objective performance target set by the Remuneration Committee. It requires that in any consecutive period of three years, the Company's percentage growth in annualised earnings per share shall have been at least equivalent to the percentage increase, if any, in the retail prices index, plus 10%. The Committee considers that this measure of performance accords with shareholders' expectations; it reviews the objective performance target annually.

The Committee also expresses the intention that participants in the Vickers Group 1994 Approved Share Option Scheme should apply a reasonable proportion of the net proceeds towards the purchase and retention of shares in the Company. The Scheme is applied not only to the Executive Directors and most senior executives of the Company, but also to a number of younger managers who are seen to have future potential. The Committee takes the view that the Scheme motivates the participants and identifies their interests with those of the shareholders. It is the Committee's policy to phase grants of share options and not to award any options at a discount.

The Vickers Group 1984 Approved Share Option Scheme expired in 1994, although certain Executive Directors and other executives hold options granted under that Scheme which remain exercisable.

The Vickers Group 1994 Approved Savings-Related Share Option Scheme is open to all eligible employees in the United Kingdom.

Details of outstanding Approved Share Options and Approved Savings-Related Share Options held by Executive Directors, together with details of any such options granted or exercised during the year, are contained in the table on pages 42 and 43.

Monks Partnership has confirmed that the Company's share option allocation policy is in line with accepted market practice.

The Company has no other long-term incentive schemes apart from those referred to above and has no plans at present to introduce any further schemes.

PENSIONS

The majority of United Kingdom-based employees, including the Executive Directors, are members of one of the Company's two main United Kingdom defined benefit pension schemes, the Vickers Group Pension Scheme and the Rolls-Royce Motors Pension Fund.

The Company also operates a top-up defined benefit scheme, for its Executive Directors and certain senior executives, known as the Vickers Retirement Scheme ("VRS"). VRS has for some years been unable to provide a pension to new employees in respect of eligible earnings in excess of the cap (now £82,200) imposed by the Finance Act 1989 and, to remain competitive in the recruitment of senior executives, it has been necessary additionally to establish a funded unapproved scheme known as the Vickers 1993 Supplementary Retirement Scheme ("VSRS").

The Executive Directors participate in VSRS so that they are not put at a disadvantage relative to other executives whose eligible earnings, by virtue of their earlier recruitment, are not capped.

REPORT OF THE REMUNERATION COMMITTEE

The current Executive Directors' bonuses are pensionable. This practice was adopted after the merger with Rolls-Royce Motors Holdings Limited in 1980. It is a contractual right incorporated in the Company's relevant pension schemes which applies to at least 140 of the Company's executives. The inclusion of the bonus is justified on the basis that it has, thereby, become a contractual commitment since 1980 and that, for present beneficiaries, it is in keeping with the Company's incentive culture. Pension contributions by both the Company and, where applicable, the relevant executives have been, and will continue to be, made on this basis. Following a review of policy indicated in last year's Remuneration Committee Report to shareholders, the Committee has decided that no executives commencing employment with the Company after 1 January 1997 will receive pensionable bonuses.

Directors' fees are paid only to Non-Executive Directors and, for this purpose, the Company's Articles of Association exclude the Non-Executive Chairman who received remuneration, including benefits in kind, of £105,172 in the year. Each of the Non-Executive Directors receives an annual fee of £20,000 which was last increased from £13,000 on 1 January 1995. The Chairman of the Audit Committee, Mr. M. G. Taylor, receives an additional fee for that responsibility of £3,000 per annum. Mr. J. W. Herbert, who will become Senior Vice Chairman on 24 April 1997, has been provided with a Company car. Neither the Non-Executive Directors nor the Chairman participate in any discussion of the level of their fees, nor do they participate in the Company's bonus or share option schemes.

Details of the Directors' emoluments for 1996 are set out in the table on page 41.

SERVICE CONTRACTS

The Executive Directors have two year rolling contracts. It is the Committee's view, borne out of experience, that it is necessary to offer two year rolling contracts in order to recruit and retain senior individuals of the right calibre and to provide them with reasonable security. To meet shareholder expectations of growth, the Company does need to recruit such experienced executives from time to time and a reduction to one year contracts would seriously hinder such recruitment. The Committee has considered compensation arrangements in the event of early termination and it has also been agreed that a Director could treat a change of control as a repudiatory breach and claim damages.

Mr. J. W. Herbert and Mr. S. Huismans are proposed for re-election as Non-Executive Directors at the forthcoming Annual General Meeting. Mr. J. W. Herbert and Mr. S. Huismans do not have service contracts. At the same Annual General Meeting, Mr. D. A. D. Essex is proposed for election as an Executive Director and he has a service contract which is subject to 24 months' notice by the Company.

Executive Directors are required by their service contracts to devote their whole time and attention to their duties under those contracts. They shall not without the consent of the Board become a director of another company. The Board recognises that a directorship of another company or companies can broaden the knowledge and experience of a Director with consequential benefits to the Company. However, in considering whether to allow an external directorship, the Board must also ensure that it will not detract from the time and attention required to be devoted to the interests of the Company. If, exceptionally, an external appointment is permitted by the Board, the Director concerned may retain for his own use any remuneration or other benefit which he may derive from it.

DIRECTORS' EMOLUMENTS

The aggregate of Directors' emoluments for 1996 was £2,787,439, comprising remuneration of £2,264,785 and pension contributions of £522,654 (1995: £2,381,473, comprising remuneration of £1,850,100 and pension contributions of £531,373), and these figures are analysed in the following table.

DIRECTORS' EMOLUMENTS

	Salary and Fees £	Annual Bonus £	Benefits £	Phantom Option Exercise £	Pension Related Payment £	1996 Total £	1995 Total £	1996 Pension Contributions £	1995 Pension Contributions £
Chairman									
Sir Richard Lloyd	85,000	–	20,172	–	–	105,172	105,111	–	–
Executive Directors									
Sir Colin Chandler	344,255	146,465	28,066	150,449	149,768	819,003	667,588	251,368	240,260
(Chief Executive)									
Mr. R. B. Head	210,000	90,300	10,211	349,433	–	659,944	297,576	96,876	107,160
Mr. A. L. John	142,133	59,544	20,915	-	32,132	254,724	253,062	81,484	94,227
Mr. P. T. Ward	–	–	–	–	–	–	129,746	–	–
Mr. C. J. S. Woodwark	200,700	82,130	22,282	-	33,623	338,735	323,709	92,926	89,726
Non-Executive Directors									
Lord Gillmore	20,000	–	–	–	–	20,000	3,641	–	–
Mr. J. W. Herbert	20,000	–	4,207	–	–	24,207	20,000	–	–
Mr. S. Huismans	20,000	–	–	–	–	20,000	20,000	–	–
H.R.H. The Duke of Kent	–	–	–	–	–	–	6,667	–	–
Mr. M. G. Taylor	23,000	–	–	–	–	23,000	23,000	–	–
Total 31.12.1996	1,065,088	378,439	105,853	499,882	215,523	2,264,785		522,654	
Total 31.12.1995	*1,072,918*	*447,370*	*109,524*	-	*220,288*		*1,850,100*		*531,373*

Notes:-

1. H.R.H. The Duke of Kent and Mr. P. T. Ward relinquished their directorships on 27 April 1995 and 31 May 1995, respectively. Lord Gillmore was appointed a Director on 26 October 1995. Mr. R. B. Head relinquished his directorship on 31 December 1996.

2. Benefits comprise all assessable tax benefits arising from employment by the Company. These relate mainly to the provision of a Company car.

3. The payments shown in the column headed Phantom Option Exercise relate to taxable payments resulting from the exercise of the phantom options indicated in the table on page 42. There were no exercises of phantom options made by Directors in 1995. The Directors do not hold any remaining phantom options.

4. To avoid the Executive Directors being prejudiced in comparison with other executives by the operation of the pension cap imposed by the Finance Act 1989, the pension related payments take account of the tax liabilities arising in respect of the pension contributions shown in the table.

OPTIONS

	At 01.01.96	Granted in 1996	Exercised in 1996	At 31.12.96	Exercise price (p)	Market price on Exercise (p)	Dates Exercisable
Sir Colin Chandler							
Executive Options	364,197			364,197	202.77		1997-2000
	104,056			104,056	222.96		1997-2001
	208,112		208,112		86.49	292.00	
	280,000			280,000	182.00		1998-2005
	956,365	–	208,112	748,253			
SAYE Options	6,124		6,124		183.70	263.50	
	5,750			5,750	120.00		1999
	11,874	–	6,124	5,750			
Phantom Options	156,084		156,084		157.61	254.00	
	156,084	–	156,084	–			
R. B. Head							
Executive Options	16,128		16,128		86.49	292.00	
	77,564			77,564	182.00		1997-98
	90,000			90,000	187.00		1997-98
	183,692	–	16,128	167,564			
SAYE Options	5,020		5,020		149.40	278.00	
	5,750			5,750	120.00		1997
	2,412			2,412	143.00		1997
	13,182	–	5,020	8,162			
Phantom Options	104,056		104,056		157.61	254.00	
	139,955		139,955		86.49	264.50	
	244,011	–	244,011	–			

	At 01.01.96	Granted in 1996	Exercised in 1996	At 31.12.96	Exercise price (p)	Market price on Exercise (p)	Dates Exercisable
A. L. John							
Executive Options	62,433		62,433		86.49	292.00	
	185,000			185,000	182.00		1998-2005
	247,433	–	62,433	185,000			
SAYE Options	6,188			6,188	121.20		1997
	4,808			4,808	143.50		1999
	2,412			2,412	143.00		2000
	13,408	–	–	13,408			
C.J. S. Woodwark							
Executive Options	80,000			80,000	154.00		1997-2003
	40,000			40,000	181.00		1997-2004
	280,000			280,000	182.00		1998-2005
	400,000	–	–	400,000			
SAYE Options	12,062	–	–	12,062	143.00		2000

The closing middle market price of the Ordinary Shares of the Company on 31 December 1996 was 255p and the range during the year was 241p to 300p.

Note:-

1. Mr. D. A. D. Essex was appointed a Director on 1 January 1997 and does not hold any options over the Company's shares.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The following statement, which should be read in conjunction with the Report of the Auditors set out on page 45, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the Auditors in relation to the Accounts.

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

The Directors consider that, in preparing the Accounts, the Company has used appropriate accounting policies, 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 Accounts comply with the Companies Act 1985.

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

REPORT OF THE AUDITORS

To the members of Vickers P.L.C.

We have audited the Accounts on pages 46 to 66. We have also examined the amounts disclosed relating to the emoluments, share options and long-term incentive schemes of the Directors which form part of the Report of the Remuneration Committee on pages 38 to 43.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 44 the Company's Directors are responsible for the preparation of 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 our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Accounts, and of whether the accounting policies are appropriate to the 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 Accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Accounts.

OPINION

In our opinion the Accounts give a true and fair view of the state of affairs of the Company and the Group as at 31 December 1996 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
18 March 1997

ACCOUNTING POLICIES

BASIS OF CONSOLIDATION

The Accounts have been prepared, in accordance with applicable accounting standards, on the historical cost basis of accounting modified to include the revaluation of certain land and buildings and comprise a consolidation of the Accounts of the Company and its subsidiary undertakings and its share of the post-acquisition results of associated undertakings.

The results of subsidiary and associated undertakings acquired or disposed of during the year are included in the Accounts from or to the effective dates of acquisition or disposal.

Where businesses are acquired at a premium or a discount compared to the fair value of the net assets at the date of acquisition, the excess is deducted from or added to reserves.

ACCOUNTING STANDARDS

During 1996 the Group adopted Financial Reporting Standard 1 (Revised 1996) "Cash Flow Statements" and Financial Reporting Standard 8 "Related Party Disclosures".

The principal changes from the previous standard arising from FRS 1 (Revised 1996) are:

(a) the definition of cash, which the standard now defines as cash in hand and deposits repayable on demand less overdrafts repayable on demand, and

(b) the introduction of a section dealing with "management of liquid resources". The Group's liquid resources are comprised principally of term deposits of less than one year but in excess of one working day.

FOREIGN CURRENCIES

Assets and liabilities in foreign currencies are translated into sterling at the rates ruling at the Balance Sheet date, and the Profit and Loss Accounts and Cashflows of overseas businesses at the average rates of the year.

Exchange differences arising on the retranslation of the net investments in overseas businesses, together with differences on associated borrowing in foreign currencies, are transferred directly to reserves. Other exchange differences are included in the Profit and Loss Account.

TURNOVER

Turnover consists of amounts invoiced in respect of deliveries, other than on certain long-term contracts for which the estimated selling value of the work completed during the year is included together with adjustments relating to previous years' estimates. A proportion of profit is taken on long-term contracts appropriate to the stage of completion of each contract.

RESEARCH AND DEVELOPMENT EXPENDITURE

Research and development expenditure, other than that which is recoverable on projects under contract with third parties, is charged against profit in the year in which it is incurred.

TAXATION

The charge for taxation is based upon the profit for the year and takes into account deferred taxation on timing differences to the extent that a liability or an asset is expected to arise.

The rates of taxation used in arriving at the taxation charge are those currently in force in the United Kingdom and, where appropriate, overseas.

Advance Corporation Tax, to the extent that it is considered not recoverable against taxation liabilities in the foreseeable future, is included in the taxation charge for the period.

No provision is made for United Kingdom and foreign taxation which would arise in the event of the distribution of the retained profits of overseas businesses unless such distribution is proposed.

EARNINGS PER SHARE

Earnings per share is presented in accordance with Financial Reporting Standard 3 (FRS 3).

TANGIBLE ASSETS

Freehold buildings and leasehold land and buildings are depreciated over their remaining useful lives or periods of lease, whichever are shorter.

Motor car tooling is amortised on a per unit basis which takes into account actual production of each model and a conservative estimate of future production to the end of the model lives.

Other plant and equipment is depreciated, mainly on a straight line basis, so as to write off the cost of such assets over their useful lives. These lives are reviewed on a regular basis. The depreciation rates used are:

	per annum
Freehold property	2% – 4%
Leasehold property (or at higher rates based on the life of the lease)	2% – 4%
Plant, machinery and vehicles	10% – 33%
Office furniture and equipment	10% – 20%
Short life plant and small tools	20% – 33%

Interest costs on major fixed asset additions are capitalised during the construction period and written off as part of the total asset cost.

Assets held under finance leases are included in tangible assets at purchase price and are depreciated over the shorter of the asset life or lease period. The obligations related to finance leases, net of finance charges in respect of future periods, are included as appropriate under creditors due within or after one year. Rentals under operating leases are charged to profit as incurred.

STOCKS AND WORK IN PROGRESS

Stocks and work in progress are valued at the lower of cost and net realisable value. Full provision is made for anticipated losses. Cost comprises materials and factory labour, including overheads thereon based on normal levels of activity.

PENSION FUNDING

The Company and its major subsidiary undertakings operate both defined benefit and defined contribution pension schemes, the assets of which are administered by Trustees and are independent of the Group's finances. The pension costs relating to these schemes, including those related to past service, are assessed in accordance with the recommendations of independent actuaries. Full actuarial valuations are made at regular intervals. Variations from the regular costs of defined benefit schemes are allocated over the average remaining service lives of current employees.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December	Notes	1996 £m	1996 £m	1995 £m	1995 £m
Turnover – Continuing operations	1		**1,197.6**		1,143.8
Operating costs	3		**(1,114.3)**		(1,070.4)
Operating profit – Continuing operations					
Before restructuring and other exceptional costs	1	**83.3**		78.4	
Restructuring and other exceptional costs	1&3	**–**		(5.0)	
	3		**83.3**		73.4
Loss on disposal and closure of subsidiaries within continuing operations			**–**		(0.5)
Profit on ordinary activities before interest			**83.3**		72.9
Net interest	4		**–**		2.1
Profit on ordinary activities before taxation			**83.3**		75.0
Taxation	5		**(26.7)**		(23.2)
Profit on ordinary activities after taxation			**56.6**		51.8
Minority interests – Equity			**(0.1)**		-
Shareholders' profit for the financial year			**56.5**		51.8
Dividends – Equity and non-equity	6		**(24.7)**		(22.7)
Profit transferred to reserves			**31.8**		29.1

		1996	1995
		Pence	Pence
Earnings per 50p Ordinary Share	7	**16.7**	15.6
		£m	£m
Retained profit			
The Company		**1.5**	(13.0)
Subsidiary undertakings		**30.3**	42.1
		31.8	29.1

BALANCE SHEETS

At 31 December	Notes	Group 1996 £m	Group 1995 £m	Company 1996 £m	Company 1995 £m
Fixed assets					
Tangible assets	11	**325.9**	272.2	**107.9**	96.1
Investments – Subsidiary undertakings	14	**–**	–	**484.4**	484.4
– Other investments	15	**8.9**	9.0	**–**	–
		334.8	281.2	**592.3**	580.5
Current assets					
Stocks and work in progress	16	**190.7**	195.8	**29.7**	47.8
Debtors falling due within one year	17	**216.3**	205.5	**310.8**	271.3
Debtors falling due after more than one year	17	**31.2**	26.0	**30.8**	24.2
		247.5	231.5	**341.6**	295.5
Cash and deposits		**66.1**	134.3	**19.6**	91.6
		504.3	561.6	**390.9**	434.9
Creditors: amounts falling due within one year					
Borrowings	18	**(67.8)**	(73.9)	**(66.2)**	(66.7)
Other liabilities	18	**(368.5)**	(380.5)	**(530.5)**	(557.9)
		(436.3)	(454.4)	**(596.7)**	(624.6)
Net current assets/(liabilities)		**68.0**	107.2	**(205.8)**	(189.7)
Total assets less current liabilities		**402.8**	388.4	**386.5**	390.8
Creditors: amounts falling due after more than one year					
Borrowings	18	**(34.4)**	(38.4)	**(33.6)**	(37.2)
Other liabilities	18	**(12.2)**	(16.1)	**(0.4)**	(1.4)
		(46.6)	(54.5)	**(34.0)**	(38.6)
Provisions for liabilities and charges	19	**(47.6)**	(55.1)	**(14.9)**	(20.7)
		308.6	278.8	**337.6**	331.5
Capital and reserves					
Called up share capital	20	**176.5**	174.8	**176.5**	174.8
Share premium account	21	**61.7**	58.8	**61.7**	58.8
Revaluation reserve	21	**44.8**	46.7	**13.8**	14.3
Profit and Loss Account	21	**25.5**	(1.5)	**85.6**	83.6
Equity		**300.1**	270.4	**329.2**	323.1
Non-equity		**8.4**	8.4	**8.4**	8.4
Shareholders' funds		**308.5**	278.8	**337.6**	331.5
Minority interests – Equity		**0.1**	–	**–**	–
		308.6	278.8	**337.6**	331.5

The Accounts on pages 46 to 66 were approved by the Board of Directors on 18 March 1997 and were signed on its behalf by:

R. E. B. Lloyd

D. A. D. Essex

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	1996 £m	1995 £m
Profit for the financial year	**56.5**	51.8
Currency translation differences on foreign currency net investments	**(3.8)**	1.8
Total recognised gains and losses for the financial year	**52.7**	53.6

NOTE OF CONSOLIDATED HISTORICAL COST PROFITS AND LOSSES

	1996 £m	1995 £m
Reported profit on ordinary activities before taxation	**83.3**	75.0
Realisation of property revaluation gains of previous years	**0.6**	1.3
Difference between historical cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount	**1.0**	1.0
Historical cost profit on ordinary activities before taxation	**84.9**	77.3
Historical cost profit for the year retained after taxation, minority interests and dividends	**33.4**	31.4

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Group		Company	
	1996 £m	1995 £m	**1996 £m**	1995 £m
Profit for the financial year	**56.5**	51.8	**26.2**	9.7
Currency translation differences on foreign currency net investments	**(3.8)**	1.8	**–**	–
Dividends	**(24.7)**	(22.7)	**(24.7)**	(22.7)
New share capital subscribed	**4.6**	4.9	**4.6**	4.9
Goodwill written off	**(2.2)**	(51.7)	**–**	–
Goodwill on disposal written back	**–**	0.1	**–**	–
Purchase of minority interest	**(0.7)**	–	**–**	–
Increase/(decrease) in Shareholders' funds	**29.7**	(15.8)	**6.1**	(8.1)
Opening Shareholders' funds	**278.8**	294.6	**331.5**	339.6
Closing Shareholders' funds	**308.5**	278.8	**337.6**	331.5

CASH FLOW STATEMENT

For the year ended 31 December	Note	1996 £m	1996 £m	1995 £m	1995 £m
Cash flow from operating activities	22	**75.0**		126.7	
Returns on investments and servicing of finance	22	**(2.0)**		1.5	
Taxation	22	**(27.9)**		(16.0)	
Capital expenditure	22	**(90.3)**		(60.6)	
Acquisitions and disposals	22	**(1.2)**		(65.2)	
Equity dividends paid		**(23.5)**		(17.9)	
Net cash outflow before management of liquid resources and financing			**(69.9)**		(31.5)
Management of liquid resources	22		**84.3**		(6.9)
Financing	22				
Issue of shares		**4.6**		4.9	
Increase in debt		**11.8**		33.6	
Net cash inflow from financing			**16.4**		38.5
Increase in cash in the period			**30.8**		0.1

Reconciliation of net cash flow to movement in net debt	22		
Increase in cash in the period		**30.8**	0.1
Cash inflow from increase in debt and lease financing		**(11.8)**	(33.6)
Cash (inflow)/outflow from management of liquid resources		**(84.3)**	6.9
Change in net debt resulting from cash flows		**(65.3)**	(26.6)
Translation difference		**7.2**	(2.8)
Movement in net debt in the period		**(58.1)**	(29.4)
Net cash at 1 January		**22.0**	51.4
Net (debt)/cash at 31 December		**(36.1)**	22.0

NOTES TO THE ACCOUNTS

1. SEGMENTAL INFORMATION

	Turnover 1996 £m	Turnover 1995 £m	Operating profit before restructuring and other exceptional costs 1996 £m	Operating profit before restructuring and other exceptional costs 1995 £m	Net assets 1996 £m	Net assets 1995 £m
Principal activities						
Automotive	**418.5**	401.7	**37.6**	41.7	**157.7**	89.2
Defence Systems	**345.2**	353.7	**18.0**	15.9	**0.6**	(6.6)
Propulsion Technology	**292.4**	238.2	**24.0**	17.1	**89.8**	84.4
Medical	**118.5**	122.9	**1.6**	0.9	**72.7**	71.1
Other Activities	**24.4**	28.7	**2.1**	2.8	**38.8**	41.0
Associated undertakings	**-**	-	**-**	-	**9.0**	9.0
	1,199.0	1,145.2	**83.3**	78.4	**368.6**	288.1
Inter-segment sales	**(1.4)**	(1.4)				
Unallocated net assets					**16.6**	10.0
Taxation					**(25.2)**	(26.8)
Dividends					**(15.3)**	(14.5)
Sales to third parties	**1,197.6**	1,143.8				
Operating profit before restructuring and other exceptional costs			**83.3**	78.4		
Total net assets					**344.7**	256.8

	Turnover by destination 1996 £m	Turnover by destination 1995 £m	Turnover by origin 1996 £m	Turnover by origin 1995 £m	Operating profit by origin (before restructuring and other exceptional costs) 1996 £m	Operating profit by origin (before restructuring and other exceptional costs) 1995 £m	Net assets 1996 £m	Net assets 1995 £m
Geographical segment								
United Kingdom	**515.1**	408.7	**889.4**	872.1	**59.9**	59.1	**271.9**	177.6
North America	**224.7**	207.1	**215.5**	190.7	**19.2**	13.5	**58.0**	57.1
Continental Europe	**196.5**	190.0	**201.0**	175.6	**3.0**	6.2	**55.2**	63.6
Asia/Pacific	**251.1**	326.5	**15.1**	8.0	**1.2**	(0.4)	**0.1**	(0.2)
Rest of the World	**10.2**	11.5	**0.2**	0.2	**-**	-	**-**	-
	1,197.6	1,143.8	**1,321.2**	1,246.6	**83.3**	78.4	**385.2**	298.1
Inter-segment sales			**(123.6)**	(102.8)				
Taxation							**(25.2)**	(26.8)
Dividends							**(15.3)**	(14.5)
Sales to third parties	**1,197.6**	1,143.8	**1,197.6**	1,143.8				
Operating profit before restructuring and other exceptional costs					**83.3**	78.4		
Total net assets							**344.7**	256.8

Reconciliation of total net assets

	1996 £m	1995 £m
Net assets as shown in the Consolidated Balance Sheet	**308.6**	278.8
Exclude interest-bearing assets and liabilities:		
Cash and deposits	**(66.1)**	(134.3)
Borrowings falling due within one year	**67.8**	73.9
Borrowings falling due after more than one year	**34.4**	38.4
	344.7	256.8

1995: Restructuring and other exceptional costs	Automotive £m	Propulsion Technology £m	Medical £m	Other Activities £m	Total £m
(a) Restructuring costs					
United Kingdom	(1.5)	(0.6)	–	–	(2.1)
North America	–	–	(1.0)	–	(1.0)
Continental Europe	–	–	(1.3)	–	(1.3)
	(1.5)	(0.6)	(2.3)	–	(4.4)
(b) Exceptional litigation costs					
North America	–	–	–	(0.6)	(0.6)
	(1.5)	(0.6)	(2.3)	(0.6)	(5.0)

Net interest is a Group item and is not allocated to business activities or geographical segments.

2. ACQUISITIONS

(a) Fair value adjustments:

During 1995 the Group acquired the three businesses indicated below. The provisional fair values attributed to the net assets acquired and consideration paid and payable have been reviewed, and this has resulted in an increase of £2.2m in goodwill.

	Aquamaster -Rauma £m	Cosworth Intelligent Controls £m	Vickers Bridging £m	Fair value adjustments £m
Current assets	–	–	0.4	0.4
Current liabilities	0.5	0.3	–	0.8
Net assets	0.5	0.3	0.4	1.2
Consideration	–	0.8	0.2	1.0
	0.5	1.1	0.6	2.2

(b) Purchase of minority interest:

In November 1996 Kamewa A.B. acquired the minority interest in an existing subsidiary, Aquamaster Sandfirden B.V., for a total consideration of £0.7m, of which £0.3m is deferred, giving rise to goodwill of £0.7m.

3. OPERATING PROFIT

	1996 £m	1996 £m	1995 £m	1995 £m
Turnover		**1,197.6**		1,143.8
Cost of sales – ongoing	**(966.6)**		(919.6)	
– restructuring	**–**		(0.2)	
		(966.6)		(919.8)
Gross profit		**231.0**		224.0
Administrative expenses – ongoing	**(140.4)**		(141.5)	
– restructuring and other exceptional costs	**–**		(4.8)	
		(140.4)		(146.3)
Distribution costs – ongoing		**(8.2)**		(5.8)
Other operating income		**0.9**		1.5
Operating profit		**83.3**		73.4

	1996 £m	1995 £m
Operating profit is after charging:		
Research and development	**41.3**	43.5
Depreciation:		
Depreciation on owned assets	**32.8**	34.0
Depreciation on leased assets	**0.1**	0.4
Fees paid to the auditors and their associates:		
Audit	**1.0**	1.0
Non–audit:		
UK Group companies	**0.2**	0.2
Non-UK subsidiaries	**0.2**	0.2
Operating lease charges:		
Hire of plant and machinery	**2.2**	2.4
Other lease charges	**5.5**	3.1

The fees paid to the auditors for the audit of the Company amounted to £0.2m (1995: £0.2m).

4. NET INTEREST

	1996 £m	1995 £m
Interest payable and similar charges on bank loans and overdrafts	**(6.4)**	(6.6)
Interest capitalised	**2.3**	0.8
Interest receivable	**4.1**	7.9
	-	2.1

5. TAXATION

	1996 £m	1995 £m
United Kingdom taxation:		
Corporation Tax	**(17.5)**	(26.5)
Deferred taxation	**(1.4)**	6.0
Overseas taxation:		
Current taxation	**(8.5)**	(3.4)
Deferred taxation	**(0.3)**	0.1
Prior years	**1.0**	0.6
	(26.7)	(23.2)

The United Kingdom tax charge has been computed at 33%. In 1995 the charge was reduced by £2.4m due to utilisation of Advance Corporation Tax written off.

6. DIVIDENDS

	1996 £m	1995 £m
Non-equity – Preference, paid March and September	**(0.4)**	(0.4)
Equity – Ordinary:		
Interim of 2.7p, paid October 1996	**(9.1)**	(7.9)
Proposed final of 4.5p, payable May 1997	**(15.2)**	(14.4)
	(24.3)	(22.3)
	(24.7)	(22.7)

NOTES TO THE ACCOUNTS

7. EARNINGS PER SHARE

	1996 **£m**	1995 £m
Shareholders' profit	**56.5**	51.8
Preference dividends	**(0.4)**	(0.4)
Profit for FRS 3 earnings per share calculation	**56.1**	51.4
Average number of 50p Ordinary Shares	**335,043,664**	330,619,514

The dilutive effect of unexercised options on earnings per share is not material.

Headline earnings per share (eps) as defined by the Institute of Investment Management and Research is 16.7p in 1996, the same as on the FRS 3 basis. For 1995 a further adjustment to shareholders' profit is necessary to strike a profit for Headline eps before the loss on disposal and closure of subsidiaries of £0.5m. This gives a profit of £51.9m and an eps of 15.7p. This Headline eps is equivalent to what has been described in previous Accounts as normalised eps.

8. PROFIT AND LOSS ACCOUNT OF VICKERS P.L.C.

In accordance with Section 230 of the Companies Act 1985 the Profit and Loss Account of the Company is not presented as part of these Accounts. The shareholders' profit of the Company amounted to £26.2m (1995: £9.7m).

9. PENSIONS

The Group operates a number of pension schemes both in the United Kingdom and overseas. The major schemes are the two main schemes established in the United Kingdom, the Vickers Group Pension Scheme ("VGPS") and the Rolls-Royce Motors Pension Fund ("RRMPF"). Both are funded defined benefit schemes, and the pension costs relating to these schemes are assessed in accordance with the advice of qualified actuaries using the Projected Unit Cost Method. The assets of the schemes are held in separate trustee administered funds. None of the overseas schemes is material in a Group context.

The net pension charge for the Group was £6.2m (1995: £4.8m) of which £2.8m (1995: £2.0m) related to the overseas schemes.

At the date of the last actuarial valuation (March 1995) the market value of VGPS and RRMPF assets was £554m. In accordance with the relevant Accounting Standard, the schemes' actuaries have carried out valuations of these schemes for the purpose of assessing the pension costs. These indicate that the actuarial valuations of the assets of both schemes were approximately 120% of the funds that had accrued to members. On the same basis, the actuarial surpluses of these schemes totalled £98m. The assumptions which have the most significant effect on the results of the valuations are those relating to the rate of return on investments and the rates of increases in salaries and pensions. It has been assumed that the investment return would be 9% per annum, that salary increases would average 7% per annum and that present and future pensions would increase at the rate of 5% per annum. Differences between the amounts charged in the Accounts and the amounts transferred to the schemes are shown in Note 17 (£26.9m (1995: £20.2m) in Prepayments falling due after more than one year) and in Note 18 (£3.0m in Other creditors falling due within one year (1995: £3.3m in Other creditors falling due after more than one year)).

10. EMPLOYEES

(a) Number of employees

	1996	1995
The average number of employees during the year was made up as follows:		
Production	4,657	4,443
Selling, distribution and administration	5,536	5,184
	10,193	9,627

(b) Employment costs

	1996 £m	1995 £m
Employee costs, including those of Executive Directors:		
Wages and salaries	232.8	204.8
Social security costs	24.9	21.7
Other pension costs	6.2	4.8
	263.9	231.3

11. TANGIBLE ASSETS

(a) Group	Land & buildings £m	Plant, machinery & vehicles £m	Office furniture & equipment £m	Tooling £m	Construction in progress £m	Total £m
Gross book value						
At 1 January 1996	150.3	168.1	44.2	89.5	21.3	473.4
Exchange adjustment	(3.1)	(5.3)	(1.3)	(0.2)	–	(9.9)
Capital expenditure	3.3	25.4	5.9	43.0	16.3	93.9
Transfers	9.0	23.3	0.5	–	(32.8)	–
Disposals	(1.4)	(7.9)	(2.4)	–	(0.1)	(11.8)
At 31 December 1996	**158.1**	**203.6**	**46.9**	**132.3**	**4.7**	**545.6**
Depreciation						
At 1 January 1996	22.8	102.0	31.0	45.4	–	201.2
Exchange adjustment	(0.9)	(3.4)	(0.9)	(0.2)	–	(5.4)
Provided during the year	4.0	15.9	4.6	8.4	–	32.9
Disposals	–	(6.6)	(2.4)	–	–	(9.0)
At 31 December 1996	**25.9**	**107.9**	**32.3**	**53.6**	**–**	**219.7**
Net book value at						
31 December 1996	**132.2**	**95.7**	**14.6**	**78.7**	**4.7**	**325.9**
31 December 1995	127.5	66.1	13.2	44.1	21.3	272.2
Non-depreciable assets at 31 December 1996	**42.5**	**–**	**–**	**–**	**–**	**42.5**
Leased assets at 31 December 1996	**–**	**–**	**0.1**	**–**	**–**	**0.1**

Net book value includes capitalised interest of £4.5m (1995: £3.7m).

11. TANGIBLE ASSETS (continued)

(b) Company	Land & buildings £m	Plant, machinery & vehicles £m	Office furniture & equipment £m	Tooling £m	Construction in progress £m	Total £m
Gross book value						
At 1 January 1996	51.0	57.9	15.9	5.4	19.9	150.1
Capital expenditure	0.3	6.5	2.2	–	14.5	23.5
Transfers	8.9	21.9	–	–	(30.8)	–
Disposals	(0.9)	(1.9)	(1.5)	(0.4)	(0.1)	(4.8)
At 31 December 1996	**59.3**	**84.4**	**16.6**	**5.0**	**3.5**	**168.8**
Depreciation						
At 1 January 1996	10.7	30.6	10.4	2.3	–	54.0
Provided during the year	1.6	6.2	1.5	0.5	–	9.8
Disposals	–	(1.4)	(1.5)	–	–	(2.9)
At 31 December 1996	**12.3**	**35.4**	**10.4**	**2.8**	**–**	**60.9**
Net book value at						
31 December 1996	**47.0**	**49.0**	**6.2**	**2.2**	**3.5**	**107.9**
31 December 1995	40.3	27.3	5.5	3.1	19.9	96.1
Non-depreciable assets at 31 December 1996	**13.5**	**–**	**–**	**–**	**–**	**13.5**

(c) Land and buildings	Group Freehold £m	Group Long leasehold £m	Group Short leasehold £m	Company Freehold £m	Company Long leasehold £m
The gross book value of land and buildings at the end of the year comprises:					
Cost	60.7	5.2	0.9	32.2	1.4
Valuation as at November 1988	56.4	1.8	–	14.7	–
Directors' valuation as at November 1992	32.1	1.0	–	10.0	1.0
	149.2	8.0	0.9	56.9	2.4

	Group £m	Company £m
On an historical cost basis land and buildings would have been included as follows:		
Cost	106.9	44.1
Accumulated depreciation	(23.0)	(10.9)
Net book value at 31 December 1996	**83.9**	**33.2**

12. CAPITAL COMMITMENTS

	Group		Company	
	1996	1995	**1996**	1995
	£m	£m	**£m**	£m
Outstanding contracts for capital expenditure	**19.6**	27.3	**5.5**	11.5

13. OPERATING LEASE COMMITMENTS

	Group				Company			
	Property leases		Other operating leases		Property leases		Other operating leases	
	1996	1995	**1996**	1995	**1996**	1995	**1996**	1995
	£m	£m	**£m**	£m	**£m**	£m	**£m**	£m
Annual rentals payable on leases expiring:								
Within one year	**1.0**	1.2	**0.7**	0.5	**0.1**	–	**–**	–
Between two and five years	**2.3**	2.5	**1.3**	1.3	**0.1**	0.2	**0.1**	0.1
Beyond five years	**2.3**	2.1	**–**	1.5	**1.8**	1.8	**–**	–
	5.6	5.8	**2.0**	3.3	**2.0**	2.0	**0.1**	0.1

14. INVESTMENTS – SUBSIDIARY UNDERTAKINGS

	Cost	Provisions	Net
	£m	£m	£m
At 1 January 1996	502.0	(17.6)	484.4
At 31 December 1996	**502.0**	**(17.6)**	**484.4**

A list of the principal subsidiary undertakings is given on page 68.

15. OTHER INVESTMENTS

	Associated undertakings
	£m
At 1 January 1996	9.0
Exchange adjustment	(0.1)
At 31 December 1996	**8.9**

In the opinion of the Directors, the value of the investments is not less than their net book value.

NOTES TO THE ACCOUNTS

16. STOCKS AND WORK IN PROGRESS

	Group		Company	
	1996	1995	**1996**	1995
	£m	£m	**£m**	£m
Long–term contract work in progress	**256.1**	219.3	**205.0**	201.0
Instalments on account	**(225.2)**	(177.4)	**(189.4)**	(167.4)
	30.9	41.9	**15.6**	33.6
Other work in progress	**56.3**	58.0	**7.3**	8.5
Instalments on account	**(4.8)**	(4.9)	**(0.2)**	(0.4)
	51.5	53.1	**7.1**	8.1
Net work in progress	**82.4**	95.0	**22.7**	41.7
Materials, bought out components and general stores	**64.6**	57.4	**6.4**	5.9
Finished goods	**43.7**	43.4	**0.6**	0.2
Total stocks and work in progress	**190.7**	195.8	**29.7**	47.8

Customer advances (instalments in advance of contract expenditure) have been shown separately within Other liabilities in Creditors.

17. DEBTORS

	Group		Company	
	1996	1995	**1996**	1995
	£m	£m	**£m**	£m
Amounts falling due within one year				
Trade debtors	**185.6**	176.4	**59.9**	49.5
Amounts recoverable on contracts	**10.9**	7.5	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**245.2**	213.1
Other debtors	**11.6**	11.7	**3.0**	4.7
Prepayments and accrued income	**8.2**	9.9	**2.7**	4.0
	216.3	205.5	**310.8**	271.3
Amounts falling due after more than one year				
Trade debtors	**–**	0.9	**–**	–
Advance Corporation Tax recoverable	**3.8**	3.7	**3.8**	3.7
Other debtors	**0.5**	1.2	**0.1**	0.3
Prepayments	**26.9**	20.2	**26.9**	20.2
	31.2	26.0	**30.8**	24.2
Total debtors	**247.5**	231.5	**341.6**	295.5

At the year–end £18,000 was outstanding in respect of a relocation loan made to a former Officer of the Company. The loan is to be repaid in 1997.

Included in Prepayments and accrued income falling due within one year are deferred tax assets in respect of the Group of £ nil (1995: £1.6m) and in respect of the Company of £1.1m (1995: £2.5m).

18. CREDITORS

	Group 1996 £m	Group 1995 £m	Company 1996 £m	Company 1995 £m
Amounts falling due within one year				
Bank loans and overdrafts	**67.8**	73.8	**66.2**	66.7
Obligations under finance leases	**–**	0.1	**–**	–
Borrowings	**67.8**	73.9	**66.2**	66.7
Customer advances	**41.2**	70.3	**15.5**	37.2
Trade creditors	**128.3**	123.3	**55.4**	55.4
Amounts owed to subsidiary undertakings	**–**	–	**379.5**	389.0
Loans from associated undertaking	**8.2**	8.2	**8.2**	8.2
Accruals and deferred income	**82.1**	81.3	**11.3**	16.8
Taxation on profits	**28.9**	32.6	**8.8**	10.1
Other taxation and social security	**7.2**	7.3	**2.6**	3.1
Proposed dividends	**15.3**	14.5	**15.3**	14.5
Other creditors	**57.3**	43.0	**33.9**	23.6
Other liabilities	**368.5**	380.5	**530.5**	557.9
Total amounts falling due within one year	**436.3**	454.4	**596.7**	624.6
Amounts falling due after more than one year				
Bank loans	**34.4**	38.4	**33.6**	37.2
Borrowings	**34.4**	38.4	**33.6**	37.2
Trade creditors	**–**	0.6	**–**	–
Other creditors	**12.2**	15.5	**0.4**	1.4
Other liabilities	**12.2**	16.1	**0.4**	1.4
Total amounts falling due after more than one year	**46.6**	54.5	**34.0**	38.6
Borrowings repayable in:				
One to two years	**0.1**	0.3	**–**	–
Two to five years	**33.8**	37.5	**33.6**	37.2
Over five years 2002 – 2011	**0.5**	0.6	**–**	–
	34.4	38.4	**33.6**	37.2
Not wholly repayable within five years	**0.8**	0.8	**–**	–

Borrowings of Group companies falling due within one year are secured, by way of charges on fixed assets, to the extent of £0.2m (1995: £1.5m).

Borrowings of Group companies falling due after more than one year are secured, by way of charges on fixed assets, to the extent of £0.7m (1995: £1.1m).

The Company's borrowings are unsecured.

19. PROVISIONS FOR LIABILITIES AND CHARGES

(a) Group	Warranty £m	Acquisitions £m	Reorganisation £m	Other liabilities £m	Deferred taxation £m	Total £m
At 1 January 1996	38.4	0.1	6.2	10.4	–	55.1
Exchange adjustment	(0.7)	–	–	(0.3)	–	(1.0)
Provided	19.4	–	0.2	3.1	1.7	24.4
Used	(10.5)	(0.1)	(3.6)	(4.8)	–	(19.0)
Released	(7.1)	–	(0.8)	(2.4)	–	(10.3)
Transfer from prepayments	–	–	–	–	(1.6)	(1.6)
At 31 December 1996	**39.5**	**–**	**2.0**	**6.0**	**0.1**	**47.6**

(b) Company	Warranty £m	Acquisitions £m	Reorganisation £m	Other liabilities £m	Deferred taxation £m	Total £m
At 1 January 1996	15.0	0.1	0.8	4.8	–	20.7
Provided	2.9	–	–	0.8	1.4	5.1
Used	(0.3)	(0.1)	(0.5)	(1.0)	–	(1.9)
Released	(6.3)	–	–	(1.3)	–	(7.6)
Transfer from prepayments	–	–	–	–	(1.4)	(1.4)
At 31 December 1996	**11.3**	**–**	**0.3**	**3.3**	**–**	**14.9**

(c) Deferred taxation	Group **1996 £m**	Group 1995 £m	Company **1996 £m**	Company 1995 £m
Excess capital allowances over accumulated depreciation	**1.6**	0.2	**1.4**	–
Provided against property sales	**3.5**	3.6	**–**	–
Other timing differences – United Kingdom	**(5.8)**	(6.0)	**(2.5)**	(2.5)
– Overseas	**0.8**	0.6	**–**	–
	0.1	(1.6)	**(1.1)**	(2.5)

The potential liability for taxation, which has not been provided in the amounts shown above because payment is unlikely to be required in the foreseeable future, is:

	Group **1996**	Group 1995	Company **1996**	Company 1995
Excess capital allowances over accumulated depreciation	**20.4**	15.8	**6.5**	6.0
Other timing differences	**(20.1)**	(17.0)	**(12.3)**	(8.4)
Capital gains on revaluation of properties and rolled-over gains	**23.6**	23.6	**13.0**	13.0
	23.9	22.4	**7.2**	10.6

20. SHARE CAPITAL

	Group and Company			
	Authorised		Issued	
	1996	1995	**1996**	1995
	£m	£m	**£m**	£m
Preferred 5% Stock (now 3.5% plus tax credit)	**0.8**	0.8	**0.8**	0.8
5% Preference Stock (now 3.5% plus tax credit)	**0.7**	0.7	**0.7**	0.7
Cumulative Preference Shares and Stock (now 5% plus tax credit)	**7.0**	7.0	**6.9**	6.9
	8.5	8.5	**8.4**	8.4
Ordinary Shares of 50p each	**228.5**	228.5	**168.1**	166.4
Authorised share capital	**237.0**	237.0		
Share capital, allotted, called up and fully paid			**176.5**	174.8

The three Preference classes are of £1 units.

Under the Articles of Association, the profits of the Company available for distribution and any return of capital upon liquidation are to be applied to the classes of shares in the following order: Preferred 5% Stock, 5% Preference Stock, Cumulative Preference Stock and Ordinary Shares. All holders of each class of share are entitled to receive notice and attend (either in person or by proxy) any general meeting of the Company and upon a show of hands at such meeting to have one vote. On a poll at a general meeting, the shareholders who are present in person or by proxy or by a duly authorised representative shall have one vote for every £50 nominal value of any class of Preference Stock and one vote for every £20 nominal value of Ordinary Shares.

The number of Ordinary Shares in issue at 31 December 1996 was 336,187,579 (1995: 332,842,898).

During the year ended 31 December 1996:

(a) 3,344,681 Ordinary Shares, with a nominal value of £1.7m, were issued for a total consideration of £4.6m on the exercise of options under the Company's Share Option Schemes;

(b) the following options were granted under the terms of the 1994 Approved Share Option Scheme:
- 12 March to 34 participants over 838,552 Ordinary Shares at a subscription price of 263.50p; and
- 10 September to 16 participants over 395,000 Ordinary Shares at a subscription price of 261.50p.

(c) on 24 June options were granted to 1,249 participants over 1,276,923 Ordinary Shares at a subscription price of 204.50p under the terms of the 1994 Approved Savings-Related Share Option Scheme.

The options over Ordinary Shares outstanding at 31 December 1996 were as follows:

	Number of Shares	Range of Subscription Prices	Exercisable
Approved Share Option Schemes	5,615,824	81.69p-263.50p	1997-2006
Approved Savings-Related Share Option Schemes	10,211,604	69.50p-204.50p	1997-2001

21. RESERVES

(a) Group	Share premium £m	Revaluation reserve £m	Goodwill £m	Profit and Loss Account £m	Associated undertakings' reserves £m
At 1 January 1996	58.8	46.7	(306.0)	296.2	8.3
Exchange adjustment	–	(0.3)	–	(3.4)	(0.1)
Retained profit for the year	–	–	–	31.8	–
Purchase of minority interest	–	–	(0.7)	–	–
Premium on share issues	2.9	–	–	–	–
Goodwill on acquisitions	–	–	(2.2)	–	–
Reserves reclassified	–	(1.0)	–	1.0	–
Realisation of revaluation on disposals	–	(0.6)	–	0.6	–
At 31 December 1996	**61.7**	**44.8**	**(308.9)**	**326.2**	**8.2**

The goodwill written off to Reserves comprises goodwill arising on the purchase of subsidiaries of £312.0m (1995: £309.7m), goodwill arising on the purchase of businesses of £29.8m (1995: £29.2m) and negative goodwill of £32.9m (1995: £32.9m).

The amount of unrealised exchange gains (net of losses) on net borrowings at 31 December 1996 included in reserves amounted to £2.0m (1995: losses (net of gains) £1.5m).

The revaluation reserve is shown net of £3.5m (1995: £3.6m) in respect of deferred tax provided on property sales.

(b) Company	Share premium £m	Revaluation reserve £m	Profit and Loss Account £m
At 1 January 1996	58.8	14.3	83.6
Retained profit for the year	-	-	1.5
Premium on share issues	2.9	-	-
Reserves reclassified	-	(0.5)	0.5
At 31 December 1996	**61.7**	**13.8**	**85.6**

22. CASH FLOW

	1996 £m	1995 £m
(a) Reconciliation of operating profit to operating cash flows		
Operating profit before restructuring	**83.3**	78.4
Depreciation charges	**32.9**	34.4
Profit on sale of tangible fixed assets	**(0.8)**	(1.4)
Cash flow relating to previous years' restructuring provisions	**(2.6)**	(6.4)
Increase in stocks	**(2.8)**	(11.4)
(Increase)/decrease in debtors	**(25.8)**	30.0
Decrease in creditors	**(5.3)**	(9.4)
(Decrease)/increase in provisions	**(3.9)**	12.5
Net cash inflow from operating activities	**75.0**	126.7

(b) Analysis of cash flows for headings netted in the cash flow statement

	1996 £m	1995 £m
Returns on investments and servicing of finance		
Interest received	**6.2**	10.3
Interest paid	**(7.8)**	(8.4)
Preference dividends paid	**(0.4)**	(0.4)
Net cash (outflow)/inflow for returns on investments and servicing of finance	**(2.0)**	1.5
Taxation		
UK Corporation Tax paid	**(21.4)**	(12.7)
Overseas tax paid	**(6.5)**	(3.3)
Net cash outflow for tax paid	**(27.9)**	(16.0)
Capital expenditure		
Purchase of tangible fixed assets	**(93.9)**	(68.1)
Sale of tangible fixed assets	**3.6**	7.5
Net cash outflow for capital expenditure	**(90.3)**	(60.6)
Acquisitions and disposals		
Purchase of subsidiary undertakings	**(0.8)**	(65.6)
Net cash acquired with subsidiary	**–**	0.6
Purchase of minority interest	**(0.4)**	(0.2)
Net cash outflow for acquisitions and disposals	**(1.2)**	(65.2)
Management of liquid resources		
Decrease/(increase) in deposits	**84.3**	(6.9)
Net cash inflow/(outflow) from management of liquid resources	**84.3**	(6.9)

Liquid resources are comprised principally of term deposits of less than one year but in excess of one working day.

	1996 £m	1995 £m
Financing		
Issue of Ordinary Share capital	**4.6**	4.9
Debt due within one year: increase in short-term borrowings	**12.3**	13.9
Debt due beyond one year: new secured loan	**–**	0.4
new unsecured loan	**–**	19.3
repayment of loan	**(0.4)**	–
Capital element of finance lease rental payments	**(0.1)**	–
	11.8	33.6
Net cash inflow from financing	**16.4**	38.5

22. CASH FLOW (continued)

(c) Analysis of net debt

	At 01.01.96 £m	Cash flow £m	Exchange movement £m	**At 31.12.96 £m**
Deposits	106.3	(84.3)	(2.4)	**19.6**
Cash at bank and in hand	28.0	21.2	(2.7)	**46.5**
Cash and deposits	*134.3*			***66.1***
Overdrafts	(13.9)	9.6	0.9	**(3.4)**
Increase in cash in the period		*30.8*		
Debt due within one year	(59.9)	(12.3)	7.8	**(64.4)**
Finance leases	(0.1)	0.1	–	**–**
Borrowings due within one year	*(73.9)*			***(67.8)***
Borrowings due after more than one year	(38.4)	0.4	3.6	**(34.4)**
Increase in debt and lease financing		*(11.8)*		
	22.0	(65.3)	7.2	**(36.1)**

23. CONTINGENT LIABILITIES

Guarantees and contingencies arising in the ordinary course of business are not expected to result in any material financial loss to the Group. The Company has guaranteed borrowings in respect of subsidiary undertakings totalling £0.8m (1995: £0.7m), and a pension liability in respect of an overseas subsidiary undertaking amounting to £8.3m (1995: £8.5m).

There are lawsuits outstanding against Group companies for damages in respect of certain transactions. The Directors have been advised that there are good defences in all material actions and do not believe that the Group is likely to suffer any material loss in excess of the amounts provided.

24. RELATED PARTY TRANSACTIONS

There are no material related party transactions which require disclosure in these Accounts.

FIVE YEAR REVIEW

	1996 £m	1995 £m	1994 £m	1993 £m	1992 £m
Profit and loss account					
Turnover	**1,197.6**	1,143.8	727.2	689.6	718.5
Operating profit/(loss)	**83.3**	73.4	45.8	35.4	(27.5)
Profit/(loss) on sale/termination of operations					
– Continuing operations	–	(0.5)	(2.4)	–	(2.5)
– Discontinued operations	–	–	–	–	0.5
Profit/(loss) before interest	**83.3**	72.9	43.4	35.4	(29.5)
Net interest receivable/(payable) and other similar items	–	2.1	1.4	(3.1)	(7.1)
Profit/(loss) before taxation	**83.3**	75.0	44.8	32.3	(36.6)
Taxation	**(26.7)**	(23.2)	(12.1)	(6.6)	4.0
Profit/(loss) after taxation	**56.6**	51.8	32.7	25.7	(32.6)
Minority interests	**(0.1)**	–	(0.1)	(0.1)	(0.2)
Profit/(loss) for the financial year	**56.5**	51.8	32.6	25.6	(32.8)
Dividends	**(24.7)**	(22.7)	(16.1)	(10.3)	(4.3)
Retained profit/(loss)	**31.8**	29.1	16.5	15.3	(37.1)
Balance sheet					
Fixed assets	**334.8**	281.2	236.1	238.4	247.6
Net current assets	**68.0**	107.2	161.8	129.4	56.9
Creditors: amounts falling due after more than one year	**(46.6)**	(54.5)	(56.4)	(51.5)	(55.2)
Provisions for liabilities and charges	**(47.6)**	(55.1)	(46.7)	(36.5)	(42.7)
	308.6	278.8	294.8	279.8	206.6
Shareholders' funds	**308.5**	278.8	294.6	279.5	206.4
Minority interests	**0.1**	–	0.2	0.3	0.2
	308.6	278.8	294.8	279.8	206.6
Employees					
Average number of employees	**10,193**	9,627	9,118	9,406	10,422
Total wages and salaries (£m)	**232.8**	204.8	179.9	174.2	184.9
Earnings per share					
Earnings/(loss) per 50p Ordinary Share on the FRS 3 basis	**16.7p**	15.6p	9.8p	8.0p	(12.1)p
Dividends per share	**7.20p**	6.70p	4.75p	3.00p	1.50p

PRINCIPAL DIVISIONS AND SUBSIDIARY UNDERTAKINGS

AUTOMOTIVE

*Rolls-Royce Motor Cars Limited, Crewe
*Rolls-Royce Motor Cars Incorporated, Paramus, New Jersey, USA
*Rolls-Royce Motor Cars International S.A., St. Prex, Switzerland
†Vickers Pressings, Newcastle upon Tyne
†Cosworth, Northampton
†Cosworth Castings, Worcester
*Cosworth Racing Incorporated (formerly Cosworth Engineering Incorported), Torrance, California, USA
*Cosworth Engineering Incorporated (formerly Cosworth Intelligent Controls Incorporated), Novi, Michigan, USA

Cantieri Riva S.p.A., Sarnico, Italy

DEFENCE SYSTEMS

†Vickers Defence Systems, Leeds and Newcastle upon Tyne
Vickers Armstrongs Limited, trading as Vickers Bridging, Wolverhampton

PROPULSION TECHNOLOGY

Brown Brothers & Company Limited, Edinburgh
*Certified Alloy Products Incorporated, Long Beach, California, USA
*Kamewa A.B., Kristinehamn, Sweden
*Aquamaster-Rauma OY, Rauma, Finland
*Aquamaster-Rauma Korea Limited, Pusan, South Korea
*FF Jet Limited A.B., Kokkola, Finland
†Michell Bearings, Newcastle upon Tyne
*Ross & Catherall Limited, Killamarsh, Sheffield
*Ross Catherall Ceramics Limited, Denby, Derby
Stone Vickers Limited, Erith
*Trucast Limited, Ryde, Isle of Wight
†Vickers Aerospace Components, Shrewsbury
†Vickers Airmotive, Shrewsbury
†Vickers Precision Machining, Crewe

MEDICAL

*Air-Shields Incorporated, Hatboro, Pennsylvania, USA
Medelec Limited, Woking
*S&W Medico Teknik A/S, Albertslund, Denmark
*S&W Vickers Ltd, Bialystock, Poland
*S&W Elektromedizin G.m.b.H., Hanover, Germany
Vickers Medical Limited, Sidcup
MIE Limited, Exeter
*TECA Corporation, Pleasantville, New York, USA
*Vickers Medical Espana S.A., Madrid, Spain
*Vickers Medical Italia S.p.A., Milan, Italy

OTHER ACTIVITIES

*Jered Brown Brothers Incorporated, Brunswick, Georgia, USA
*Vickers America Holdings Incorporated, Paramus, New Jersey, USA
Vickers Properties Limited, London

†Divisions of Vickers P.L.C.

*The whole of the issued share capital of each of the companies shown is held by Vickers P.L.C. or, where indicated by an asterisk, by one of its wholly-owned subsidiary undertakings.

Note:
This list includes those operating units which are material to the results of Vickers P.L.C. All of the companies shown are incorporated, and operate principally, in the countries indicated. A full list of subsidiary and associated undertakings will be included with the Company's Annual Return.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the next Annual General Meeting of Vickers P.L.C. will be held at The Glaziers Hall, 9 Montague Close, London Bridge, London SE1 on Thursday 24 April 1997 at 12 noon for the following purposes:-

1. To receive and adopt the Annual Report and the audited Accounts for the financial year ended 31 December 1996.

2. To declare a final dividend of 4.5p per Ordinary Share in respect of the financial year ended 31 December 1996, payable on 2 May 1997.

3. To re-elect Mr. J. W. Herbert a Director of the Company.

4. To re-elect Mr. S. Huismans a Director of the Company.

5. To elect Mr. D. A. D. Essex a Director of the Company.

6. To re-appoint KPMG Audit Plc as Auditors and to resolve that the Auditors' remuneration be determined by the Directors.

As Special Business, to consider and, if thought fit, to pass the following resolutions:

As an Ordinary Resolution:-

7. To resolve that the Directors be and are hereby generally and unconditionally authorised pursuant to and in accordance with Section 80 of the Companies Act 1985 to exercise all the powers of the Company to allot relevant securities up to an aggregate nominal amount of £53,000,000, provided that such authority shall expire at the earlier of the conclusion of the next Annual General Meeting of the Company or 1 July 1998. The Company may make any offer or agreement before the expiry of this authority which would or might require the relevant securities to be allotted after this authority has expired and the Directors may allot relevant securities pursuant to such offer or agreement.

As a Special Resolution:-

8. To resolve that the Directors be and are hereby empowered to make allotments of equity securities (as defined in Section 94 of the Companies Act 1985) for cash, pursuant to any general authority conferred upon them for the purposes of Section 80 of the Companies Act 1985, as if Section 89(1) of that Act did not apply provided that such power shall:

(a) be limited to the allotment of equity securities in connection with a rights issue in favour of holders of Ordinary Shares in the Company where the equity securities respectively attributable to the interests of the Ordinary shareholders are proportionate to the respective amounts then held by them, but subject to such exclusion or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of, or the requirements of, any regulatory or stock exchange authority in any jurisdiction;

(b) be limited to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to a maximum nominal amount of £8,400,000;

NOTICE OF ANNUAL GENERAL MEETING

(c) expire at the earlier of the conclusion of the next Annual General Meeting of the Company or 1 July 1998 except to the extent that the same is renewed or extended prior to or at such meeting; and

(d) permit the Company to make any offer or enter into any agreement before the expiry of such power which would or might require equity securities to be allotted after this power has expired and the Directors may allot equity securities pursuant to such offer or agreement.

By order of the Board

Philip Clarke
Secretary
26 March 1997

EXPLANATION OF SPECIAL BUSINESS

At the Annual General Meeting held on 25 April 1996, shareholders authorised the Directors to allot Ordinary Shares and, in addition, to allot such shares for cash without first being required to offer these to existing shareholders. The Directors wish to seek shareholder approval for the renewal of those authorities for a further period ending upon the conclusion of the next Annual General Meeting or 1 July 1998.

Resolution 7 proposes that the Directors be authorised to allot a maximum of 106,000,000 Ordinary Shares (representing a nominal value of £53,000,000), which is less than one third of the total number of Ordinary Shares currently issued.

Resolution 8 proposes that the Directors be authorised to allot a maximum of 16,800,000 Ordinary Shares (representing a nominal value of £8,400,000) for cash without first being required to offer these to existing shareholders. This number of Ordinary Shares is equivalent to less than 5% of the total number of Ordinary Shares currently issued.

These resolutions comply with institutional investment guidelines.

The Directors have no present intention of issuing, or granting rights over, such unissued Shares, except in relation to the Share Option Schemes already approved by shareholders in General Meeting, and no issue will be made which will effectively alter the control of the Company. Nevertheless, the Directors believe that it is in the best interests of the Company that they possess such powers so that advantage can be taken, if any suitable opportunities arise, to develop the Company's interests.

Notes

Any member entitled to attend and vote is entitled to appoint one or more proxies to attend and vote (but in the case of an individual member on a poll only) in their stead; a proxy need not be a member. Completion of a Form of Proxy will not prevent members from attending the meeting and voting in person should they so wish. Proxies should be lodged not later than 12 noon on 22 April 1997.

Only those shareholders registered at close of business on 22 April 1997 shall be entitled to attend or vote in respect of the number of Shares registered in their name at that time. Changes to entries on the relevant Registers after close of business on 22 April 1997 shall be disregarded in determining the rights of any person to attend or vote.

Holders of Preferred 5% Stock, 5% Preference Stock, Cumulative Preference Stock and Ordinary Shares are entitled to attend and vote.

Copies of the Directors' service contracts (unless expiring, or determinable by the Company without payment of compensation, within one year) will be available for inspection at the Registered Office of the Company during normal business hours from the date of this Notice until the date of the Annual General Meeting, and at the place of the meeting for a period of fifteen minutes prior to the meeting and during the continuance thereof.

SHAREHOLDERS' INFORMATION

SHAREHOLDERS' DIARY

1 April 1997
Final dividend for 1996 paid on:
Preferred 5% Stock
5% Preference Stock
Cumulative Preference Stock

2 May 1997
Final dividend on Ordinary Shares, if approved, to be paid to shareholders registered on 7 April 1997

24 April 1997
Annual General Meeting to be held at The Glaziers Hall
9, Montague Close, London Bridge
London SE1 at 12 noon

11 September 1997
Results for the six months ending 30 June 1997 to be announced

ANALYSIS OF ORDINARY SHAREHOLDERS

31 December 1996	Number	%	Holding	%
1 - 500	9,137	49.18	2,112,899	0.63
501 - 1,000	3,424	18.43	2,532,302	0.75
1,001 - 1,500	1,664	8.96	2,070,383	0.62
1,501 - 2,500	1,926	10.36	3,787,182	1.12
2,501 - 12,500	1,712	9.22	8,022,827	2.39
12,501 - 60,000	314	1.69	9,385,926	2.79
60,001 - 125,000	107	0.58	9,678,960	2.88
125,001 - 250,000	86	0.46	15,091,900	4.49
Over 250,000	208	1.12	283,505,200	84.33
	18,578	100	336,187,579	100

Corporate bodies represent 94% of the total issued Ordinary Share capital in terms of numbers of shares held. The remaining 6% is held by individuals.

LOW COST SHARE DEALING

Hoare Govett Corporate Finance Limited provides a low cost share dealing service which enables investors to buy or sell Ordinary Shares in Vickers P.L.C. in a simple and economic manner. Further details may be obtained from Hoare Govett Corporate Finance Limited, 4 Broadgate, London EC2M 7LE (Telephone: 0171-601 0101).

CREST

As indicated in the Notice which accompanied the 1996 Interim Report, the Company's Ordinary Shares and Preference Stocks have been entered into the CREST system for settling share purchases and sales. Vickers is considering establishing arrangements with its Registrar, The Royal Bank of Scotland, to offer a special CREST service for Vickers' shareholders. Further details about this service will be provided to shareholders when the service becomes available. Further information on CREST can be obtained from The Royal Bank of Scotland plc, PO Box 435, Owen House, 8 Bankhead Crossway North, Edinburgh EH11 4BR.

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Cazenove & Co., 12 Tokenhouse Yard, London EC2R 7AN

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Principal Bankers
Lloyds Bank Plc, 72 Lombard Street, London EC3 3BT

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Registrars

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