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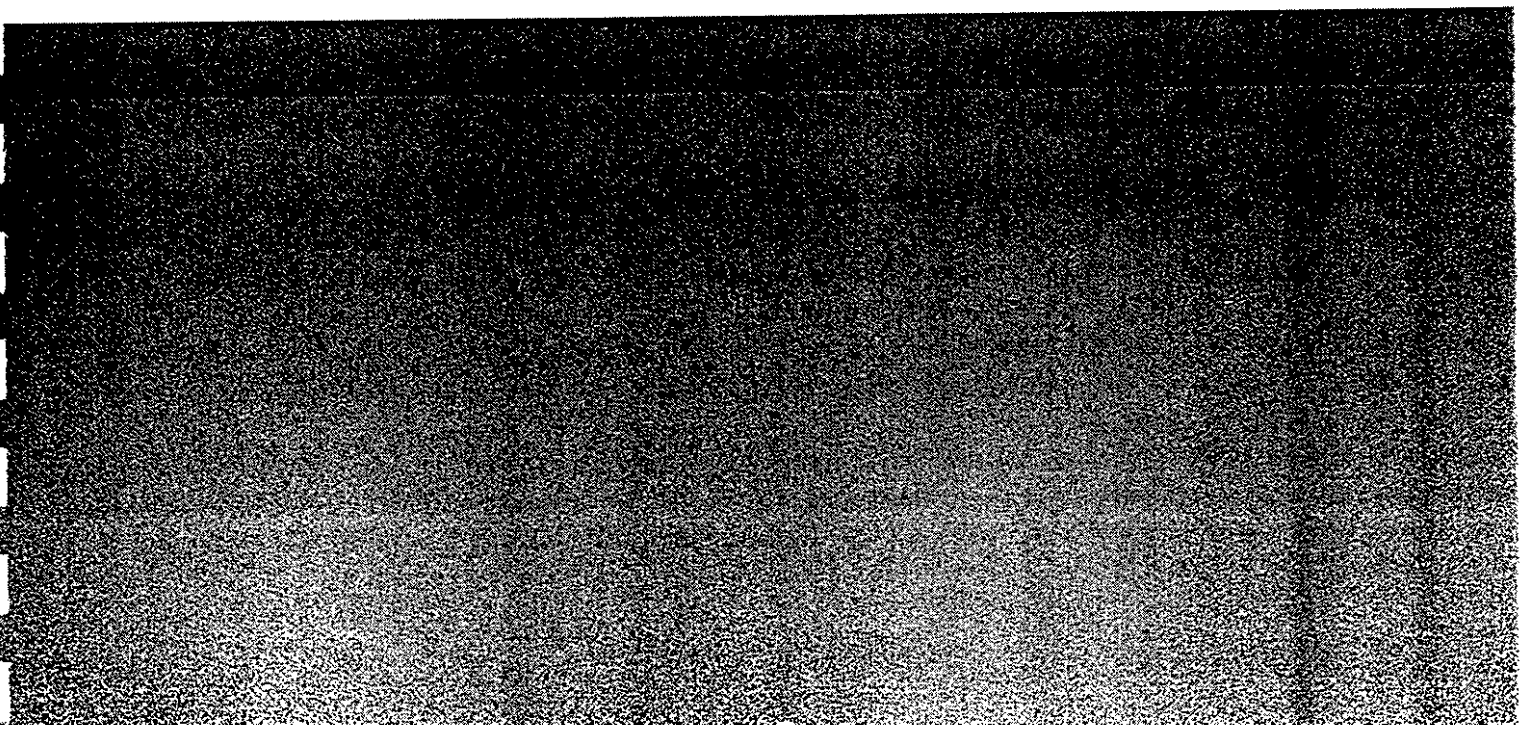
ANNUAL REPORT 1995

Vickers

Contents

Vickers' principal activities include Rolls-Royce and Bentley motor cars, Cosworth high-efficiency automotive engines and precision castings, defence systems and equipment, marine propulsion systems and motion control equipment, superalloys and components for the aerospace and automotive industries, and medical equipment.

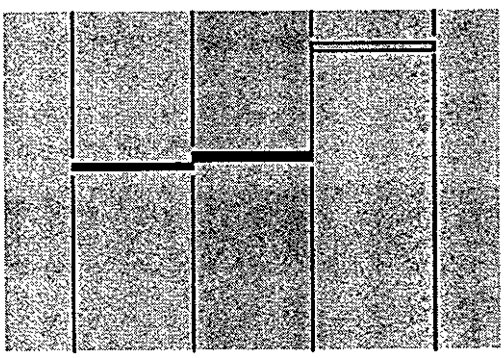
AUTOMOTIVE
DEFENCE SYSTEMS
PROPULSION TECHNOLOGY
MEDICAL EQUIPMENT



Operating Profit before restructuring and other exceptional costs increased by 49% from £52.5m. to £78.4m.

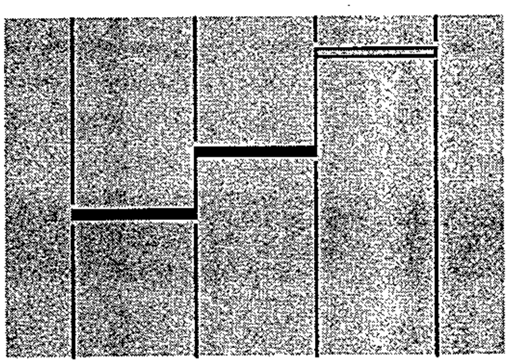
Turnover improved 57% from £727.2m. to £1,143.8m.

Net cash at year end was £22m. after capital and acquisition investment of £141m.



£689.6m	£727.2m	£1,143.8m
1993	1994	1995

Turnover



£36.6m	£52.5m	£78.4m
1993	1994	1995

Operating Profit before restructuring and other exceptional costs

Normalised earnings per share advanced by 49% from 10.5p. to 15.7p.

Dividend per 50p. Ordinary Share up by 41% from 4.75p. to 6.7p.

8.0p	10.5p	15.7p
1993	1994	1995

Normalised Earnings
per 50p Ordinary Share

3.0p	4.75p	6.7p
1993	1994	1995

Dividend per 50p
Ordinary Share

YOUR COMPANY continued to make strong progress in 1995, growing both turnover and profits at even more vigorous rates than in 1994. Vickers is realising the benefits of good management, of past investment in restructuring, and of recent acquisitions.

Increased turnover, profits and dividend. In 1995 the group's turnover grew to £1,143.8m (1994: £727.2m). This 57% increase was spread across our businesses, including Medical. However this Division's profitability suffered in the face of extremely difficult market conditions.

For your Company as a whole, operating profit before restructuring and other exceptional costs rose by 49% to £78.4m (1994: £52.5m) and profit before tax improved by 67% to £75.0m (1994: £44.8m). Normalised earnings per share of 15.7p produces an increase of 49% over 1994 (10.5p per share). Against this background, the Board is recommending a final dividend to shareholders of 4.3p (1994: 3.0p). Together with the interim dividend of 2.4p, this makes a proposed total dividend for the year of 6.7p (1994: 4.75p). This is consistent with the Board's declared dividend policy of raising the returns paid out to shareholders in line with the company's growth in earnings, while maintaining dividend cover at least twice normalised earnings (1995 2.3 times, 1994 2.2 times). This policy allows the Company to sustain its growth by profitably investing retained earnings.

Investment in the future. Many such investment opportunities continued to be identified across the group, and were approved or begun in 1995. Examples were Cosworth's Emissions and Driveability Centre at Northampton, the new Cosworth Castings automated castings facility at Worcester, and Rolls-Royce Motor Cars' new body assembly facility at Crewe. Together with the other programmes under way elsewhere in the group, these investments represent a significant commitment to securing future benefits for your Company.

The acquisitions on which I reported at the time of the Interims were integrated effectively into Vickers in the balance of the year. Aquamaster-Rauma and Vickers Bridging both performed well, and Intelligent Controls Inc., acquired by Cosworth in the second half of the year, gives that business a valuable strategic base in the United States.

Because Vickers' businesses are, overall, successfully generating cash, this programme of investment acquisitions still left the group with net cash at the year end of £22.0m.

International business. The acquisitions to which I have referred illustrate the growing

internationalisation of Vickers. In 1995 30% of our worldwide turnover arose outside the UK, and of our UK output, 52% was exported. The market in the recently-enlarged European Union is increasingly important to Vickers. So will be any moves towards the deeper development of the Single Market in Europe, in particular the vital need for further erosion of non-tariff barriers to trade - for example in governments' purchasing. Such improvements and avoidance of protectionism can only be accomplished by even closer co-operation by EU member states on trade and monetary policies, within a workable timespan. It is my belief that UK-based international businesses should welcome such developments.

Vickers' people. I want to make special mention of the tremendous effort made by Sir Colin Chandler and his management team, coupled with the dedication and skill of all Vickers' employees in delivering this excellent performance. The process of management development is now producing a culture of quality which is entrepreneurial, properly empowered, and equipped with the right skills.

Training and development are playing a vital role in helping all individuals to succeed within the group. Our human resources strategy is to develop as much talent of our own as possible. Vocational and personal training, secondments, mentoring, and coordinated graduate and post-graduate recruitment, are all components of this strategy.

The Board of Vickers is extremely pleased to welcome Lord Gillmore, who comes up for election at the Annual General Meeting. Lord Gillmore joined in October 1995 as a non-executive director and brings broad international experience to the Company.

Prospects. Vickers' geographical spread has helped your Company to avoid the fall in manufacturing output which, since the autumn of 1995, has been affecting most UK manufacturing firms. Indeed our exports from the UK remain buoyant and our overseas output, including Medical, is on an upward trend. These factors, when allied to the renaissance of both our central and local managements, and our determination to remain market-led, support my confidence that your Company will continue to make progress over the coming year.


Sir Colin Chandler

Chief Executive's operating review

VICKERS turned in a robust performance in 1995. These results reflect the success of the management team in driving the business forward in competitive markets, through a mix of organic growth and acquisitions. Turnover rose considerably, by 57%, mainly through the accelerated deliveries of Challenger 2 Main Battle Tanks and associated vehicles to the British Army and to the Royal Army of Oman, but also due to solid increases by Automotive and Propulsion Technology. Proportionately lower overall profit growth, up 49%, reflected principally the need for prudence in profit-taking at the beginning of a long-term defence programme.

Empowered management. Vickers' management structure is lean and responsive, with managers empowered to run individual businesses. Indeed, the profile of today's senior Vickers' manager is someone who must be capable of growing the business, not just growing with it.

Head Office adds value by acting effectively as a challenging and demanding owner. Strategic management is crucial. It is very encouraging that the strategic direction of the company, forged in a consultative process with divisional management, has produced this strong growth in sales, profit and return to shareholders. Among other benefits, this process has led to the acceptance by all concerned that we will not build strategy on any business until it is operationally sound.

Organic growth and acquisitions that add value. Propulsion Technology Division grew its profit by 55% on a 48% higher turnover compared to 1994 – second only to the Automotive grouping, which improved its profitability by 95% on a 38% higher turnover. Propulsion Technology's performance was led by strong growth in demand for turbochargers, superalloys and water jet thrusters, together with the acquisition of Aquamaster-Rauma.

In Automotive, Rolls-Royce Motor Cars' retail sales performance was complemented by a richer mix of models sold. Meanwhile, Cosworth is set to become a compelling organic growth story, largely through its Castings business, retaining its reputation as a dominant force in the world of motor racing and continuing to exploit and enhance its deserved reputation for technical excellence.

Following our strategy, acquisitions have been of the bolt-on variety, each complementing the style, structure and strategic direction of a core business. In 1995 Vickers bought Thompson Defence Projects which, renamed Vickers Bridging, develops and manufactures new bridging systems for the British and other armies. And KaMeWa's capabilities, particularly in thrusters and winches, were enhanced by the acquisition of Aquamaster-Rauma. Intelligent Controls Inc. was acquired by Cosworth to expand its strategic base in the important North American automotive market.

Challenger 2. Challenger 2 undertook the most vigorous development programme ever devised for a main battle tank. This included reliability growth trials which were successfully completed to contractual specification in May 1994. During 1995 the MoD and Vickers Defence Systems carried out further trials with a number of early production tanks which proved the vehicle fully meets its specification, but did uncover some reliability and quality problems in certain turret sub-systems.

As with many complex products these problems have arisen with the transition from the development to the volume production phase of the contract, and Vickers Defence Systems has developed a programme to address these areas with the close involvement of its suppliers and the MoD. Tanks will continue to be delivered to the contractual programme.

Brand names, market niches. Vickers is an advanced technology company, reaping the benefits of the successful marriage of marketing focus to technical and engineering excellence. We define our core businesses as those with leading brand names and the necessary critical mass to compete in their respective market niches. Many of our businesses enjoy this enviable position - Vickers Defence Systems, KaMeWa, Ross Catherall, Rolls-Royce Motor Cars, and Cosworth are all excellent examples; and the recent successes of Brown Brothers have earned its incorporation into the Propulsion Technology Division.

In Medical, action is in hand by a new management team, now largely in place throughout the Division, aimed at restoring the fortunes, for 1996 and beyond, of what has been a profitable business sector for Vickers for many years. In 1995 the monitoring business S&W continued to struggle against considerably larger competitors. Volumes at Air-Shields Vickers, our dominant neo-natal intensive care business, suffered in an uncertain market in the United States.

Brand leadership in its market is only one attribute of Rolls-Royce Motor Cars. The company's continuing strategy of refreshing the existing Rolls-Royce and Bentley ranges and producing niche and bespoke models again produced a rich product mix. The restored success of Rolls-Royce Motor Cars and its future prospects vindicate Vickers' commitment to support the business through the recessionary years.

Profitable investment. Investment is the lifeblood of an advanced technology company like Vickers and in 1995 we continued actively to identify and invest in profitable opportunities. At £73m, capital investment was almost 3 times that of the previous year and included the first stage of a new £25m facility for Cosworth Castings to exploit its unique process against firm contracts.

Investing £208m in R&D, capital investment and acquisitions still left the Group net cash positive at the year-end, highlighting the strong cash-generative nature of our businesses. The businesses do not have to compete for investment funds. Project proposals are considered on their own merits within the business concerned, subject to meeting Vickers' criteria on investment terms within the agreed strategic framework.

A confident outlook. The outlook in the majority of markets, both regional and sectoral, in which Vickers trades is good. The changes made to the management style of the company ensure that each of our businesses works to an agreed growth strategy, supported by focused investment. Increasingly too, Vickers businesses are working together in order to leverage the Group's expertise, talents, technologies and market position. With these measures being implemented by a highly motivated management team, I have confidence in our ability to continue to grow earnings over the next few years.

Operating review

VICKERS' AUTOMOTIVE grouping comprises two of the most prestigious names in the industry, Rolls-Royce Motor Cars and Cosworth, and both companies enjoyed a successful year. Rolls-Royce Motor Cars continued to outperform in the luxury market, with its richer product mix producing returns proportionately higher than volume growth. Cosworth enhanced its reputation for technical excellence, still dominant in racing, enabling it to grow and mature in other directions.

Sharp marketing focus. In 1995 Rolls-Royce Motor Cars (R-RMC) produced a 10% increase in unit sales and further penetration of the growing high-end luxury sector. Worldwide sales of 1556 motor cars again included a higher-value mix of products. A major success was the mid-year introduction of the 1996 model range, which benefited all markets. The highly-acclaimed Bentley Azure, together with further limited edition models, also proved to be major contributors.

One of the most important aspects of the company's marketing strategy is a close, individual relationship with its customers, encouraging a more personal approach to the specification of motor cars. Almost 30% of all motor cars produced last year had some degree of personalisation undertaken by Mulliner Park Ward, the bespoke coachbuilding operation. Satisfying the demand to create "limited editions of one", this business simultaneously enhanced the average value of retail sales.

Encouraging sales trends worldwide. 1995 revealed some encouraging regional trends. The focus on the USA produced excellent returns with sales 25% ahead of last year. The introduction of a competitive leasing programme in this market proved particularly attractive with 10% of unit sales in the second half of the year using this scheme.

The UK maintained good momentum with a 7% improvement, and sales in continental Europe moved ahead by a similar amount, an encouraging response to extensive marketing activity. Sales in

Japan were up 4%. The Middle East was down 5% on last year, but the annual figure masked a strong improvement in the fourth quarter.

R-RMC grouped together a number of specialist operations under the heading 'Independent Business Units'. These include Parts & Accessories, Specialist Engines, Branded Goods, and Paint. Specialist Engines continued to flourish, supplying engines for civilian and military applications including the K60 power unit in some of the vehicles supporting the Bosnia Peace Agreement.

Investing in the future. Internal funding permitted development to begin of a new generation of four-door motor cars for the turn of the century. R-RMC also began the installation of a body assembly facility at Crewe, the first in its history, and continued to increase investment in the modernisation of its manufacturing facilities. These initiatives are matched by the expertise and energy of its people, whose flexibility of skills and strength of team structure, underpin the company's success. Together they represent a firm commitment to the long term future success of R-RMC within the Vickers group.

A story of successful organic growth. In 1995, Cosworth accelerated the rate of growth in all of its activities. Cosworth, a name synonymous with racing success, has in recent years continued to spread its reputation for technical excellence into other related areas. Cosworth's unrivalled expertise in leading-edge engineering and design is maturing into exciting growth businesses in their own right, chapters in a successful story of organic growth. £22m was spent on investment in 1995.

Management restructured the company into four distinct business units each with the opportunity to exploit its own market: Cosworth Racing, Cosworth Engineering, Cosworth Manufacturing and Cosworth Castings. Each still shares some central functions as well as Cosworth's culture of technical innovation and the enterprise to go beyond existing technology.

Innovative engineering into commercial reality. Cosworth Engineering is a preferred supplier of product development services to major road car manufacturers. This positions the business to capture lucrative contracts from the design and/or supply of road car engines and sub-assemblies through to the management of whole-vehicle programmes. Intelligent Controls Inc. was acquired by Cosworth in July, providing a strategic US base in Detroit, bringing vital expertise, particularly access to electronic control systems.

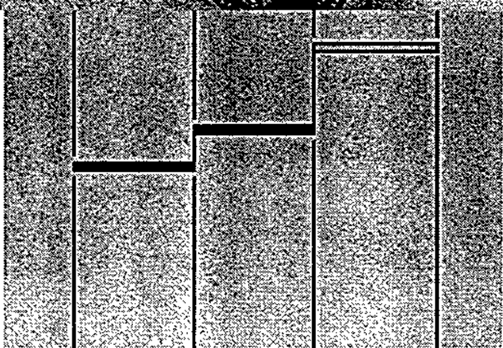
The multi-million pound investment in the industry-leading Emissions and Driveability Centre (EDC) at Northampton was opened in 1995. The EDC provides a comprehensive testing facility, for external manufacturers and in-house use, as tough new US and European emission legislation stimulates demand for new engine designs. The EDC helps to speed up the development cycle, allowing considerable cost savings in early prototype vehicle work. Sophisticated computer aided engineering equipment allows complete integration with customers' own systems.

Research and development at Cosworth seeks to translate leading-edge technology into commercially viable production. In 1995, work progressed on the revolutionary Merritt engine, a British invention and Cosworth joint venture which promises better fuel economy and lower emissions than a conventional petrol engine.

Demand-led growth. Cosworth Manufacturing benefited from higher demand for various products including the Cosworth-designed 24-valve Ford Scorpio engine.

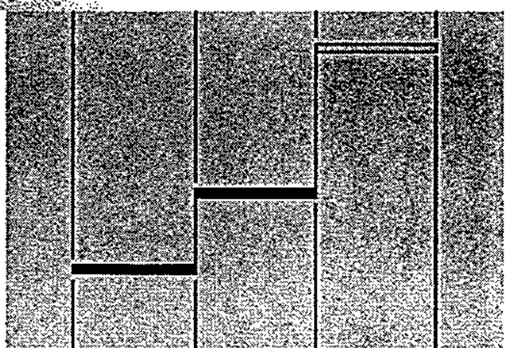
New contracts were won from Perkins, marking the first time Cosworth has worked on diesel engines. Machining capacity was increased by 35% in 1995 with a further 50% increase planned for 1996. An office was also opened in Germany to service the anticipated orders from European manufacturers.

Unique product, successful marketing. Cosworth Castings is an excellent example of a British company inventing a world class product and successfully bringing it to the global market.



1993	1994	1995
£238.9m	£287.0m	£397.1m

Turnover



1993	1994	1995
£10.5m	£21.0m	£40.9m

Operating Profit before restructuring and other exceptional costs

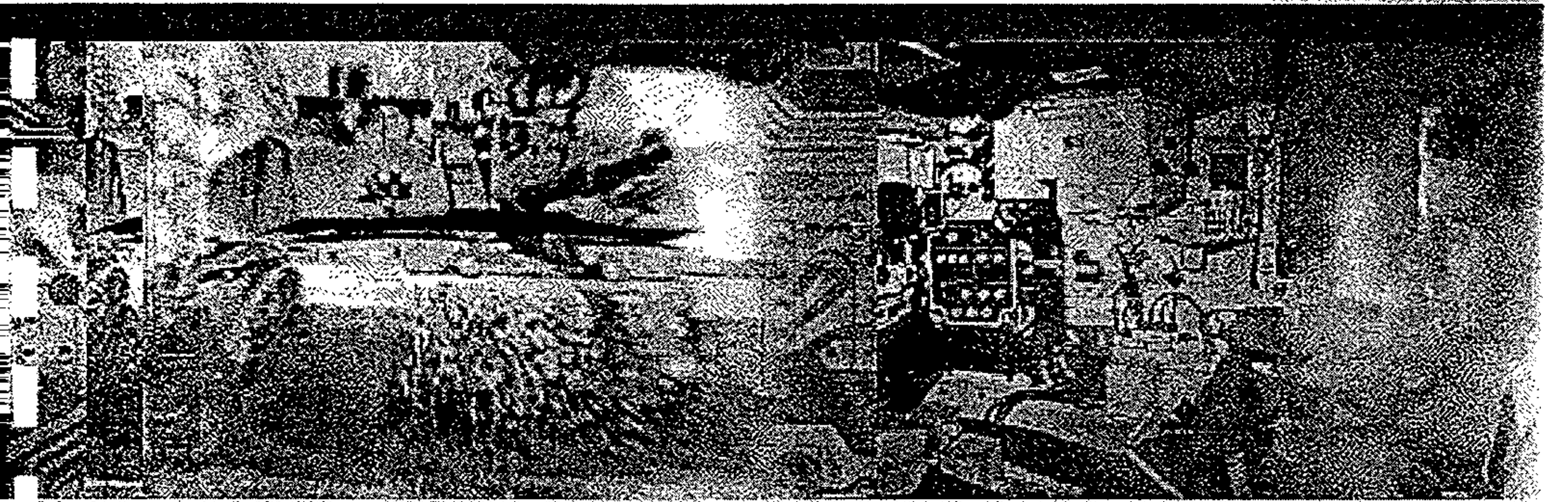
Cosworth's unique casting process, designed initially for racing but now successfully utilised in road car engines, is in great demand.

Cosworth Castings completed the first phase of its new £25 million automated facility at Worcester, with deliveries to Jaguar scheduled for April 1996. The second phase, to meet the growing demand from European car makers, is well underway, with the completed plant aiming to supply Vauxhall among others, from September 1996.

Racing success continues. Cosworth holds a dominant position in racing – in 1995 67% of Indy Cars were powered by Cosworth engines – and innovation continues to be a feature of Cosworth Racing's activities. Having already produced seven new engines in the past ten years, Cosworth simultaneously designed and developed a further three new engines for 1996 – a new V10 for Ford in Formula 1, a new IndyCar engine, and a new V6 for Opel in the international Class 1 saloon car championship.

Cosworth's success persisted in the 1995 PPG Indy Car World Series where Jacques Villeneuve won the Drivers Championship in a Cosworth-powered Reynard. In rallying, the Escort Cosworth won 31 major championships in 1995 and on the track, the Ford Mondeo Super Touring and Opel Calibra Class 1 saloon car racers also recorded victories.

Acclaim for Riva's new luxury power boats. Cantieri Riva increased sales and order intake and, benefiting from restructuring efficiencies, generated cash and returned to investment in fresh product development such as its new 24 metre Grand Yacht. *Boat International* magazine commented on Riva's new Aquarius, a 54ft open Cruiser, and Aquastar, a 54ft flying bridge model: the company "has taken sports cruiser design forward and re-established the standing of the Riva name as the pinnacle of design and quality."

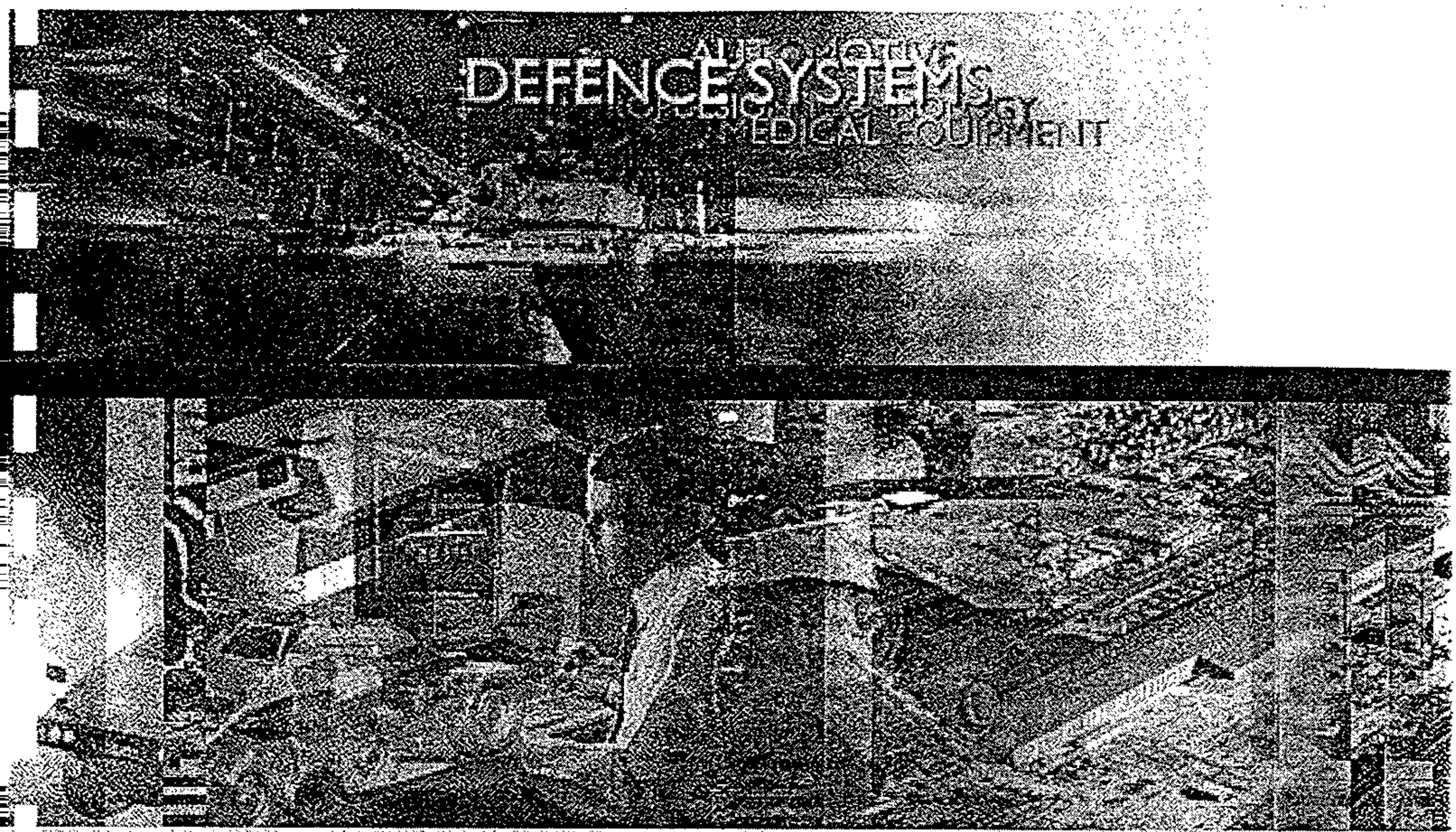


Operating review

VICKERS DEFENCE SYSTEMS improved its world-leading position as a supplier of integrated, high-technology systems for land defence equipment. The Division's prominence as a prime contractor in an increasingly electronic and software based industry underlines its capability and commitment to succeed in this long term business.

Vickers Defence Systems began 1995 with its order book reaching over £1.5bn, representing work to the end of the century for its Leeds and Newcastle factories. With the development phase completed, deliveries of Challenger 2 main battle tanks helped boost the Division's turnover in 1995, with profits reflecting the need for prudence in profit-taking at the early stage of a long-term defence programme. Challenger 2's were delivered to the British Army and Challenger 2's and their recovery and driver training variants to Oman.

High technology systems integration. Challenger 2 is the result of systems integration in action: the expertise that sees highly-skilled engineers integrating advanced components into a system to perform defined tasks to the highest levels of efficiency. Challenger 2 rates as outstanding in terms of firepower, is the best tank in the world for



protection, and ranks with the leaders for automotive capabilities.

Modern tanks are sophisticated, high-technology fighting machines. During 1995 the production version of Challenger 2 was demonstrated to meet the demanding Operational Requirements of the British Army. We continue to make further minor refinements to ensure the tank satisfies the user's needs. Also, logistics support is ongoing and represents important business to Defence Systems. In the case of the British Army, the Challenger 2 contract included a £279m order relating to engineering support, publications, special tools and test equipment, spares, simulation and computer-based training packages.

The Division continues to pursue further export orders for Challenger 2. Last year, a version of Challenger 2, optimised for the operational and climatic conditions of the Arabian Gulf completed a number of very successful demonstrations for potential Middle Eastern customers and this concerted campaign will continue over 1996 in what is a highly competitive market. Challenger 2 also featured prominently in a military parade in Oman before a large international audience, part of a series of celebrations to mark the 25th anniversary of the accession of His Majesty Sultan Qaboos bin Said bin Taimur al Said.

Vickers acquired Thompson Defence Projects in June 1995 and this business was renamed Vickers Bridging. Its leading product is an advanced, versatile system known as Bridging for the Nineties (BR90) which is being delivered against a £120m contract to supply Close Support and General Support bridging to the British Army. The acquisition is entirely consistent with the Division's strategy of integrating advanced technology into land defence systems.

Important exports. BR90 has considerable export potential. In the United States, Defence Systems has teamed with United Defence L.P. to offer the system for the US Army's Heavy Dry Bridge requirements. Meanwhile, the Division continued to deliver tank-mounted bridging systems to Hyundai for the Korean K1 tank. Technology transfer is a key feature of this contract, and is likely to remain so in future overseas contracts, and the exercise has proved to be completely successful.

Defence Systems has been successful in export markets with Vickers Mark 3 Main Battle Tanks, Recovery Vehicles and Bridgelayers. This family of proven, reliable, and potent medium weight tanks is being promoted vigorously to potential overseas customers with a requirement for tanks that operate in terrain unsuited to heavy tanks.

Overseas interest in Vickers Defence Systems' products was indicated by a total of 62 senior military delegations visiting the Division's display at the Royal Navy and British Army Equipment Exhibition at Aldershot last September.

Training and simulation is a growing business and Defence Systems has been quick to grasp its opportunities through well-developed knowledge of users' needs. Success in this business also rests heavily on systems integration capability, and an understanding of high-technology electronics and computer-controlled management systems. The Division continued to expand its activities in this field and made deliveries of training systems to the Royal Armoured Corps new Gunnery Training Wing at Bovington Camp.

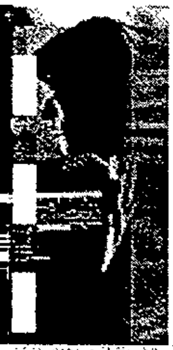
A prime contractor of the future. The defence business is increasingly electronic and software based. The concept of battlespace management requires, through advanced systems technology, full

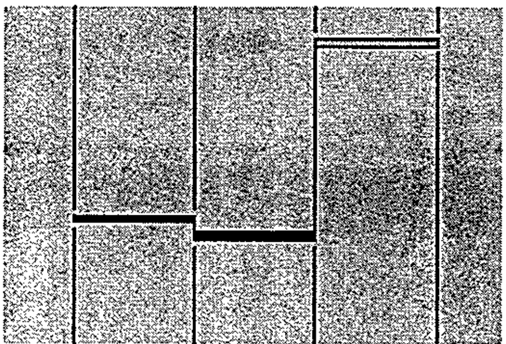
integration of all land defence equipment into a sophisticated fighting force. Integration is the key, and the role of the prime contractor is a crucial one in that it must develop vehicles with a full suite of systems which enable them to operate effectively in this environment.

Vickers Defence Systems has demonstrated that it is a leading, long term competitor in the defence systems industry. Looking to the future, following the completion of an initial feasibility study for the UK Ministry of Defence's next generation of Reconnaissance vehicles (TRACER) in 1994, the Division was awarded a further contract in connection with this project in 1995. Vickers Defence Systems was also awarded other new MoD feasibility contracts, for a combat engineer vehicle (codenamed TERRIER) and the Beach Armoured Recovery Vehicle (BARV). The award of these contracts is satisfying and productive, but the greatest significance is the recognition of Vickers' capability to perform the vital role of prime contractor for the high technology, systems-based fighting vehicles of the future.

The Division strives relentlessly to keep its operations as flexible and efficient as possible, while achieving the highest product quality. A new manufacturing strategy was launched during the year, restructuring the business into cellular teams or units. This was underpinned by a £12m investment programme in machine tools, computer-aided design resources and information technology.

The business, necessarily long-term in outlook, is in good shape and sharply focused.

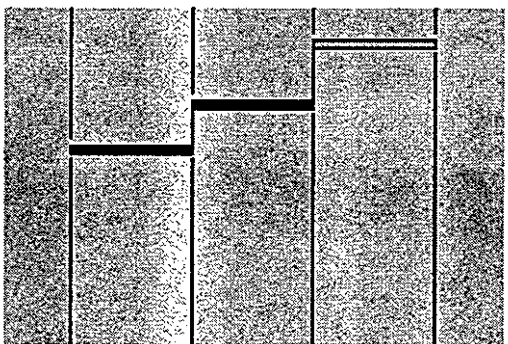




1993 1994 1995

£144.9m £126.1m £353.7m

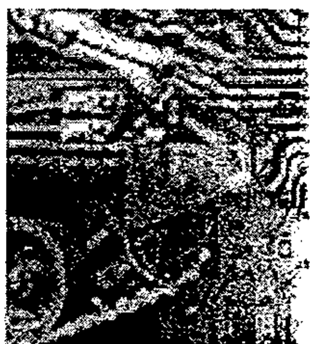
Turnover



1993 1994 1995

£10.3m £12.7m £15.9m

Operating Profit before restructuring and other exceptional costs



Defence Systems

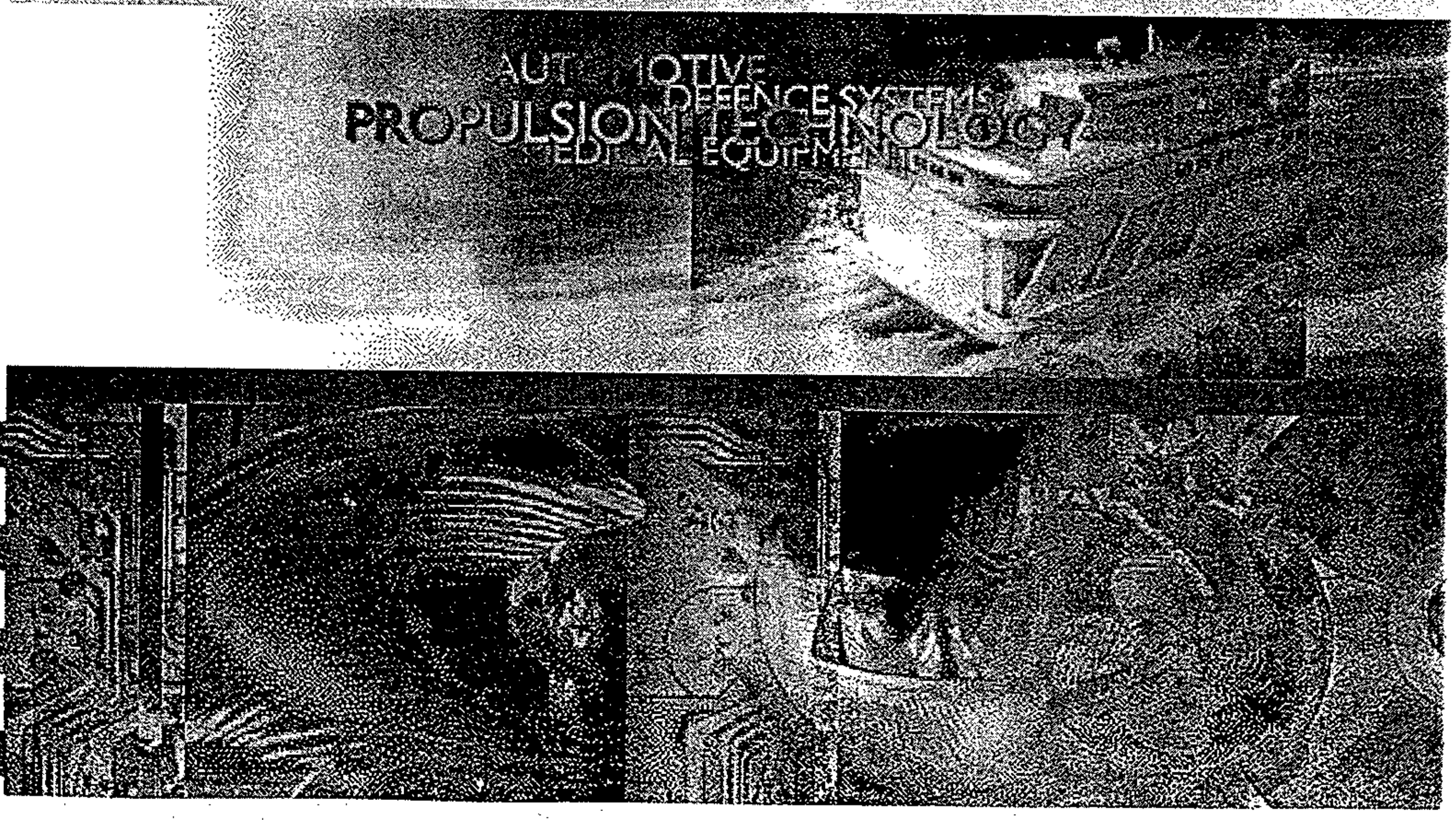
PROPULSION TECHNOLOGY achieved significant growth in 1995. This grouping of businesses, comprising strong performers in niche sectors of the marine, aerospace and automotive markets, proved to be highly responsive to improving market conditions, raising turnover and profit levels considerably.

Rapidly growing businesses. The businesses in Propulsion Technology Division specialise in either marine propulsion and motion control systems, including propellers, thrusters, water jets and fin stabilisers, or in the production of superalloys, turbine components for aerospace and industrial uses, and automotive components. While synergies between some of the businesses do exist, their grouping principally allows management de-layering, improving efficiency and accountability.

All are typically Vickers in profile – world leading names in market niches, influential in their markets, with responsive organisational structures. Management has paid much attention to giving these businesses a contemporary, competitive structure, characterised by cellular manufacturing, business process engineering and self-sufficient small units.

The Division grew profits by 55% as its businesses took full advantage of strong growth in worldwide marine, automotive and aerospace markets. There was heavy demand for superalloys for use in turbocharger wheels, aerospace and industrial gas turbine applications, and medical implants.

KaMeWa grouping takes shape. Vickers' marine businesses were boosted by the acquisition in April of Aquamaster-Rauma, a Finnish company specializing in rotatable thrusters and marine winches. Real synergies of scale, market operations and technology are possible through this acquisition and, to harness these to the full, management formed the KaMeWa Group, comprising Stone Vickers, KaMeWa and Aquamaster-Rauma. The KaMeWa Group is the world leader in the manufacture of propulsion systems, with total sales



expected to increase by around 10% in 1996.

Stone Vickers, while increasing its share of a declining market in new and refurbished propeller systems for the Royal Navy, continued its necessary diversification. The initiative to site the European Maintenance and Repair Centre of KaMeWa Group at Stone Vickers paid handsome dividends, with an outstanding sales performance. The Centre serves the Royal Navy and the UK market, providing service, spares, repairs and upgrading of propulsion and thruster systems, but won most new contracts from the commercial market across Europe.

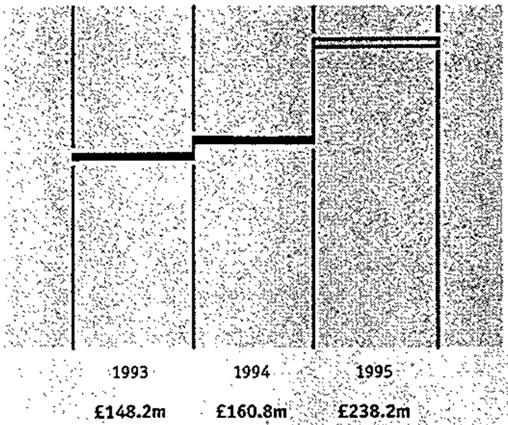
Aquamaster performed well, maintaining its large share of the tug boat equipment market. Product developments included a new contra-rotating propeller concept for larger tugs. The same propulsion concept was finalised for the first cargo vessel, a platform supply vessel in the Norwegian offshore fields, and contracted for delivery in 1996.

The KaMeWa Group adopts a progressive, highly-focused, concept marketing policy, involving close cooperation with the client at the design stage to tailor optimal propulsion solutions rather than deliver off-the-shelf products.

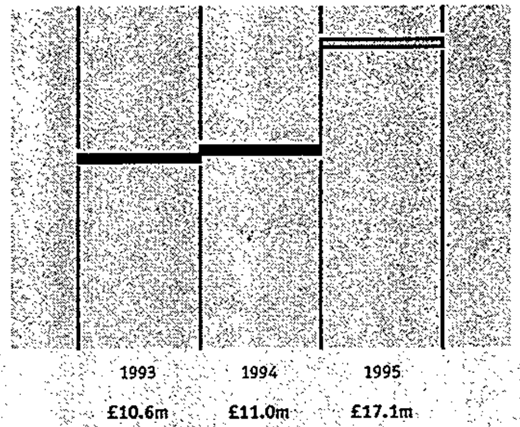
Carneval Cruise Line and Holland America Line placed major orders for controllable-pitch propellers for use in conjunction with diesel-electric power units. KaMeWa's product development continued apace, with the successful installation of the first controllable-pitch propeller using the more sophisticated XF5 hub design, which delivers greater efficiency and lower noise levels, and hence greater customer benefit.

A new tunnel thruster, used to assist sideways manoeuvreing of a ship, was launched in the cruise segment, offering lower noise levels to provide greater passenger comfort.

The first Stena HSS vessel, equipped with the world's most powerful water jet installation, four KaMeWa size 160 units, successfully carried out initial sea trials. There was also a growing demand for smaller water jets for use in offshore patrol vessels, with successful tests leading to subsequent orders.



Turnover



Operating Profit before restructuring and other exceptional costs

Propulsion Technology

Other marine core businesses. Brown Brothers was welcomed into the Division as a core business after the company's sound performance in recent years. 1995 saw a strong order intake signalling healthy prospects for the future. The company reinforced its strong position in the supply of high-pressure swivels to the offshore oil and gas industry with a further order from SLP Engineering which is building the platform for Conoco's McCulloch field. This follows the successful completion of the high-pressure liquid and gas axial and toroidal swivel stack for Golar Nor Offshore's floating production, storage and offloading vessel being built in Estano, Spain.

The company's other market-leading product is the successful VM series of folding fin stabilisers. Brown Brothers have supplied these stabilisers for P&O's luxury cruise ship, Oriana, and the first of twelve large container ships for the Maersk Line. The company remains a principal supplier of stabiliser and steering systems to the world's navies.

Michell Bearings is a leading designer and manufacturer of complete white-metal bearings for marine and industrial use. Major deliveries were completed to Toshiba for industrial applications, and for the Australian Navy's frigate programme. Management continued a major process re-engineering programme at the Newcastle upon Tyne factory, involving new cellular structures and considerable investment in computer-aided engineering, sophisticated management systems, and new machine tools. These measures are designed to transform Michell into a more efficient, customer-responsive operation.

High-performance turbine and turbocharger components. In the turbine components side of the Division, superalloys were in heavy demand during 1995. Ross & Catherall and Certified Alloy Products raised annual sales between them by 65%, attributable both to volume growth and raw material price increases. There was good demand growth from automotive applications, as well as from industrial and aerospace gas turbines and medical implants. Both companies benefited also from a fundamental shift in Japanese procurement policy, as restrictions on the purchase of goods from overseas

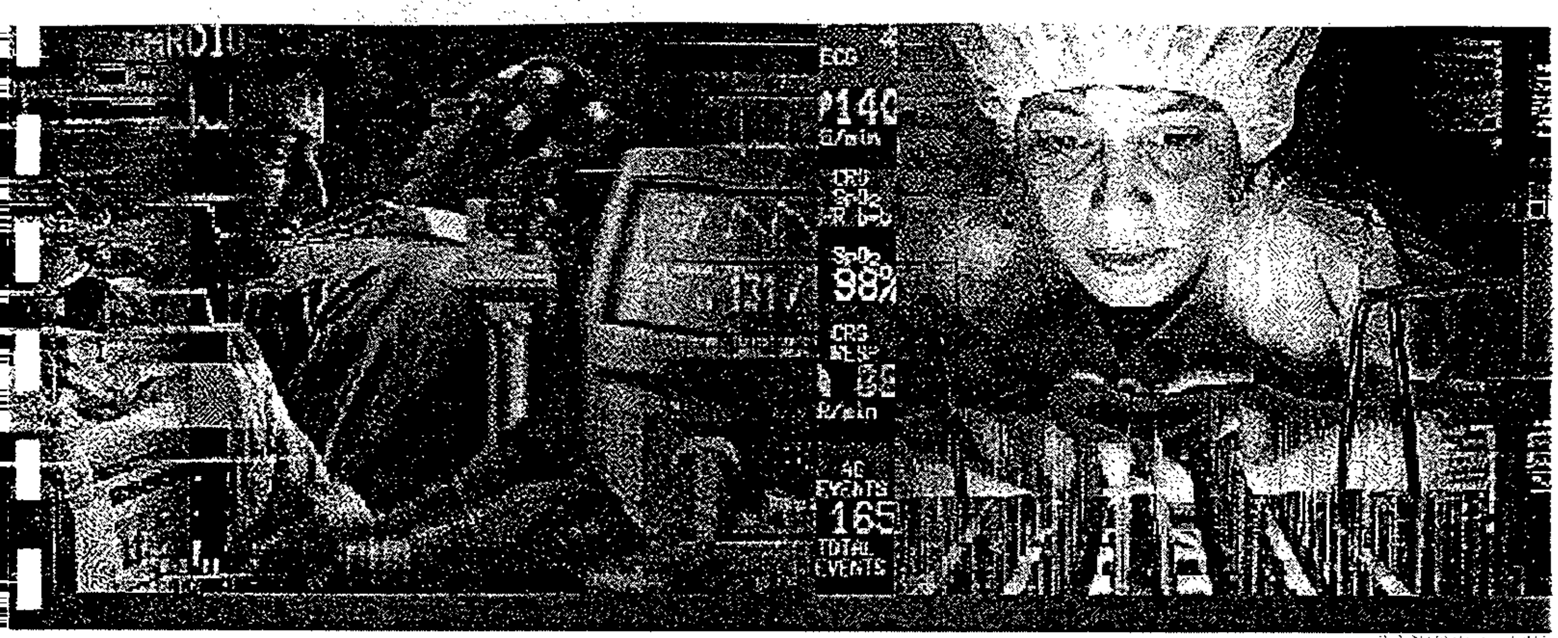
for domestic production continued to be lifted.

Trucast also enjoyed a highly successful year with a 25% sales improvement. In particular, the drive for acceptable diesel engine performance in cars and light trucks stimulated strong demand for hot-end turbocharger wheels. With the North American market accounting for 40% of Trucast's turnover, it has been decided to establish in 1996 a US manufacturing facility to consolidate the company's position as the largest independent supplier of turbocharger wheels in the world.

Ross Catherall Ceramics also increased sales and market penetration, and extended its customer base. The company's expertise lies in providing ceramic cores used in turbine airfoil manufacture, enabling more efficient, lighter components to be produced. A number of new cores for land-based gas turbines were developed and are due to enter production in 1996.

Aerospace markets began to recover in 1995 and Vickers Aerospace Components improved its position as a prominent supplier of fabricated parts for gas turbine engines and complex airframe components. A number of new engine programmes planned for 1996 should increase the company's volumes further. Vickers Airmotive, based on the same Shrewsbury site as Vickers Aerospace Components, focused on the better use of resources in the competitive market for the repair of hot-end gas turbine engine components.

Vickers Precision Machining, the facility that services investment casting foundries outside and within the Vickers group, won a number of new orders in 1995 to generate good sales and profit growth. The company has extended its established specialisation in the aerospace industry into industrial gas turbines. With a move in 1996 to a new building on the same site based on a cellular manufacturing layout, the business is well placed for future success.

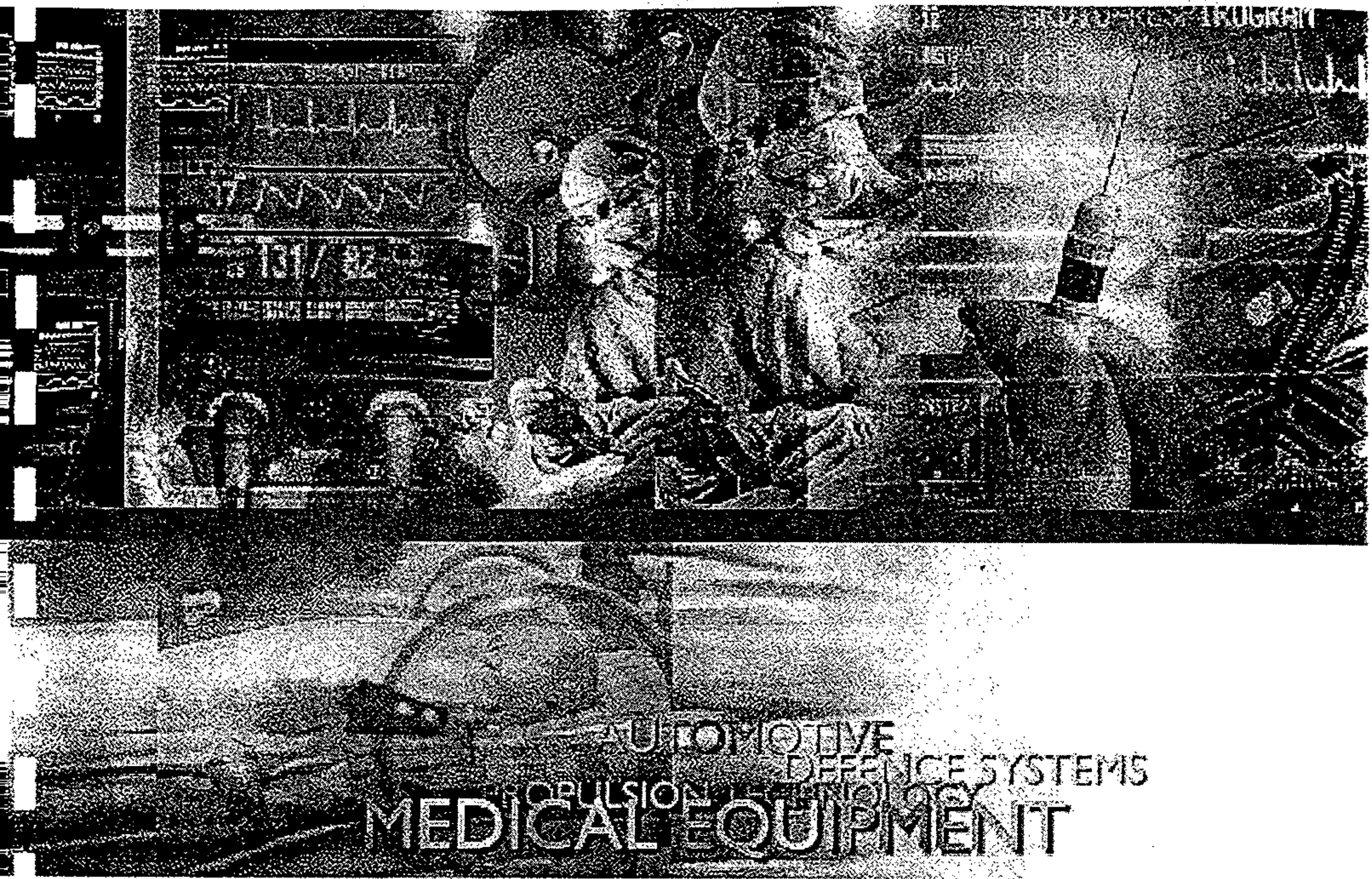


Operating review

MEDICAL experienced a disappointing 1995. Whilst a small profit was earned, turnover increased and some individual businesses performed well, tough market conditions hit overall results badly and the emphasis continued to be on improving efficiency. However, Vickers' medical businesses have historically been strong performers and a new management team is responding well to the challenge of improving operational performance, while continuing essential product development and sales and marketing efforts.

Strong international brands in difficult market conditions. Medical Division comprises manufacturing businesses specialising in three main product areas – neuro-physiology, neonatal intensive care, and patient monitoring. These have all been sound, counter-cyclical activities, characterised by strong brand names in market niches with good international coverage, and are well supported by distribution businesses in the UK, the US, and continental Europe. The UK distribution activity is a business unit in its own right, with a strong position in the UK market.

Trading conditions remained difficult for the second year in succession, meaning strong downward pressure on prices in an already competitive market place. Two important businesses suffered in particular: the Danish monitoring business, S&W, was held back in most markets by strong competition, while Air-Shields in the USA had a difficult year. However, Vickers Medical Limited (VML), the UK distribution business, had an



outstanding year and, along with the neuro-physiology businesses of Medelec and TECA, maintained their consistent profit contributions to the Division. The turnaround at recently-acquired MIE was underlined at the end of the year when the business moved into profit.

New management driving sales and cost efficiency. Inevitably, much attention is being paid to management reorganisation and the relentless drive to push product costs down. Restructuring costs were incurred as overheads were squeezed, and aggressive cost reduction programmes were implemented at Air-Shields and S&W in particular. Management placed great emphasis on reducing product costs by investing in re-design and new materials, while accelerating vital product development.

Most importantly, a fresh impetus was given by the introduction of new, experienced, and entrepreneurial management in key positions at Air Shields and S&W. The new President of Air Shields has brought in his own key management team, and the company is already being revolutionised with a clear focus on product development, cost reduction and sharpening the sales and marketing effort to increase its speed of reaction. At S&W, the new Managing Director has also restructured key areas of his senior management team.

Responding quickly to changing market trends. The structure and dynamics of world medical and healthcare markets are changing at a dramatic pace, and the Division's businesses must respond more quickly to these conditions. Throughout the western world, the consistent dynamic is of healthcare cost containment intensifying already highly competitive markets. In the UK, the recently-formed Healthcare Trusts are continually looking for different and effective care provision and VML is well positioned to meet and match future developments.

In the United States, the healthcare reforms originally proposed by Hilary Clinton have effectively been taken up by the employers themselves, who have the most to gain by curtailing insurance-funded hospital spending. The emerging structure, known as 'Managed Care', provides for qualified 'Gatekeepers' to monitor and decide clients' treatment. These central service units act for a number of hospital groups, and are highly influential and the Division has mirrored this development by introducing national account management to its sales force.

However, evolving market structures offer different opportunities to different businesses. For example, TECA has more links with neuro-physiology specialists, consultants and doctors than directly with hospitals.

Important product development. Product development is, as always, absolutely vital to maintaining and expanding dominant market positions, and some important innovations were delivered in 1995. MIE's new anaesthetic machine, Flexima II®, was developed from start to finish in less than nine months and will form the basis of the company's growth in the UK and Europe this year. Medelec's mainstream neuro-diagnostic products were enhanced in the year with the release of Sapphire II® and Premiere Plus®. With an increased R&D effort in neuro-physiology, work has already commenced on a new generation of products. The user interface of Medelec's products is continually being improved, with several enhancements and features being added during 1995.

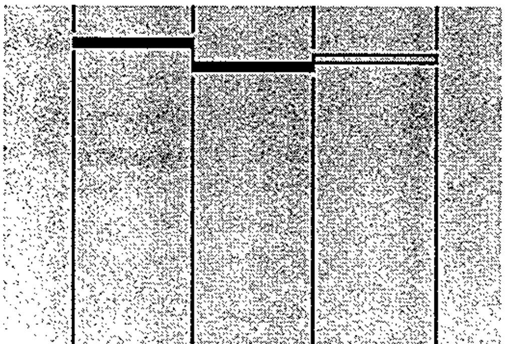
Facing serious competition from sizeable competitors, S&W is concentrating on market and product niches. One particular success in 1995 was the contract to supply 428 S&W defibrillators to the Scottish Ambulance Service to meet its needs for the next three years. Another encouraging development at S&W was the introduction of its new portable Diascope Traveller® monitor in the US, utilising the

Air-Shields sales and distribution network. Released only in October, sales of 150 Diascope Travellers® by the year-end bode well for 1996 and thereafter.

Air-Shields, while having a disappointing year in a falling US market, still increased export levels with a number of important contracts. The company continues to dominate the US market with its Isolette® range of incubators and Air-Shields remains the leading brand in other world markets as well. An ongoing commitment to R&D and accelerated product development under the new management team leaves the company well-placed for the future.

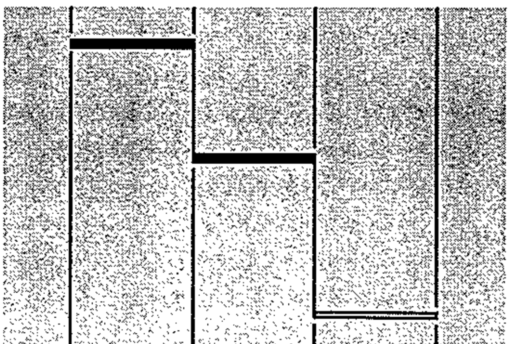
In addition to VML in the UK the Medical Division has an extensive international sales and distribution network. Air-Shields has its own, revitalised sales team in the US, and this will be exploited further to assist S&W's penetration of the US market. TECA had a very successful year distributing Medelec neuro-physiology products in the US, with continued demand for the supply of accessories. Medelec Northern Europe, formed in January as part of a consolidation exercise to serve Holland, France and Belgium, took longer than expected to become fully operational, but the new computer system at its Antwerp base is already improving efficiency.

A more promising outlook. Medical Division has set itself realistic improvement targets for 1996, with a fundamental goal of increasing performance. Market pressures in 1995 were considerable, but Medical's established international brands retained their strength even in these difficult conditions. With new management, cost efficiencies, continued R&D investment, and highly focused, motivated sales teams, the Division looks forward to restoring its trading performance to acceptable levels in the year ahead.



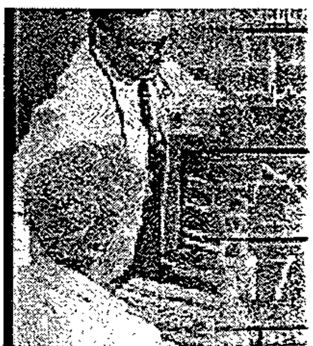
1993 £129.8m | 1994 £118.8m | 1995 £122.9m

Turnover



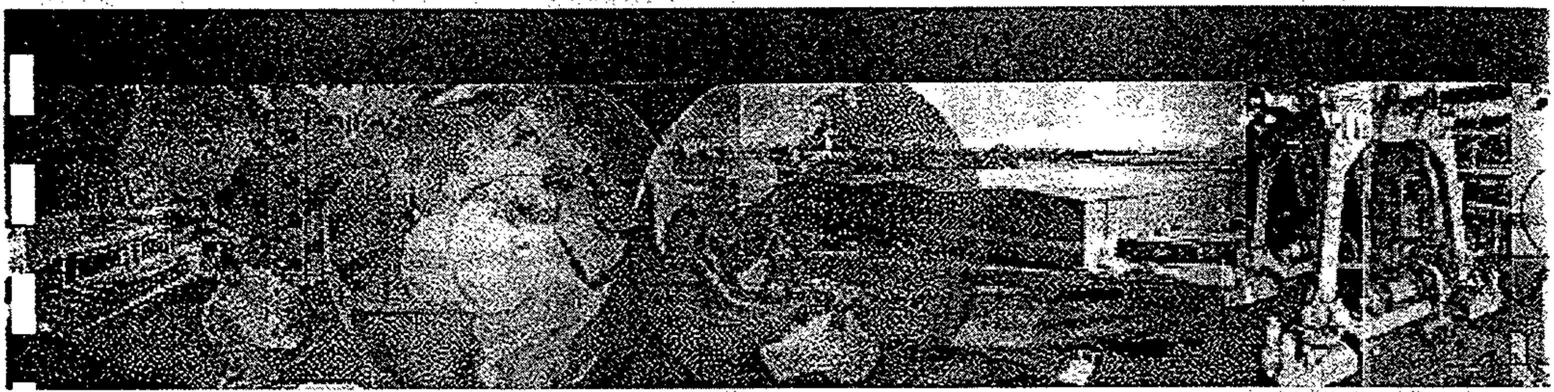
1993 £9.7m | 1994 £6.0m | 1995 £0.9m

Operating Profit before restructuring and other exceptional costs



Operating review – Other Activities

THE VICKERS GROUP embraces a number of operations which are not considered core businesses. These companies, Jered Brown Brothers, Vickers Pressings, and Vickers Properties, are each operated independently while still enjoying important relationships with other companies in the group, and are profitable.



Jered Brown Brothers. Jered Brown Brothers is a leading supplier of engineered equipment to the US Navy, and has successfully diversified into supplying other navies of the world and material handling products to ports and intermodal facilities. Jered comfortably exceeded its profit target in 1995.

During the year, the Elevated Causeway System (ELCAS) contract for the US Navy was completed and demonstrated successfully under full operational conditions at Little Creek Navy Base, Virginia. A further contract, to supply additional roadway pontoons for the ELCAS system, was subsequently awarded. In addition, Jered became a major supplier for the U.S.S. Ronald Reagan aircraft carrier when it won the contract for the hydro-mechanical equipment to be used in this vessel.

A successful demonstration of Jered's diversification came with the award of a contract by Virginia International Terminals for the supply of rubber-tyred gantry cranes. A growing number of requests for material handling equipment information is also emerging, as the ports and rail transport authorities re-equip their facilities.

Vickers Pressings. The company supplies the European motor industry with sheet metal presswork for some of the top-selling models of cars and trucks. Vickers Pressings produces motor body panels, welded sub-assemblies and miscellaneous sub-contract press work.

The company maintained satisfactory trading results in 1995 despite pressure on selling prices and increasing costs of labour and sheet steel.

Vickers Properties. Vickers Properties continued to provide an expert service to group operating companies on all property matters. In particular, the company specialises in the development and sale of property surplus to Vickers' operating requirements.

Progress continued at the company's major asset, South Marston Park near Swindon. Over 1.2 million square feet has already been developed, and in 1995 the company completed on time a 100,000 sq. ft. warehouse development for the Early Learning Centre. Other occupiers include Honda, BOC Distribution Services, Beck & Pollitzer, Continental Tyres, the Royal Mail, and Mercury Communications.

The sale of the redundant Rolls-Royce Motor Cars/Mulliner Park Ward factory in Willesden, North London was completed during the year. Generally, the UK property market remained flat.

Health and safety, the environment and Vickers' people

Health & Safety. Having successfully raised the level of awareness of senior management in relation to health and safety issues during the previous year, 1995 saw the great majority of Vickers' operating businesses continuing to effect improvements in their management of health and safety.

Training at all levels is a vital component of the successful management of health and safety. All Vickers' businesses were active in providing training on a range of issues, including display screen equipment, manual handling, risk assessments, hearing conservation, and measures to reduce repetitive motion.

It is recognised that contractors working on site can introduce new hazards, and Rolls-Royce Motor Cars and Defence Systems were just two businesses that tightened their controls relating to on-site activities of contractors.

Investment in equipment also contributes to a safer working environment. Cosworth Castings and Defence Systems undertook considerable work on selection and provision of personal protective equipment. Certified Alloy Products purchased powered respirators and suits, Trucast invested in improved roof access safety equipment and Aerospace Components in extraction equipment.

The formation of a Health and Safety Coordinators Group within the Propulsion Technology Division will enable greater cross-fertilisation of ideas and more effective use of in-house expertise.

Improved safety measures benefit employees and company alike. Jered Brown Brothers saw a 72% drop in injuries necessitating absence from work; Cantieri Riva reported a 30% drop in accidents at work; Cosworth Engineering's work place continues to be substantially better than average for their industry grouping; and in the US, Cosworth Engineering Inc. saw their Workers' Compensation injury claims fall by 75%.

Environment. A programme of environmental seminars at all businesses in the UK was attended by over 320 managers. There was a continued focus during the year on more effective use of resources to minimise waste and strengthen process and management controls. A few examples are: Rolls-Royce Motor Cars reduced water usage by 40% in its electro-plating facility with a corresponding 45% reduction in the use of nickel salts. A survey was also implemented to ensure that contamination of water outflows could not occur. Air-Shields Inc., purchased and installed a purpose-built hazardous materials storage shed with integral secondary containment to prevent spillages. Cosworth Engineering Inc. and Stone Vickers eliminated the use of trichloroethane 1.1.1. and KaMeWa phased out the use of trichloroethylene, thus significantly reducing the use of solvent-based cleaners.

Both Ross & Catherall and Certified Alloy Products Inc. achieved a 7% reduction in the volumes of some wastes by such measures as the recycling of material previously sent to landfills. Cantieri Riva reduced the levels of toxic polymer and toxic solvent disposal by 50% and 30% respectively.

Energy savings were pursued, with the Medical Division realising a 50% reduction in office lighting energy consumption at Narco Medical Services through a conversion initiative.

The Company's policies for Health and Safety and the Environment are set and monitored by a committee, chaired by the Group Chief Executive, whose members are the group's Commercial, External Relations and Personnel Directors and the Risk and Insurance Manager.

Vickers' people. The company's aim is that everyone should share the common purpose and values of the group and it is committed to a process of continuous development of its human resources through training, motivation and communication.

The last few years have brought necessary transition. In recessionary markets, all businesses have had to restructure in order to remain competitive, and it is imperative for a modern business to

continually hone its competitive edge and match ever-changing market conditions. Re-organisations, consolidations and new management structures have all been features of this transitional change.

Adjusting to change. Employees in the Vickers group have responded to this process positively, demonstrating enthusiasm, flexibility of skills and strength in team structure. These qualities have underpinned the success of many Vickers' businesses in 1995 as they have increasingly had to make the adjustment from downsizing and cost control to rapid business growth.

During the year, as reported elsewhere, many of our businesses have continued to make these adjustments through organisational change. More importantly, these changes continue to be overlaid with fundamental shifts in management style and culture from the top down, including the role of the Head Office at Millbank. Businesses have continued to be responsible for running their own operations profitably while, simultaneously, a culture of teamworking and a collegiate style of managing has flowed down the organisation.

Management development. A comprehensive management development programme is now in place to support continuing business growth. This process was given extra impetus through the 'Management Issues' initiative introduced by Sir Colin Chandler during 1995, and aimed at filling general management opportunities in the group from internal candidates. Importantly, this initiative seeks to identify managers with a skills emphasis on successfully growing businesses.

There has been much effort spent on developing management competencies to establish benchmarks of proficiency and potential. This included a new initiative in mentoring, tested successfully in pilot workshops, such that we are looking to implement the idea throughout the businesses in 1996. Progress is also being made to introduce a Vickers MBA and to develop a top level Directors Programme with a major business school. Taken with the existing programmes such as the Career Development Workshops and Ashridge Management Skills courses, a comprehensive and coherent programme of management development is emerging.

Graduate recruitment, training and development. Graduate recruitment provides the seedcorn for future management talent, and Vickers is moving to a more coordinated approach across the divisions. In future, graduates during their initial two years employment will be seconded to a different business within the group as part of their development. Vickers is a truly international operation, and this will be recognised increasingly in development activities, from graduate recruitment upwards.

Training and development is a key contributor to future business success and the range of courses offered is not limited to management. Many vocational and non-vocational courses were implemented across the Vickers group. Individual companies are empowered to design their own programmes to suit their own requirements, emphasising that advanced technology skills of the future that the businesses' lifeblood.

Vickers in the community. There is always a human side to the workplace, and that is no better illustrated than by the work in the community that many Vickers employees undertake. Across the group, companies and individuals make charitable donations to deserving causes, sponsor local educational projects, particularly those involving youngsters, organise factory visits, and a host of other activities which recognise that active participation with, and good relations in, the local community will produce mutual benefits for all.

Financial review and highlights

Roger Head,
Managing Director, Finance and Planning

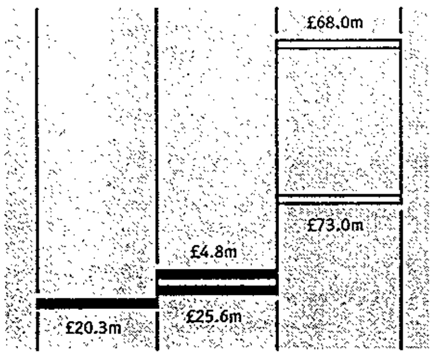
On turnover of £1,143.8m (1994: £727.2m) the Group recorded an operating profit before restructuring and other exceptional costs of £78.4m (1994: £52.5m), with improved performances recorded in all principal areas of activity other than the Medical Division.

Despite the very significant growth in turnover in 1995 Group margins fell from 7.2% in 1994 to 6.8% in 1995. This deterioration principally reflects a fall in margin at Defence Systems from 10.1% in 1994 to 4.5% in 1995. Defence Systems had had the benefit of good margins arising from completed contracts in 1994, whereas in 1995 profit-taking has been more cautious relating to the status of the Challenger 2 Contracts for the U.K. Government.

Restructuring and other exceptional costs totalled £5.0m (1994: £6.7m) and principally related to further programmes to reduce future operating costs, together with legal costs and proposed settlement of certain claims against the Group. The £0.5m loss on disposal and closure of subsidiaries results from the sale of a small overseas distribution company in a prior year and closure of another subsidiary in the Medical Division.

Net interest receivable for the year was £2.1m compared with £1.4m receivable in 1994. This improvement was consistent with the continuing cash generation from the Group and the resultant closing net cash position. Interest earned is also after the payment of £65.0m relating to three acquisitions made during the year. The translation effect of changes in exchange rates had an immaterial impact on the results for the year.

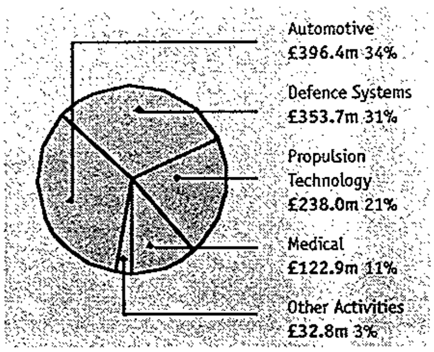
The taxation charge in 1995 was £23.2m, representing an effective rate of 30.9%. As indicated in 1994 the Group tax rate has increased from 27% last year reflecting the reduced benefit of losses brought forward and ACT relating to prior years. In 1995 these items reduced the taxation charge by £2.4m compared with £13.2m in 1994.



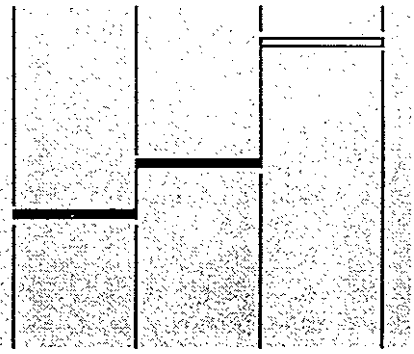
£20.3m £30.4m £141.0m

1993 1994 1995

Investment:
Capital expenditure
Acquisitions



1995 Turnover by
Principal Activity



£32.3m £44.8m £75.0m

1993 1994 1995

Profit before taxation

Earnings per share (e.p.s.) on an FRS3 basis improved to 15.6p in 1995 compared with 9.8p in 1994. Normalised e.p.s., excluding the loss on disposal of a subsidiary, were 15.7p compared with 10.5p in 1994.

During 1995 the Group continued to experience a healthy trading cash inflow of £68.0m so that at the end of 1995 net cash was £22.0m compared with the opening net cash position of £51.4m. The Group continued to benefit during the year from significant instalments in advance of expenditure on certain contracts. At the end of 1995 these were £70.3m received compared with £71.4m at the end of 1994.

The Group Treasury function provides a service to the corporate centre and the operating businesses within specific Board policies and procedures. It is not a profit centre. Under the Group's foreign exchange policy operating businesses are required to ensure cover is executed to hedge trading exposures and to arrange such cover through, or with the advice of, the Group Treasury.

During the year the Group renegotiated its medium term committed credit facilities with several major banks. Revised facilities are now in place totalling £170m. for periods of between five and seven years; these new arrangements are on significantly improved terms.

The Board has confirmed that it has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

New Accounting Standards, FRS6 "Acquisitions and Mergers" and FRS7 "Fair Values in Acquisition Accounting", are in force in this year's Accounts. Neither has had a material effect on the Group's results.

Board of directors

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 LeBargy, Director of Corporate Personnel are members of the Executive and Finance committees.

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

Sir Richard Lloyd Bt. ◊ Δ
Chairman

Aged 67. Appointed to the Board in 1978, becoming Chairman in 1992. Chairman of Argos. Other directorships include Siebe and Simon Engineering. He is a Member of the Council of the CBI and President of the British Heart Foundation.

Sir Colin Chandler ◊ † Ø
Chief Executive

Aged 56. Joined Vickers in 1989 becoming Managing Director in 1990 and Chief Executive in 1992. 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 Plc and TI Group Plc.

Roger Head B.S.c.(Econ), F.C.A. † Ø
Managing Director, Finance & Planning

Aged 49. Joined Vickers Engineering in 1977, subsequently holding a number of senior posts within the Group. He became Finance Director Vickers PLC in 1987. Appointed Managing Director Finance in 1992, assuming the additional responsibility for Strategic Planning in 1993.

Andrew John LL.B. † Ø
Commercial Director

Aged 43. 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 Engineering
Chief Executive, Rolls-Royce Motor Cars

Aged 49. Joined Vickers as Chief Executive, Cosworth in 1993, becoming Chairman of Cosworth, Chief Executive of Rolls-Royce Motor Cars and an Executive Director of Vickers in January 1995.

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

Aged 53. Chief Executive of Charter, he is also Chairman of Cape., ESAB A.B., Nederman A.B. and Pandrol International. 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 55. Chief Executive of Courtaulds. Elected a Director of Courtaulds in 1984, becoming Chairman of the Group's Chemical and Industrial Executive in 1988. Appointed Managing Director of Courtaulds in 1990 and Chief Executive in 1991. Joined the Vickers Board in October 1994.

Martin Taylor C.B.E., M.A., F.C.A. ◊ Δ

Aged 61. Formerly Vice Chairman of Hanson. A member of the Council of the CBI and a member of the Industrial Development Advisory Board of the DTI. He is a Director of Charter and National Westminster Bank and Chairman of National Westminster Life Assurance. Appointed to the Vickers Board in 1986.

Lord Gillmore of Thamesfield GCMG ◊ Δ

Aged 61. Senior adviser to BZW and a Director of the Prudential Corporation. 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 1991-94. Appointed to the Vickers Board in October 1995.

Report of the Directors

The Directors of Vickers P.L.C. present their Annual Report and the Audited Accounts for the financial year ended 31 December 1995.

PRINCIPAL ACTIVITIES

Vickers P.L.C.'s principal activities include Rolls-Royce and Bentley motor cars, Cosworth high efficiency automotive engines, and precision castings, defence systems and equipment, marine propulsion systems and motion control equipment, superalloys and components for the aerospace 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 2.40p (1994: 1.75p) net per Ordinary Share was paid on 18 October 1995. The Directors are recommending a final dividend of 4.3p (1994: 3.00p) net per Ordinary Share, making a total for the 1995 financial year of 6.7p (1994: 4.75p) 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 3 May 1996 to shareholders registered on 26 March 1996.

Dividends paid on preference stock in respect of the 1995 financial year amounted to a total of £0.4m.

After taking account of these dividends, which amount to £22.7m, a sum of £29.1m has been transferred to reserves.

DIRECTORS

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

HRH The Duke of Kent retired from the Board on 27 April 1995 and Mr P T Ward resigned from the Board on 31 May 1995. Lord Gillmore was appointed a Non-Executive Director on 26 October 1995.

In accordance with the Articles of Association, at the forthcoming Annual General Meeting Lord Gillmore will vacate office and offer himself for election; and Sir Colin Chandler and Mr. M. G. Taylor will retire by rotation and offer themselves for re-election. Sir Colin Chandler has a service contract which is subject to 24 months' notice by the Company. Lord Gillmore and Mr. M. G. Taylor, being Non-Executive Directors, do not have service contracts.

continued

DIRECTORS' INTERESTS

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

	At 31 December 1995	At 1 January 1995 (or later date of appointment)
Sir Richard Lloyd, Bt.	12,499	12,499
Sir Colin Chandler	22,500	12,500
Lord Gillmore	1,000	1,000
Mr. R. B. Head	16,010	14,062
Mr. J. W. Herbert	1,250	1,250
Mr. S. Huismans	2,000	2,000
Mr. A. L. John	1,080	1,080
Mr. M. G. Taylor	6,250	6,250
Mr. C. J. S. Woodwark	1,000	1,000

Details of the Directors' share options are given in the table on pages 44 to 45 of the Report of the Remuneration Committee.

There have been no changes in the Directors' interests in Ordinary Shares of the Company or in share options between the end of the 1995 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.

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, have confirmed that in their opinion, with respect to the Directors' statements on internal financial control on page 35, and going concern on page 34, the Directors have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors) 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 Code specified by the Listing Rules for their review. They have carried out their review in accordance with the Bulletin 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 Company'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 of Directors, which meets regularly, comprises five Non-Executive and four Executive Directors under the leadership of the Chairman and the Chief Executive whose separate roles and responsibilities are clearly delineated.

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. The Board delegates the day-to-day management of the Group's affairs to the Chief Executive and to individual managers. 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 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 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 controls.

Remuneration Committee: This Committee is chaired by the Chairman and comprises the Non-Executive Directors. It meets at such times as may be determined by the Chairman and recommends to the Board 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 40 to 45.

Executive Committee: Chaired by the Chief Executive and comprising the Executive Directors, 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, and is attended by all of the Divisional Chief Executives.

Finance Committee: This Committee is chaired by the 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.

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.

continued

STATEMENT OF INTERNAL FINANCIAL CONTROL

The Directors recognise their responsibility for the Group's 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 both Group and individual business unit level, on accounting, 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 report from relevant senior executives and divisional directors concerning the operation of those elements of the system for which they are responsible
- the 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.

ANNUAL GENERAL MEETING : 25 APRIL 1996 : SPECIAL BUSINESS

Share Capital

All of the resolutions submitted to the Annual General Meeting held on 27 April 1995 were duly passed, including that which authorised the Directors, in accordance with Section 80 of the Companies Act 1985, to allot relevant securities during the period ending upon the conclusion of the next Annual General Meeting (or 1 July 1997, whichever should be earlier) and disapplied the statutory pre-emption rights relating to the issue of Ordinary Shares for a wholly cash consideration.

It is the opinion of the Directors that such authorities should be renewed for a further period of one year in respect of an aggregate of £53,000,000 nominal Ordinary Shares representing less than one-third of the current total number of Ordinary Shares issued. Renewal of the disapplication of statutory pre-emption rights would continue to allow the Directors to issue Ordinary Shares, in accordance with recommended institutional investor guidelines, by way of a rights issue and, in addition, £8,300,000 nominal Ordinary Shares for cash representing approximately 5% of the total number currently issued.

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. The necessary resolutions will be proposed at the forthcoming Annual General Meeting in order to give the Directors the powers and authorities referred to above.

Vickers Group 1994 Approved Savings-Related Share Option Scheme

In the Chancellor of the Exchequer's Budget Statement on 28 November 1995, several changes to the law governing Save-As-You-Earn share option schemes to make them more attractive to employees were announced. In summary these changes comprise the introduction of a new three year savings contract (the present minimum savings contract is five years); a reduction in the minimum monthly contributions from £10 to £5; and permission for participants transferred to companies within the Group which do not participate in a scheme to exercise their options on maturity of their savings contract.

The Board proposes to amend the Rules of the Vickers Group 1994 Approved Savings-Related Share Option Scheme to include all of the new features described above following Royal Assent to the Finance Bill. However, until the new legislation comes into force, the precise terms of the amendments to the Scheme cannot be approved. Accordingly, the Board is requesting that it be authorised by Ordinary Resolution to make such amendments to the Rules of the Scheme as may be necessary to implement these changes subject to Inland Revenue approval.

In addition the Board wishes to amend the Scheme to allow the participation of part-time employees. Part-time Directors will continue to be excluded to comply with institutional investor requirements. Accordingly, the Board is requesting that it be authorised by Ordinary Resolution to amend the definition of "Eligible Employee" and to make such consequential amendments to the Rules of the Scheme as may be necessary, subject to Inland Revenue approval.

As these amendments will not have been approved either by shareholders or the Inland Revenue when the Company announces its results on 6 March 1996 and as the Board would like eligible employees to be able to take advantage of the proposed changes, the Board is also requesting that it be authorised to offer participation in the Scheme to all eligible employees in the period of 21 days following approval of the amendments by the Inland Revenue.

Dividends

The current banking system for paying mandated dividends is expected to be terminated by the banks in 1996. There is a need, therefore, to consider alternative arrangements for paying mandated dividends. The Bankers' Automated Clearing System (BACS) allows for mandated dividends to be paid electronically by direct credit to shareholders' nominated banks or building societies and for the tax vouchers to be sent to shareholders' registered addresses. The Directors consider that such electronic facilities might provide a suitable replacement. Other shareholders will continue to receive dividend warrants and tax vouchers through the post.

As part of Special Resolution 10, which will be proposed at the Annual General Meeting to alter the Articles, it will be proposed that Article 149 be amended to enable the payment of dividends by electronic transfer of funds. Subject to approval by shareholders of this Resolution, the Directors would expect to introduce the payment of mandated dividends by BACS in time for the 1996 interim dividend. In addition, there are proposed technical amendments to Article 149 to reflect changes in the law related to the payment of cheques which were introduced by the Cheques Act 1992.

continued

Updating of the Articles of Association

As a consequence of the Listing Rules of the London Stock Exchange, when making any amendment to its Articles, a company is obliged to ensure that they generally comply with the requirements for the contents of the articles of association of a listed company contained in Chapter 13 Appendix 1 of the Listing Rules. The proposed amendments contained within Special Resolution 10 will ensure that the Company's Articles of Association generally incorporate all of these matters.

The proposed amendments are as follows:

Sanctions: The proposed amendment to Article 9 (c) applies a limit of not more than seven days following any of the events indicated therein for the cessation of sanctions imposed on a shareholder who is in default in complying with a notice served under Section 212 of the Companies Act 1985.

Issue of replacement certificates: The proposed amendment to Article 18 (c) restricts the reimbursement of the Company's expenses in providing replacement share certificates to "exceptional" rather than "reasonable" out-of-pocket expenses.

Board's power to refuse to register transfers in certain cases: The proposed amendment to Article 40 limits the power of the Board to refuse to register certain transfers of partly-paid shares which are listed so that dealings in such shares taking place on an open and proper basis are unaffected.

Company's power to sell shares: The proposed amendment to Article 49 (a) (iv) removes the reference to the "Quotations Department of the Stock Exchange" which no longer exists.

Matters upon which a Director may vote: The proposed amendment to Article 105 brings the exceptions to the restrictions on voting by Directors into line with paragraph 20 of Chapter 13, Appendix 1 of the Listing Rules.

Notice required of an intention to propose a new Director: The proposed amendment to Article 122 recognises that paragraph 22 of Chapter 13, Appendix 1 of the Listing Rules refers to "days" rather than "clear days"notice.

Company may retain unclaimed dividends: The proposed amendment to Article 148 recognises that paragraph 17 of Chapter 13, Appendix 1 of the Listing Rules states that any power to forfeit unclaimed dividends must not be exercisable until at least 12 years after the date the dividend to be forfeited became due for payment; the current provision refers to the date the dividend was declared.

A copy of the existing Memorandum and Articles of Association and the draft revised Articles of Association will be available for inspection during normal business hours at the Registered Office of the Company from the date of the Notice of Annual General Meeting up to and until the close of the Annual General Meeting. Copies of the documents will also be available at the place of the meeting for 15 minutes prior to the meeting and until its conclusion.

LARGE SHAREHOLDINGS

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

Ordinary Shares	%
Schroders Investment Management Limited	14.2
Gartmore Investment Management Limited	9.3
Morgan Grenfell Investment Management Limited	5.9
Standard Life Investment Funds Limited	4.8
British Coal Pension Funds	3.4
Mercury Asset Management	3.1
Clerical Medical Investment Group	3.0

Preferred 5% Stock	%
Mr P. S. Allen	22.40
Co-operative Insurance Society Limited	15.03
Provincial Insurance plc	13.33

5% Preference Stock	
The Investment Company PLC	23.70
Mr P. S. Allen	22.40
Provincial Insurance plc	16.79
Morgan Grenfell Group plc	16.78
Co-operative Insurance Society Limited	11.61

Cumulative Preference Stock	
Commercial Union Investment Management Limited	22.93
Morgan Grenfell Group plc	20.75
Phoenix Assurance plc	12.98

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 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 £67.0m (1994 : £38.4m) which, after deduction of contributions from customers and government grants, amounted to £43.5m (1994 : £21.1m).

EQUAL OPPORTUNITIES

The Company has a policy on equal opportunities and non-discrimination. This specifically refers to employment of people with disabilities to ensure 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.

EMPLOYEE INVOLVEMENT

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.

During the year Rolls-Royce Motor Cars and Vickers Defence Systems conducted Employee Attitude surveys and both achieved high levels of employee response. Results have been analysed, feedback given to employees and account taken of employees' views on how to improve methods of communication with employees.

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.

continued

TRAINING AND DEVELOPMENT

A range of training and development initiatives are being implemented which recognise that sustained growth requires high quality and well trained people at all levels in the organisation. These initiatives are in addition and complementary to the established good practice in the Company and arose from a process of internal discussion and evaluation initiated during the year. An example of these initiatives is the recognition that managers must continue to learn about new techniques and best practices. As a consequence, the Company is in active discussion with a number of major business schools for delivery of a bespoke Directors' Programme and Vickers' specific modules to established MBA programmes in recognition that development is a continuous process even at the highest levels of management.

Work on management competencies and support for managers through mentoring are other activities which form part of the Company's comprehensive development programme.

The 1995 graduate intake was the highest for many years, confirming the Company's commitment to long term growth. In 1996, a more co-ordinated approach to graduate recruitment is being adopted and graduate training will, in future, offer more opportunities to work across business boundaries and in the overseas subsidiaries.

As reported last year, almost all of the UK subsidiaries and the Corporate Head Office are seeking the Investors in People national training standard. Cosworth Castings has achieved the Investors in People standard.

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.

The Company made a donation of £55,000 to the Conservative Party during the financial year.

AUDITORS

The Company's Auditors, KPMG, have indicated that a limited liability company, KPMG Audit Plc, is to assume responsibility for certain aspects of their audit business. The Directors recommend the appointment of this company as auditors and, accordingly, a resolution for the appointment of KPMG Audit Plc as auditors and authorising the Directors to fix the auditors remuneration will be proposed at the forthcoming Annual General Meeting.

The Directors have received an assurance from KPMG that the capital base of KPMG Audit Plc has been set at a similar level to the total capital base within the KPMG UK partnership and that KPMG Audit Plc will carry the same insurance cover as the partnership. This insurance cover will remain available in addition to KPMG Audit Plc's capital resources to meet any valid claims that might be made against that company.

INSURANCE FOR DIRECTORS AND OFFICERS

As permitted under the Articles of Association, the Company has an insurance policy providing liability cover for Directors and certain officers.

Signed on behalf of the Board

Nicholas Bevins
Secretary
5 March 1996

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
Mr. J.W. Herbert
Mr. S. Huismans
Mr. M.G. Taylor, C.B.E.

Biographical details and business experience are shown on page 31.

The Secretary of the Committee is Mr. N. Bevins, the Company Secretary of Vickers P.L.C. The 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 recommend to the Board of Directors of Vickers P.L.C. 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 ten 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. Account was taken of the functions and responsibilities of the Directors, the size of the business and the sectors and regions in which the Company operated.

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 in the past.

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 44 and 45.

Details of outstanding Phantom Options held by Executive Directors, together with any performance criteria imposed by the Committee in respect of exercise of these, are contained in the table on pages 44 and 45.

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

All employees, including the Executive Directors, are members of one of the Company's two main United Kingdom pension schemes, the Vickers Group Pension Scheme and the Rolls–Royce Motors Pension Fund.

The Company also operates a top–up 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 £78,600) 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").

Three of 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.

In the 1994 Report and Accounts it was stated that the Board, on the recommendation of the Remuneration Committee, had resolved to establish unfunded retirement benefits for the Chief Executive of the Company. Since that time the Committee has taken further advice on this matter and, in order best to protect the Chief Executive's pension rights, he has now been admitted as a member of VSRS.

Report of the Remuneration Committee

The 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, including the Executive Directors. The inclusion of the bonus is justified on the basis that it has thereby become a contractual commitment since 1980 and that 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. The policy for future entrants is the subject of further study.

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 £105,111 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. Pursuant to Article 94 of the Company's Articles of Association, the Board may determine such fees not exceeding in aggregate £100,000 or such higher amount as may be sanctioned by shareholders. 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 1995 are set out in the table on page 43.

Service Contracts

Early in April 1995 each of the Executive Directors agreed, voluntarily and without consideration, to reduce their three–year rolling contracts to two years. 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. The Chairman recorded these changes at the Annual General Meeting of the Company on 27th April 1995.

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.

Sir Colin Chandler is proposed for re–election as an Executive Director at the forthcoming Annual General Meeting and he has a service contract which is subject to 24 months notice by the Company. At the same Annual General Meeting, Mr. M.G. Taylor is proposed for re–election as a Non–Executive Director and Lord Gillmore is proposed for election as a Non–Executive Director. Mr. Taylor and Lord Gillmore do not have service contracts.

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, including pension contributions, for 1995 was £2,381,473 (1994: £2,470,170) and these figures are analysed in the following table.

continued

Directors' Emoluments

	Salary and Fees £	Annual Bonus £	Benefits £	Pension Related Payment £	1995 Total £	1994 Total £	1995 Pension Contributions £	1994 Pension Contributions £
Chairman								
Sir Richard Lloyd	85,000	-	20,111	-	105,111	100,197	-	-
Executive Directors								
Sir Colin Chandler (Note 3) (Chief Executive)	337,706	167,125	23,424	139,333	667,588	568,132	240,260	136,540
Mr. R. B. Head	190,000	95,000	12,576	-	297,576	282,116	107,160	72,000
Mr. A. L. John	127,606	62,075	21,403	41,978	253,062	128,706	94,227	17,920
Mr. P. T. Ward (Note 2)	79,167	34,833	15,746	-	129,746	324,199	-	504,179
Mr. C. J. S. Woodwark	180,131	88,337	16,264	38,977	323,709	-	89,726	-
Mr. G. Boxall (retired 31 May 1994)	-	-	-	-	-	166,773	-	127,391
Non-Executive Directors								
Lord Gillmore	3,641	-	-	-	3,641	-	-	-
Mr. J. W. Herbert	20,000	-	-	-	20,000	13,000	-	-
Mr. S. Huismans	20,000	-	-	-	20,000	3,017	-	-
HRH The Duke of Kent	6,667	-	-	-	6,667	13,000	-	-
Mr. M. G. Taylor	23,000	-	-	-	23,000	13,000	-	-
Total 31.12.1995	1,072,918	447,370	109,524	220,288	1,850,100		531,373	
Total 31.12.1994	*973,643*	*450,842*	*112,175*	*75,480*		*1,612,140*		*858,030*

Notes:-

1. HRH The Duke of Kent and Mr. P. T. Ward relinquished their directorships on 27 April 1995 and 31 May 1995, respectively. Mr. C. J. S. Woodwark and Lord Gillmore were appointed Directors on 1 January 1995 and 26 October 1995, respectively.

2. A sum of £428,183 was paid to a retiring Director (Mr. P. T. Ward) by way of contribution for pension enhancement as reported in Note 8 to the 1994 Annual Accounts and is included in the above 1994 pension contributions.

3. At the end of 1994, the Company had provided a sum of £908,000 to cover its obligations to the Chief Executive in respect of his accrued service originating from 1989 relating to his eligible earnings in excess of the cap (now £78,600) imposed by the Finance Act 1989. This obligation was in the form of a pensions promise and therefore no specific funding had been set aside to meet this liability. During 1995, having taken further advice, it was decided to invite the Chief Executive to become a member of the Vickers Supplementary Retirement Scheme (VSRS) which is a funded unapproved retirement benefits scheme. On the advice of the actuaries of VSRS, the Company, in order to fund the accrued service liabilities from 1989 to the end of 1995, has paid contributions to that scheme amounting to £718,000, a lower sum than originally provided. During 1995, pension contributions of £31,260 (1994: £30,540) were also made by the Company to the Vickers Retirement Scheme for the Chief Executive's funded pension in respect of his eligible earnings up to the cap referred to above. To avoid the Chief Executive being prejudiced in comparison with his Executive Director colleagues by the operation of the cap and in order to fulfil its contractual promise, the Company will be making a payment of £478,700 by way of additional remuneration which takes into account tax liabilities of the Chief Executive in respect of the above contributions from 1989 to the end of 1995. Pension contributions and pension related payments in respect of 1994 and 1995 are specifically disclosed or included in the above tables.

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

OPTIONS	*At 01.01.95*	*Granted in 1995*	*Exercised in 1995*	*At 31.12.95*	*Exercise price (p)*	*Market price on Exercise (p)*	*Dates Exercisable*
Sir Colin Chandler							
Executive Options							
	364,197			364,197	202.77		1996-2000
	104,056			104,056	222.96		1996-2001
	208,112			208,112	86.49		1996-2002
		280,000		280,000	182.00		1998-2005
	676,365	280,000		956,365			
SAYE Options							
	6,124			6,124	183.70		1996
	5,750			5,750	120.00		1999
	11,874	-		11,874			
Phantom Options							
	156,084*			156,084	157.61		1996-2002
	280,000**				174.00		
	436,084	-	-	156,084			
R. B. Head							
Executive Options							
	9,755		9,755		182.59	240.00	
	49,426		49,426		186.05	240.00	
	38,500		38,500		166.26	240.00	
	19,250		19,250		166.26	240.00	
	35,379		35,379		171.06	240.00	
	104,056		104,056		202.77	240.00	
	31,216		31,216		177.79	240.00	
	26,014		26,014		160.49	240.00	
	16,128			16,128	86.49		1996-2002
		77,564		77,564	182.00		1998-2005
		90,000		90,000	187.00		1998-2005
	329,724	167,564	313,596	183,692			
SAYE Options							
	1,948		1,948		184.80	204.00	
	5,020			5,020	149.40		1996
	5,750			5,750	120.00		1999
		2,412		2,412	143.00		2000
	12,718	2,412	1,948	13,182			
Phantom Options							
	104,056*			104,056	157.61		1996-2002
	139,955			139,955	86.49		1996-2002
	77,564**				174.00		
	321,575	-	-	244,011			

continued

	At 01.01.95	*Granted in 1995*	*Exercised in 1995*	*At 31.12.95*	*Exercise price (p)*	*Dates Exercisable*
A. L. John						
Executive Options						
	62,433			62,433	86.49	1996-2002
		185,000		185,000	182.00	1998-2005
	62,433	185,000	-	247,433		
SAYE Options						
	6,188			6,188	121.20	1997
	4,808			4,808	143.50	1999
		2,412		2,412	143.00	2000
	10,996	2,412	-	13,408		
Phantom Options						
	185,000**	-	-	-	174.00	
C. J. S. Woodwark						
Executive Options						
	80,000			80,000	154.00	1996-2003
	40,000			40,000	181.00	1997-2004
		280,000		280,000	182.00	1998-2005
	120,000	280,000		400,000		
SAYE Options						
		12,062	-	12,062	143.00	2000
Phantom Options						
	180,000**	-	-	-	174.00	

The closing middle market price of the Ordinary Shares of the Company on 29 December 1995 was 254p and the range during the year was 164p to 282p.

Notes:-

* For this grant of phantom options, the Remuneration Committee has imposed a condition that they can be exercised only after the Company next declares a total dividend in any one year of at least 6.0p per Ordinary Share fully covered by earnings. The Committee has agreed that, in order to accord with the terms of the other options granted, this condition shall not apply in the event of a change of control.

** It was recorded in the 1994 Annual Report and Accounts that the Remuneration Committee intended to replace these options with Approved Options under the Vickers Group 1994 Approved Share Option Scheme if, at the date of grant of any Approved Option, the market value of the Company's shares did not exceed the phantom option price of 174p by 5% or more. Accordingly, these options were replaced with Approved Options on 7 March 1995 when the price of the Company's shares used to calculate the exercise price of those Approved Options was 182p.

Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the Report of the Auditors set out on page 47, 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 consider that the Accounts have been prepared on a going concern basis.

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 48 to 69 and the information set out in the tables on pages 43 to 45 included in the Report of the Remuneration Committee.

Respective responsibilities of Directors and Auditors

As described on page 46 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 1995 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

KPMG
Chartered Accountants
Registered Auditors
London
5 March 1996

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.

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 certain 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 certain 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, which is not considered recoverable against taxation liabilities in the foreseeable future, is included in the taxation charge of 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 FRS 3.

An alternative measure of normalised earnings per share is also presented as the Board is of the opinion that this measure gives a more representative indication of sustainable earnings.

continued

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 has been 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	1995 £m	1995 £m	1994 £m	1994 £m
Turnover					
Continuing operations		1,085.8		727.2	
Acquisitions		58.0			
Total turnover from continuing operations	2		1,143.8		727.2
Operating costs	3		(1,070.4)		(681.4)
Operating profit from continuing operations					
Continuing operations, before restructuring and other exceptional costs		74.8		52.5	
Restructuring and other exceptional costs	2&3	(5.0)		(6.7)	
		69.8		45.8	
Acquired operations	1	3.6			
	3		73.4		45.8
Loss on disposal and closure of subsidiaries within continuing operations	1		(0.5)		(2.4)
Profit on ordinary activities before interest			72.9		43.4
Net interest receivable and other similar items	4		2.1		1.4
Profit on ordinary activities before taxation			75.0		44.8
Taxation	5		(23.2)		(12.1)
Profit on ordinary activities after taxation			51.8		32.7
Minority interests – Equity			-		(0.1)
Shareholders' profit for the financial year			51.8		32.6
Dividends – Equity and non equity	6		(22.7)		(16.1)
Profit transferred to reserves			29.1		16.5

		Pence	Pence
Earnings per 50p Ordinary Share	7		
FRS 3 basis		15.6	9.8
Normalised earnings basis		15.7	10.5

	£m	£m
Retained profit		
The Company	(13.0)	5.2
Subsidiary undertakings	42.1	11.3
	29.1	16.5

Balance Sheets

At 31 December	Notes	Group 1995 £m	Group 1994 £m	Company 1995 £m	Company 1994 £m
Fixed assets					
Tangible assets	11	272.2	227.3	96.1	72.2
Investments – Subsidiary undertakings	14	-	-	484.4	484.6
– Other investments	15	9.0	8.8	-	0.1
		281.2	236.1	580.5	556.9
Current assets					
Stocks and work in progress	16	195.8	167.0	47.8	46.1
Debtors falling due after more than one year	17	26.0	23.1	24.2	21.6
Debtors falling due within one year	17	205.5	225.4	271.3	227.6
Cash and deposits		134.3	120.6	91.6	85.4
		561.6	536.1	434.9	380.7
Creditors: amounts falling due within one year					
Borrowings	18	(73.9)	(31.9)	(66.7)	(23.9)
Other liabilities	18	(380.5)	(342.4)	(557.9)	(516.8)
		(454.4)	(374.3)	(624.6)	(540.7)
Net current assets/(liabilities)		107.2	161.8	(189.7)	(160.0)
Total assets less current liabilities		388.4	397.9	390.8	396.9
Creditors: amounts falling due after more than one year					
Borrowings	18	(38.4)	(37.3)	(37.2)	(35.3)
Other liabilities	18	(16.1)	(19.1)	(1.4)	(1.6)
		(54.5)	(56.4)	(38.6)	(36.9)
Provisions for liabilities and charges	19	(55.1)	(46.7)	(20.7)	(20.4)
		278.8	294.8	331.5	339.6
Capital and reserves					
Called up share capital	20	174.8	173.2	174.8	173.2
Share premium account	21	58.8	55.5	58.8	55.5
Revaluation reserve	21	46.7	48.6	14.3	15.0
Profit and Loss Account	21	(1.5)	17.3	83.6	95.9
Equity		270.4	286.2	323.1	331.2
Non–equity		8.4	8.4	8.4	8.4
Shareholders' funds		278.8	294.6	331.5	339.6
Minority interests – Equity		-	0.2	-	-
		278.8	294.8	331.5	339.6

The Accounts on pages 48 to 69 were approved by the Board of Directors on 5 March 1996 and were signed on its behalf by:

R. E. B. Lloyd

R. B. Head

Consolidated Statement of Total Recognised Gains and Losses

	1995 £m	1994 £m
Profit for the financial year	51.8	32.6
Currency translation differences on foreign currency net investments	1.8	(0.6)
	53.6	32.0

Note of Consolidated Historical Cost Profits and Losses

	1995 £m	1994 £m
Reported profit on ordinary activities before taxation	75.0	44.8
Realisation of property revaluation gains of previous years	1.3	1.0
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	77.3	46.8
Historical cost profit for the year retained after taxation, minority interests and dividends	31.4	18.5

Reconciliation of Movements in Shareholders' Funds

	Group		Company	
	1995 £m	1994 £m	1995 £m	1994 £m
Profit for the financial year	51.8	32.6	9.7	21.3
Currency translation differences on foreign currency net investments	1.8	(0.6)	-	-
Dividends	(22.7)	(16.1)	(22.7)	(16.1)
New share capital subscribed, net of expenses	4.9	1.7	4.9	1.7
Goodwill written off	(51.7)	(4.5)	-	-
Goodwill on disposal written back	0.1	1.8	-	-
Purchase of minority interest	-	0.2	-	-
Increase/(decrease) in Shareholders' funds	(15.8)	15.1	(8.1)	6.9
Opening Shareholders' funds	294.6	279.5	339.6	332.7
Closing Shareholders' funds	278.8	294.6	331.5	339.6

Cashflow Statement

For the year ended 31 December	Note	£m	1995 £m	£m	1994 £m
Net cash inflow from operating activities	22		126.7		75.9
Returns on investments and servicing of finance					
Interest received		10.3		6.7	
Interest paid		(8.4)		(5.9)	
Dividends paid		(18.3)		(11.9)	
Net cash outflow from returns on investments and servicing of finance			(16.4)		(11.1)
Taxation					
U.K. Corporation Tax paid		(12.7)		(5.4)	
Overseas tax paid		(3.3)		(3.2)	
Tax paid			(16.0)		(8.6)
Investing activities					
Purchase of tangible fixed assets		(68.1)		(24.5)	
Purchase of subsidiary undertakings		(65.0)		(2.7)	
Purchase of minority interest		(0.2)		(0.2)	
Sale of tangible fixed assets		7.5		1.5	
Withdrawal from businesses		–		0.2	
Net cash outflow from investing activities			(125.8)		(25.7)
Net cash inflow/(outflow) before financing			(31.5)		30.5

Financing				
Issue of Ordinary share capital	4.9		1.7	
Repayment of loan notes	(0.1)		(0.3)	
Net (increase)/decrease in non-cash deposits	61.1		(30.1)	
Net increase in secured loans	0.4		0.2	
Net increase in unsecured loans	19.3		5.1	
Net cash inflow/(outflow) from financing		85.6		(23.4)
Net increase in cash and cash equivalents		54.1		7.1

1 ACQUISITIONS AND DISPOSALS

(a) In April 1995 Vickers International Ltd acquired the share capital and the land and buildings of Aquamaster-Rauma Ltd, a marine propulsion business based in Finland, for consideration of £35.6m. Contribution to Group profit before interest in 1995 was £2.9m.

In June 1995 Vickers Armstrongs Ltd acquired the trading assets of Thompson Defence Projects Ltd, a defence bridging equipment business, for consideration of £24.2m. This business was subsequently renamed Vickers Bridging. Contribution to Group profit before interest in 1995 was £0.9m.

In July 1995 Vickers America Holdings Inc. acquired the share capital of Intelligent Controls Inc., an automotive engineering business based in North America, for consideration of £8.4m. This business was subsequently renamed Cosworth Intelligent Controls Inc. Contribution to Group profit before interest in 1995 was a loss of £0.2m.

In December 1994 Vickers PLC acquired the share capital of Engstrom MIE Ltd. Estimates of the fair value adjustments to the acquisition balance sheet were made at the end of 1994 and have now been revised following full review, with adjustments included as 1995 items.

(b) Acquisition of Aquamaster-Rauma Ltd

	Book value £m	Accounting policy alignment £m	Fair value adjustments £m	Fair Value £m
Fixed Assets	6.2	-	-	6.2
Current Assets	14.9	(0.3)	-	14.6
Current Liabilities	(8.9)	(0.8)	-	(9.7)
Net Assets Acquired	12.2	(1.1)	-	11.1
Goodwill				24.5
Consideration				35.6
Consideration paid				36.2
Cash and cash equivalents acquired				(0.6)
				35.6

(c) Acquisition of Vickers Bridging

	Book value £m	Accounting policy alignment £m	Fair value adjustments £m	Fair Value £m
Fixed Assets	3.9	-	-	3.9
Current Assets	12.0	(5.3)	-	6.7
Current Liabilities	(5.6)	-	-	(5.6)
Net Assets Acquired	10.3	(5.3)	-	5.0
Goodwill				19.2
Consideration paid				24.2

continued

(d) Acquisition of Cosworth Intelligent Controls

	Book value £m	Accounting policy alignment £m	Fair value adjustments £m	Fair Value £m
Fixed Assets	1.6	(0.9)	-	0.7
Current Assets	2.3	-	(0.1)	2.2
Current Liabilities	(1.0)	-	-	(1.0)
Net Assets Acquired	2.9	(0.9)	(0.1)	1.9
Goodwill				6.5
Consideration				8.4
Consideration: Paid				5.4
Deferred				0.6
Borrowings acquired				2.4
				8.4

(e) Adjustments to the fair value of Engstrom MIE Ltd

	1994 Fair value £m	1995 Accounting policy alignment £m	1995 Fair value adjustments £m	Adjusted Fair value £m
Fixed Assets	0.3	-	-	0.3
Current Assets	3.6	-	(1.0)	2.6
Current Liabilities	(3.3)	-	(0.7)	(4.0)
Net Assets Acquired	0.6	-	(1.7)	(1.1)
Goodwill Adjustment			1.5	
Consideration Adjustment			(0.2)	

(f) Closure of Vickers Medical International KK

During 1995 Vickers Medical International KK, a Japanese subsidiary of Vickers Securities Ltd, was closed. The loss arising was £0.2m, increased to £0.3m by adjustment for goodwill previously written off to reserves.

(g) Disposal of nbn Medizin Elektronik GmbH.

The 1994 disposal by Vickers International Ltd of its interest in nbn Medizin Elektronik GmbH resulted in a further loss of £0.2m in 1995.

2 SEGMENTAL INFORMATION

	Turnover 1995 £m	Turnover 1994 £m	Operating profit before restructuring and other exceptional costs 1995 £m	1994 £m	Net assets 1995 £m	Net assets 1994 £m
Principal activities						
Automotive	397.1	287.0	40.9	21.0	86.5	79.1
Defence Systems	353.7	126.1	15.9	12.7	(6.6)	1.4
Propulsion Technology	238.2	160.8	17.1	11.0	84.4	60.4
Medical	122.9	118.8	0.9	6.0	71.1	63.2
Other activities	33.3	35.3	3.6	1.8	43.7	45.6
Associated undertakings	-	-		-	9.0	8.7
	1,145.2	728.0	78.4	52.5	288.1	258.4
Inter-segment sales	(1.4)	(0.8)				
Unallocated net assets					10.0	14.8
Taxation					(26.8)	(19.7)
Dividends					(14.5)	(10.1)
Sales to third parties	1,143.8	727.2				
Operating profit before restructuring and other exceptional costs			78.4	52.5		
Total net assets					256.8	243.4

	Turnover by destination 1995 £m	1994 £m	Turnover by origin 1995 £m	1994 £m	Operating profit by origin (before restructuring and other exceptional costs) 1995 £m	1994 £m	Net assets 1995 £m	Net assets 1994 £m
Geographical segment								
United Kingdom	408.7	245.9	872.1	518.7	59.1	48.3	177.6	172.0
North America	207.1	166.2	190.7	166.9	13.5	4.3	57.1	59.2
Continental Europe	190.0	152.9	175.6	128.3	6.2	0.3	63.6	41.0
Asia/Pacific	326.5	118.7	8.0	2.8	(0.4)	(0.5)	(0.2)	0.9
Rest of the World	11.5	43.5	0.2	-	-	0.1	-	0.1
	1,143.8	727.2	1,246.6	816.7	78.4	52.5	298.1	273.2
Inter-segment sales			(102.8)	(89.5)				
Taxation							(26.8)	(19.7)
Dividends							(14.5)	(10.1)
Sales to third parties	1,143.8	727.2	1,143.8	727.2				
Operating profit before restructuring and other exceptional costs					78.4	52.5		
Total net assets							256.8	243.4

continued

Reconciliation of total net assets:

	1995 £m	1994 £m
Net assets as shown in the Consolidated Balance Sheet	278.8	294.8
Exclude interest–bearing assets and liabilities:		
Cash and deposits	(134.3)	(120.6)
Borrowings falling due within one year	73.9	31.9
Borrowings falling due after more than one year	38.4	37.3
	256.8	243.4

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)

1994: Restructuring costs	Automotive £m	Defence £m	Propulsion Technology £m	Medical £m	Total £m
United Kingdom	-	(3.0)	(0.9)	-	(3.9)
North America	-	-	-	(0.2)	(0.2)
Continental Europe	(0.6)	-	-	(2.0)	(2.6)
	(0.6)	(3.0)	(0.9)	(2.2)	(6.7)

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

3 OPERATING PROFIT

	1995 £m	1995 £m	1994 £m	1994 £m
Turnover		1,143.8		727.2
Cost of sales – ongoing	(919.6)		(545.7)	
– restructuring	(0.2)		(0.3)	
		(919.8)		(546.0)
Gross profit		224.0		181.2
Administrative expenses – ongoing	(141.5)		(125.7)	
– restructuring and other exceptional costs	(4.8)		(6.4)	
		(146.3)		(132.1)
Distribution costs – ongoing	(5.8)		(4.4)	
– restructuring	-		-	
		(5.8)		(4.4)
Other operating income		1.5		1.1
Operating profit		73.4		45.8

	1995 £m	1994 £m
Operating profit is after charging:		
Research and development	43.5	21.1
Depreciation:		
Depreciation on owned assets	34.0	26.1
Depreciation on leased assets	0.4	0.3
Auditors' remuneration:		
Audit fees	1.0	0.9
Non–audit fees	0.4	0.2
Operating lease charges:		
Hire of plant and machinery	2.4	2.1
Other lease charges	3.1	2.3
After crediting:		
Rental income, less outgoings, from properties	0.1	0.2
Profit on disposal of fixed assets	1.4	0.3

continued

4 NET INTEREST RECEIVABLE AND OTHER SIMILAR ITEMS

	1995 £m	1994 £m
Interest payable and similar charges:		
Borrowing totally repayable within one year	(3.3)	(3.8)
Borrowing totally repayable between one and five years	(2.8)	(2.1)
All other borrowings	(0.5)	(0.6)
	(6.6)	(6.5)
Interest capitalised	0.8	0.2
Interest receivable	7.9	7.7
	2.1	1.4

5 TAXATION

	1995 £m	1994 £m
United Kingdom taxation:		
Corporation Tax	(26.5)	(8.5)
Deferred taxation	6.0	(1.6)
Overseas taxation:		
Current taxation	(3.4)	(2.9)
Deferred taxation	0.1	–
Prior years	0.6	0.9
	(23.2)	(12.1)

The United Kingdom tax charge computed at 33% has been reduced by £2.4m (1994: £13.2m) due to utilisation of Advance Corporation Tax written off and losses brought forward.

6 DIVIDENDS

	1995 £m	1994 £m
Non-equity - Preference, paid March and September	(0.4)	(0.4)
Equity - Ordinary:		
Interim of 2.4p, paid October 1995	(7.9)	(5.8)
Proposed final of 4.3p, payable May 1996	(14.4)	(9.9)
	(22.7)	(16.1)

7 EARNINGS PER SHARE

	1995 £m	1994 £m
Shareholders' profit	51.8	32.6
Preference dividends	(0.4)	(0.4)
Profit for FRS 3 EPS calculation	51.4	32.2
Adjust for the after–tax effect of the loss on disposal of subsidiaries	0.5	2.4
Profit for normalised EPS calculation	51.9	34.6
Average number of 50p Ordinary Shares	330,619,514	329,282,043

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

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 £9.7m (1994: £21.3m).

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 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 £4.8m (1994: £3.7m) of which £2.0m (1994: £1.3m) 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. This indicates 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 (£20.2m (1994: £19.0m) in Prepayments falling due after more than one year) and in Note 18 (£3.3m (1994: £6.0m) in Other creditors falling due after more than one year).

continued

10 EMPLOYEES

(a) Number of employees

	1995	1994
The average number of employees during the year was made up as follows:		
Production	4,443	3,974
Selling, distribution and administration	5,184	5,144
	9,627	9,118

(b) Employment costs

	1995 £m	1994 £m
Employee costs, including those of Executive Directors:		
Wages and salaries	204.8	179.9
Social security costs	21.7	20.0
Other pension costs	4.8	3.7
	231.3	203.6

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 1995	149.3	140.2	37.0	65.0	3.9	395.4
Exchange adjustment	1.4	2.2	0.5	-	-	4.1
Capital expenditure	1.5	22.4	6.7	24.4	18.0	73.0
Acquisitions	3.8	6.6	-	-	-	10.4
Transfers	0.1	0.2	0.2	0.1	(0.6)	-
Disposals	(5.8)	(3.5)	(0.2)	-	-	(9.5)
At 31 December 1995	**150.3**	**168.1**	**44.2**	**89.5**	**21.3**	**473.4**
Depreciation						
At 1 January 1995	19.3	88.3	27.1	33.4	-	168.1
Exchange adjustment	0.4	1.5	0.2	0.1	-	2.2
Provided during the year	3.9	14.7	3.9	11.9	-	34.4
Disposals	(0.8)	(2.5)	(0.2)	-	-	(3.5)
At 31 December 1995	22.8	102.0	31.0	45.4	-	201.2
Net book value at						
31 December 1995	127.5	66.1	13.2	44.1	21.3	272.2
31 December 1994	130.0	51.9	9.9	31.6	3.9	227.3
Non–depreciable assets at 31 December 1995	39.1	2.3	-	-	2.6	44.0
Leased assets at 31 December 1995	-	0.1	0.1	-	-	0.2

Net book value includes capitalised interest of £3.7m (1994: £3.4m).

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 1995	51.1	47.2	12.1	3.6	3.7	117.7
Capital expenditure	0.2	11.4	3.7	1.8	16.5	33.6
Transfers	(0.1)	0.3	0.1	-	(0.3)	-
Disposals	(0.2)	(1.0)	-	-	-	(1.2)
At 31 December 1995	51.0	57.9	15.9	5.4	19.9	150.1
Depreciation						
At 1 January 1995	9.1	25.9	9.1	1.4	-	45.5
Provided during the year	1.6	5.3	1.3	0.9	-	9.1
Disposals	-	(0.6)	-	-	-	(0.6)
At 31 December 1995	10.7	30.6	10.4	2.3	-	54.0
Net book value at						
31 December 1995	40.3	27.3	5.5	3.1	19.9	96.1
31 December 1994	42.0	21.3	3.0	2.2	3.7	72.2
Non–depreciable assets at						
31 December 1995	10.2	-	-	-	2.6	12.8

At 31 December 1994 leased assets of £0.1m were included in the net book value of plant, machinery and vehicles.

(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	49.5	5.8	0.5	23.0	1.5
Valuation as at November 1988	58.6	1.8	-	14.8	-
Directors' valuation as at November 1992	32.4	1.7	-	10.0	1.7
	140.5	9.3	0.5	47.8	3.2

	Group £m	Company £m
On an historical cost basis land and buildings would have been included as follows:		
Cost	99.1	36.8
Accumulated depreciation	(21.9)	(10.8)
Net book value at 31 December 1995	77.2	26.0

continued

12 CAPITAL COMMITMENTS

	Group		Company	
	1995	1994	1995	1994
	£m	£m	£m	£m
Outstanding contracts for capital expenditure	27.3	14.3	11.5	11.9
Further capital expenditure authorised	13.0	3.3	3.4	0.9
	40.3	17.6	14.9	12.8

13 OPERATING LEASE COMMITMENTS

	Property leases		Other operating leases	
	1995	1994	1995	1994
	£m	£m	£m	£m
Annual rentals payable on leases expiring:				
Within one year	1.2	0.3	0.5	0.8
Between two and five years	2.5	0.9	1.3	0.6
Beyond five years	2.1	1.5	1.5	0.7
	5.8	2.7	3.3	2.1

Company operating lease commitments are not material.

14 INVESTMENTS – SUBSIDIARY UNDERTAKINGS

	Cost	Provisions	Net
	£m	£m	£m
At 1 January 1995	502.2	(17.6)	484.6
Adjustment to purchase consideration	(0.2)	-	(0.2)
At 31 December 1995	502.0	(17.6)	484.4

A list of principal subsidiary undertakings is given on page 71.

15 OTHER INVESTMENTS

	Associated undertakings	Other investments	Total
	£m	£m	£m
At 1 January 1995	8.7	0.1	8.8
Exchange adjustment	0.1	-	0.1
Acquisitions	0.3	-	0.3
Disposals	(0.1)	(0.1)	(0.2)
At 31 December 1995	9.0	-	9.0

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

16 STOCKS AND WORK IN PROGRESS

	Group 1995 £m	Group 1994 £m	Company 1995 £m	Company 1994 £m
Long–term contract work in progress	219.3	257.5	201.0	236.4
Instalments on account	(177.4)	(224.6)	(167.4)	(203.5)
	41.9	32.9	33.6	32.9
Other work in progress	58.0	41.3	8.5	8.5
Instalments on account	(4.9)	(3.5)	(0.4)	(0.4)
	53.1	37.8	8.1	8.1
Net work in progress	95.0	70.7	41.7	41.0
Materials, bought out components and general stores	57.4	44.7	5.9	5.0
Finished goods	43.4	51.6	0.2	0.1
Total stocks and work in progress	195.8	167.0	47.8	46.1

Instalments in advance of contract expenditure have been shown separately within Other Liabilities in Creditors.

17 DEBTORS

	Group 1995 £m	Group 1994 £m	Company 1995 £m	Company 1994 £m
Amounts falling due within one year				
Trade debtors	176.4	194.9	49.5	102.6
Amounts recoverable on contracts	7.5	11.6	-	-
Amounts owed by subsidiary undertakings	-	-	213.1	116.4
Other debtors	11.7	13.0	4.7	5.8
Prepayments and accrued income	9.9	5.9	4.0	2.8
	205.5	225.4	271.3	227.6
Amounts falling due after more than one year				
Trade debtors	0.9	1.0	-	-
Advance Corporation Tax recoverable	3.7	2.5	3.7	2.5
Other debtors	1.2	0.6	0.3	0.1
Prepayments	20.2	19.0	20.2	19.0
	26.0	23.1	24.2	21.6
Total debtors	231.5	248.5	295.5	249.2

At the year–end £18,000 was outstanding in respect of a relocation loan made to an Officer of the Company.

continued

18 CREDITORS

	Group 1995	Group 1994	Company 1995	Company 1994
	£m	£m	£m	£m
Amounts falling due within one year				
Loans and overdrafts	73.8	31.8	66.7	23.9
Obligations under finance leases	0.1	0.1	-	-
Borrowings	73.9	31.9	66.7	23.9
Instalments in advance of contract expenditure – received	70.3	71.4	37.2	28.3
– receivable	-	42.3	-	42.3
Trade creditors	123.3	107.3	55.4	56.5
Amounts owed to subsidiary undertakings	-	-	389.0	325.8
Loans from associated undertaking	8.2	8.2	8.2	8.2
Accruals and deferred income	81.3	56.5	16.8	17.6
Taxation on profits	32.6	17.5	10.1	6.7
Other taxation and social security	7.3	4.5	3.1	2.5
Proposed dividends	14.5	10.1	14.5	10.1
Other creditors	43.0	24.6	23.6	18.8
Other liabilities	380.5	342.4	557.9	516.8
Total amounts falling due within one year	**454.4**	**374.3**	**624.6**	**540.7**
Amounts falling due after more than one year				
Loans and borrowings	38.4	37.2	37.2	35.3
Obligations under finance leases	-	0.1	-	-
Borrowings	38.4	37.3	37.2	35.3
Trade creditors	0.6	0.9	-	-
Taxation on profits (due 1996)	-	0.9	-	-
Other creditors	15.5	17.3	1.4	1.6
Other liabilities	16.1	19.1	1.4	1.6
Total amounts falling due after more than one year	**54.5**	**56.4**	**38.6**	**36.9**
Borrowings repayable in:				
One to two years	0.3	0.3	-	-
Two to five years	37.5	35.8	37.2	35.3
Over five years 2001 – 2011	0.6	1.2	-	-
	38.4	37.3	37.2	35.3
Not wholly repayable within five years	0.8	1.7	-	-

Borrowings of Group companies are secured, by way of charges on fixed assets, to the extent of £2.6m (1994: £1.9m). 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 1995	28.1	0.2	5.8	7.7	4.9	46.7
Exchange adjustment	0.4	-	-	0.4	-	0.8
Provided	22.4	-	4.4	4.4	-	31.2
Future tax benefit	-	-	-	-	(6.5)	(6.5)
Aquisitions	1.0	-	-	0.3	-	1.3
Used	(8.2)	-	(3.1)	(2.0)	-	(13.3)
Released	(5.3)	(0.1)	(0.9)	(0.4)	-	(6.7)
Transfer to prepayments	-	-	-	-	1.6	1.6
At 31 December 1995	38.4	0.1	6.2	10.4	-	55.1

(b) Company	Warranty £m	Acquisitions £m	Reorganisation £m	Other liabilities £m	Deferred taxation £m	Total £m
At 1 January 1995	13.2	0.2	3.1	3.9	-	20.4
Provided	7.1	-	0.5	1.2	-	8.8
Future tax benefit	-	-	-	-	(2.5)	(2.5)
Used	(0.1)	(0.1)	(2.8)	(0.1)	-	(3.1)
Released	(5.2)	-	-	(0.2)	-	(5.4)
Transfer to prepayments	-	-	-	-	2.5	2.5
At 31 December 1995	15.0	0.1	0.8	4.8	-	20.7

		Group		Company
(c) Deferred taxation	1995 £m	1994 £m	1995 £m	1994 £m
Excess capital allowances over accumulated depreciation	0.2	0.2	-	-
Provided against property sales	3.6	3.6	-	-
Other timing differences – United Kingdom	(6.0)	-	(2.5)	-
– Overseas	0.6	1.1	-	-
	(1.6)	4.9	(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:

Excess capital allowances over accumulated depreciation	15.8	16.1	6.0	5.3
Other timing differences	(17.0)	(15.3)	(8.4)	(8.5)
Capital gains on revaluation of properties and rolled–over gains	23.6	22.8	13.0	13.3
	22.4	23.6	10.6	10.1

continued

20 SHARE CAPITAL

	Group and Company			
	Authorised		Issued	
	1995 £m	1994 £m	1995 £m	1994 £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	166.4	164.8
Authorised share capital	237.0	237.0		
Share capital, allotted, called up and fully paid			174.8	173.2

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 1995 was 332,842,898 (1994: 329,721,418).

During the year ended 31 December 1995:

(a) 3,121,480 Shares, with a nominal value of £1.6m were issued for a total consideration of £4.9m on the exercise of options under the Company's Share Option Schemes; and

(b) the following options were granted under the terms of the 1994 Approved Share Option Scheme:
- on 2 March to 49 participants over 1,491,312 shares at a subscription price of 182.00p;
- on 7 March to 4 participants over 822,564 shares at a subscription price of 182.00p;
- on 31 March to 1 participant over 90,000 shares at a subscription price of 187.00p;
- on 5 October to 37 participants over 1,289,508 shares at a subscription price of 250.00p;

(c) The following options were granted under the terms of the 1994 Approved Savings-Related Share Option Scheme.
- on 3 April to 1,061 participants over 1,948,663 shares at a subscription price of 143.00p; and
- on 11 October to 728 participants over 808,297 shares at a subscription price of 189.00p.

	Number of Shares	Range of Subscription Prices	Exercisable
Approved Share Option Schemes	6,709,932	81.69p-250.00p	1996-2005
Approved Savings-Related Share Option Schemes	10,100,702	69.50p-189.00p	1996-2001

Notes to the Accounts

21 RESERVES

Group	Share premium £m	Revaluation reserve £m	Goodwill £m	Profit and Loss Account £m	Associated undertakings' reserves £m
At 1 January 1995	55.5	48.6	(254.3)	263.4	8.2
Exchange adjustment	-	0.2	-	1.6	-
Retained profit for the year	-	-	-	29.1	-
Purchase of minority interest	-	-	(0.1)	-	0.1
Premium on share issues	3.3	-	-	-	-
Goodwill on acquisitions	-	-	(51.7)	-	-
Goodwill on disposal written back	-	-	0.1	-	-
Reserves reclassified	-	(0.8)	-	0.8	-
Realisation of revaluation on disposals	-	(1.3)	-	1.3	-
At 31 December 1995	58.8	46.7	(306.0)	296.2	8.3

The goodwill written off to Reserves comprises goodwill arising on the purchase of subsidiaries of £309.7m (1994: £277.2m), goodwill arising on the purchase of businesses £29.2m (1994): £10.0m) and negative goodwill of £32.9m (1994: £32.9m).

The amount of unrealised exchange losses (net of gains) on net borrowings at 31 December 1995 included in reserves amounted to £1.5m (1994: gains (net of losses) £0.5m).

Company	Share premium £m	Revaluation reserve £m	Profit and Loss Account £m
At 1 January 1995	55.5	15.0	95.9
Retained profit for the year	-	-	(13.0)
Premium on share issues	3.3	-	-
Reserves reclassified	-	(0.6)	0.6
Realisation of revaluation on disposals	-	(0.1)	0.1
At 31 December 1995	**58.8**	**14.3**	**83.6**

22 CASHFLOW

	1995 £m	1994 £m
(a) Reconciliation of operating profit before restructuring and other exceptional costs to net cash inflow from operating activities		
Operating profit before restructuring and other exceptional costs	78.4	52.5
Profit on disposal of fixed assets	(1.4)	(0.3)
Depreciation charges	34.4	26.4
Increase in stocks	(11.4)	(24.0)
(Increase)/decrease in debtors	30.0	(70.9)
Increase/(decrease) in creditors	(9.4)	90.8
Increase in provisions	12.5	3.1
Net cash inflow before restructuring and other exceptional costs	133.1	77.6
Net cash outflow in respect of restructuring and other exceptional costs	(6.4)	(1.7)
Net cash inflow from operating activities	126.7	75.9

continued

(b) Analysis of balances of cash and cash equivalents as shown in the Balance Sheet

	Cash and cash equivalents 1995 £m	Other 1995 £m	Total 1995 £m	Cash and cash equivalents 1994 £m	Other 1994 £m	Total 1994 £m
Cash and deposits	121.2	13.1	134.3	47.8	72.8	120.6
Creditors: amounts falling due within one year						
Loans and overdrafts	(32.0)	(41.8)	(73.8)	(11.8)	(20.0)	(31.8)
Finance leases	-	(0.1)	(0.1)	-	(0.1)	(0.1)
Creditors: amounts falling due after one year						
Loans	-	(38.4)	(38.4)	-	(37.2)	(37.2)
Finance leases	-	-	-	-	(0.1)	(0.1)
At 31 December	89.2	(67.2)	22.0	36.0	(15.4)	51.4

(c) Analysis of changes in cash and cash equivalents

	1995 £m	1994 £m
At 1 January	36.0	29.2
Increase in cash and cash equivalents before adjustment for foreign exchange rate changes	54.1	7.1
Effect of foreign exchange rate changes	(0.9)	(0.3)
At 31 December	89.2	36.0

(d) Analysis of changes in financing

	Share capital and premium		Other financing	
	1995 £m	1994 £m	1995 £m	1994 £m
At 1 January	228.7	227.0	(15.4)	10.6
Cash inflows/(outflows) from financing	4.9	1.7	80.7	(25.1)
Effect of foreign exchange rate changes	-	-	1.9	(0.9)
At 31 December	233.6	228.7	67.2	(15.4)

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 indebtedness of subsidiary undertakings totalling £9.2m (1994: £7.8m).

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.

Five Year Review

	1995 £m	1994 £m	1993 £m	1992 £m	1991 £m
Profit and loss account					
Turnover	1,143.8	727.2	689.6	718.5	652.2
Operating profit/(loss)	73.4	45.8	35.4	(27.5)	(25.1)
Associated undertakings	-	-	-	-	3.3
Profit/(Loss) on sale/termination					
of operations – Continuing operations	(0.5)	(2.4)	-	(2.5)	(1.0)
– Discontinued operations	-	-	-	0.5	-
Profit/(Loss) before interest	72.9	43.4	35.4	(29.5)	(22.8)
Net interest receivable/(payable) and					
other similar items	2.1	1.4	(3.1)	(7.1)	1.1
Profit/(Loss) before taxation	75.0	44.8	32.3	(36.6)	(21.7)
Taxation	(23.2)	(12.1)	(6.6)	4.0	10.0
Profit/(Loss) after taxation	51.8	32.7	25.7	(32.6)	(11.7)
Minority interests	-	(0.1)	(0.1)	(0.2)	(0.1)
Profit/(Loss) for the financial year	51.8	32.6	25.6	(32.8)	(11.8)
Dividends	(22.7)	(16.1)	(10.3)	(4.3)	(16.2)
Retained profit/(loss)	29.1	16.5	15.3	(37.1)	(28.0)
Balance sheet					
Fixed assets	281.2	236.1	238.4	247.6	271.7
Net current assets	107.2	161.8	129.4	56.9	81.9
Amounts falling due after more than one year	(54.5)	(56.4)	(51.5)	(55.2)	(55.4)
Provisions for liabilities and charges	(55.1)	(46.7)	(36.5)	(42.7)	(53.7)
	278.8	294.8	279.8	206.6	244.5
Shareholders' funds	278.8	294.6	279.5	206.4	243.7
Minority interests	-	0.2	0.3	0.2	0.8
	278.8	294.8	279.8	206.6	244.5
Employees					
Average number of employees	9,627	9,118	9,406	10,422	12,011
Total wages and salaries (£m)	204.8	179.9	174.2	184.9	204.5
Earnings per share					
Earnings/(Loss) per 50p Ordinary Share:					
FRS 3 basis	15.6p	9.8p	8.0p	(12.1)p	(4.5)p
Normalised earnings basis	15.7p	10.5p	8.0p	(7.3)p	(9.0)p

Principal Divisions and Subsidiary Undertakings

Automotive

*Rolls–Royce Motor Cars Limited, Crewe
*Rolls–Royce Motor Cars Incorporated, Paramus, New Jersey, U.S.A.
*Rolls–Royce Motor Cars International S.A., St.–Prex, Switzerland

Cosworth, Northampton
Cosworth Castings, Worcester
*Cosworth Engineering Incorporated, Torrance, California, U.S.A.
*Cosworth Intelligent Controls Incorporated, Novi, Michigan, U.S.A.,

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

Defence Systems

Vickers Defence Systems, Leeds and Newcastle upon Tyne
Vickers Armstrongs Limited, Wolverhampton

Propulsion Technology

Brown Brothers & Company Limited, Edinburgh
*Certified Alloy Products Incorporated, Long Beach, California, U.S.A.
*KaMeWa A.B., Kristinehamn, Sweden
* Aquamaster-Rauma OY, Rauma, Finland
* Aquamaster-Rauma Korea Limited, Pusan, South Korea
*FF Jet Limited AB, 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, U.S.A.
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, U.S.A.
*Vickers Medical Espana S.A., Madrid, Spain
*Vickers Medical Italia S.p.A., Milan, Italy

Other activities

*Jered Brown Brothers Incorporated, Brunswick, Georgia, U.S.A.
*Vickers America Holdings, Incorporated, Paramus, New Jersey, U.S:A.
Vickers Pressings, Newcastle upon Tyne
Vickers Properties Limited, London

*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:
There are excluded from this list certain operating units which do not materially affect 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 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 Westminster Suite, The London Marriott Hotel, Grosvenor Square, London W1A 4AW on Thursday, 25 April 1996 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 1995.

2. To declare a final dividend of 4.3p per Ordinary Share in respect of the financial year ended 31 December 1995, payable on 3 May 1996.

3. To re-elect Sir Colin Chandler a Director of the Company.

4. To re-elect Mr. M. G. Taylor a Director of the Company.

5. To elect Lord Gillmore a Director of the Company.

6. To 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 Ordinary Resolutions:-

7. Subject to Inland Revenue approval, that the Directors be and are hereby authorised:-

(a) to amend the Rules of the Vickers Group 1994 Approved Savings-Related Share Option Scheme (the "Scheme") to permit participants in the Scheme a choice of three or five years savings contracts; to reduce the monthly minimum contributions by participants under their savings contracts from £10 to £5; to enable employees transferred to a Group company which does not participate in the Scheme to exercise their options when their savings contract matures if they are in employment at that time with a company which is an associated company of or a company under the control of the company; and to delete the requirement that an employee of a Group company participating in the Scheme must work for at least 20 hours a week to be eligible to participate in the Scheme;

(b) to do all acts and things necessary or expedient to carry such changes into effect including making such changes as may be necessary to obtain the approval of the Inland Revenue and/or such other approvals as the Directors may consider necessary or desirable to obtain;

(c) to invite all eligible employees to participate in the Scheme within the period of 21 days following receipt of Inland Revenue approval of the amendments proposed at (a), above; and

(d) to do all acts and things necessary or expedient to implement the offer of participation in the Scheme following receipt of Inland Revenue approval of the amendments proposed at (a), above.

8. To resolve that in substitution for any existing authority and for the purposes of Section 80 of the Companies Act 1985 ("Section 80"), the Directors be and are generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities, within the meaning of Section 80, up to an aggregate nominal amount of £53,000,000, at any time or times, provided that such authority shall expire at the earlier of the conclusion of the next Annual General Meeting of the Company or 1 July 1997. 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.

continued

As Special Resolutions:-

9. 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

(i) 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; and

(ii) to the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to a maximum nominal amount of £8,300,000;

(b) expire at the earlier of the conclusion of the next Annual General Meeting of the Company or 1 July 1997 except to the extent that the same is renewed or extended prior to or at such meeting; and

(c) 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.

10. To resolve that the Articles of Association be altered:

(a) By replacing the existing wording of Article 9 (c) with the following:

"Any direction under paragraph (b) of this Article shall cease to have effect in relation to default shares after a period of not more than seven days after the earlier of:-

(i) receipt by the Company of all information requested in the notices served under Section 212 in respect of such default shares; or

(ii) receipt by the Company of notice that such default shares have been transferred by means of an approved transfer; or

(iii) if the Board so determines".

(b) By amending Article 18 (c) by inserting the words "any exceptional" before the words "out of pocket expenses".

(c) By amending Article 40 to include the following words at the end of the first sentence:

"This power may also apply to partly-paid shares listed on The London Stock Exchange to the extent that it shall not prevent dealings in such shares from taking place on an open and proper basis."

(d) By amending Article 49 (a) (iv) by replacing the words "Quotations Department of the Stock Exchange" with the words "London Stock Exchange".

(e) By replacing the existing wording of Article 105 with the following:

(a) Save as herein provided, a Director shall not at any meeting of the Board vote in respect of any contract, transaction or arrangement (whether or not constituting a contract) or any proposal whatsoever in which he has, to his knowledge, any material interest, (whether direct or indirect or through persons connected with him) otherwise than by virtue of his interest in shares or debentures or other securities of or otherwise in or through the Company, and if he shall do so his vote shall not be counted, nor shall a Director vote at any such meeting if he has a duty which conflicts with or may conflict with the interests of the Company, nor shall he be counted in the quorum present upon a motion in respect of any such, contract, transaction, arrangement or proposal. Subject to his complying with the provisions of these Articles and of the Statutes with respect to disclosure of his interests, these prohibitions shall not apply to any resolution relating to:

(i) any contract, arrangement or proposal where a Director is, or may be entitled to underwrite, sub-underwrite, or participate in respect of an offer as a holder of such securities, shares or debentures or other securities of the Company or any of its subsidiaries or subsidiary undertakings; or

(ii) any contract, arrangement or proposal for giving any Director any security, guarantee or indemnity:

(aa) in respect of money lent, or obligations incurred by him or by any other person at the request of or for the benefit of, the Company or any of its subsidiaries or subsidiary undertakings; or

(bb) in respect of any debt or obligation of the Company, or any of its subsidiaries or any of its subsidiary undertakings for which that Director himself has assumed responsibility in whole or in part under a guarantee or indemnity, or by giving security; or

(iii) any contract, arrangement or proposal concerning any other company in which that Director and any persons connected with him do not, to his knowledge, hold an interest (as that word is used in sections 198 to 211 of the Companies Act 1985, as amended at the date of adoption of this Article) and whether as an officer or shareholder or otherwise provided that he is, or such persons are, not the holder or holders of or beneficially interested in one per cent or more of the issued equity share capital of such company or of any third company through which his or their interest is derived or of the voting rights available to members of the relevant company (any such interest being deemed for this purpose to be a material interest in all the circumstances) and provided that there shall be disregarded any interest in shares held by a Director or such connected persons of the type referred to in Section 209 of the Companies Act 1985; or

(iv) any proposal concerning insurance cover maintained or to be purchased for the Directors or for the benefit of persons including Directors, in accordance with the provisions of Article 176; or

(v) any arrangement for the benefit of employees of the Company or of any of its subsidiaries or subsidiary undertakings (including, but not limited to, an employees' share scheme) which does not award any Director any privilege or advantage not generally afforded to the employees to whom such arrangement relates.

(b) For the purposes of this Article:

(i) an interest of any person who is connected with a Director shall be taken to be the interest of that Director; and

(ii) in relation to an alternate Director, an interest of his appointer shall be treated as an interest of the alternate in addition to any interest which the alternate has otherwise.

(f) By amending Article 122 by deleting the word "clear" after the words "more than 42".

(g) By amending Article 148 by replacing the words "date of declaration" with the words "date the dividend was declared or became due for payment".

(h) By deleting Article 149 and substituting the following new Article 149:

"Any dividend or other moneys payable on or in respect of a share may be paid by cheque or warrant sent through the post to the registered address of the member or person entitled thereto, and in the case of joint holders to the registered address of the joint holder who is first named on the register of members, or to such person and such address as the holder or the first named of joint holders on the register of members may direct by notice in writing to the Company signed by such holder or holders. Every such cheque shall be crossed and bear across its face the words "account payee" or "a/c payee" either with or without the word "only" and every such cheque or warrant shall be made payable to the person to whom it is sent or to such other person as the holder or the first named of joint holders on the register of members may direct by notice in writing to the Company signed by such holder, and payment of the cheque or warrant, if purporting to be duly endorsed, or where unendorsed appearing to have been duly paid by the banker on whom it is drawn, shall be a good discharge to the Company. Every such cheque or warrant shall be sent at the risk of the person entitled to the money represented thereby. Any such dividend or other money may also be paid by any other usual or common banking method (including, without limitation, direct debit, bank transfer and electronic funds transfer) and to or through such person or such persons as the holder or the first named of joint holders on the register of members may in writing direct, and the Company shall have no responsibility for any sums lost or delayed in the course of any such transfer or where it has acted on any such directions."

By order of the Board

Nicholas Bevins
Secretary
26 March 1996

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 must be lodged not later than 12 noon on 23 April 1996.

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

1995

29 September
Interim dividend for 1995 paid on:
Preferred 5% Stock
5% Preference Stock
Cumulative Preference Stock

18 October
Interim dividend for 1995 of 1.75p paid per 50p Ordinary Share

1996

6 March
Final dividend recommendation for 1995 announced on Ordinary Shares, together with results for year ended 31 December 1995

31 March
Final dividend for 1995 paid on:
Preferred 5% Stock
5% Preference Stock
Cumulative Preference Stock

25 April
Annual General Meeting to be held at The Westminster Suite, The London Marriot Hotel, Grosvenor Square, London W1A 4AW at 12 noon

3 May
Final dividend on Ordinary Shares, if approved, to be paid to Shareholders on the Register at 26 March 1996

5 September
Results for the six months ending 30 June 1996 to be announced

Analysis of Ordinary Shareholders

31 December 1995	Number	%	Holding	%
1 -500	9577	47.85	2,202,672	0.66
501 -1,000	3678	18.38	2,694,211	0.81
1,001 -1,500	1855	9.27	2,282,861	0.69
1,501 -2,500	2123	10.61	4,141,738	1.24
2,501 -12,500	2039	10.19	9,639,816	2.90
12,501 -60,000	332	1.66	9,557,348	2.87
60,001 -125,000	116	0.58	10,638,907	3.20
125,001 -250,000	100	0.50	18,174,014	5.46
Over 250,000	193	0.96	273,511,331	82.17
	20013	100	332,842, 898	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

The Company's stockbroker, Hoare Govett 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 low cost manner. Further details may be obtained from Hoare Govett Corporate Finance Limited, 4 Broadgate, London EC2M 7LE (Telephone: 0171-601 0101).

Advisers

Auditors
KPMG, 8 Salisbury Square, London EC4Y 8BB

Brokers
Hoare Govett Corporate Finance Limited,
4 Broadgate, London EC2M 7LE
Cazenove & Co., 12 Tokenhouse Yard, London EC2R 7AN

Merchant Bank
Lazard Brothers & Co. Limited, 21 Moorfields, London EC2P 2HT

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

Registrars
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Edinburgh E11 4BR

Solicitors
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Telephone: 0171 828 7777

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VICKERS PLC

COMPANY PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31ST DECEMBER 1995

	1995 £m	1994 £m
Turnover	466.2	231.3
Cost of sales	(419.2)	(189.3)
Gross profit	47.0	42.0
Administrative expenses	(29.0)	(24.6)
Distribution costs	(0.5)	(0.5)
Other operating income	1.1	1.0
Operating profit before exceptional items	18.6	17.9
Exceptional items	(7.8)	(15.2)
Profit on ordinary activities before interest	10.8	2.7
Net interest receivable and investment income	7.0	21.2
Profit on ordinary activities before taxation	17.8	23.9
Taxation	(8.1)	(2.6)
Shareholders profit for the financial year	9.7	21.3
Dividends	(22.7)	(16.1)
Retained profit	(13.0)	5.2

This Profit and Loss Account was approved by the Board of Directors on 5th March 1996 and was signed on its behalf by:

R.E.B.Lloyd

R.B.Head