

Vickers P.L.C. Annual Report and Accounts 1989



The 1120 Rolls-Royce Silver
Spirit II - Rolls-Royce
Motor Cars

The Challenger 2 main
battle tank - Vickers
Defence Systems Division

Machining a spiral
propeller at Vickers
Vickers Marine
Engineering Division

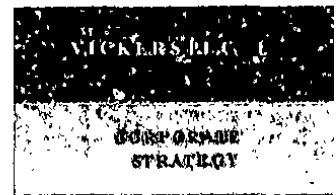
An Air-Shielda neonatal
incubator - Vickers Medical
Division

Checking for stress corrosion
in a propeller - Vickers
Vickers Marine
Engineering Division

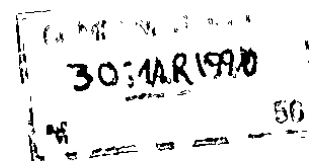
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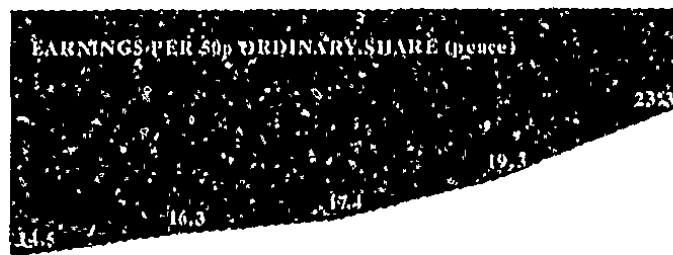
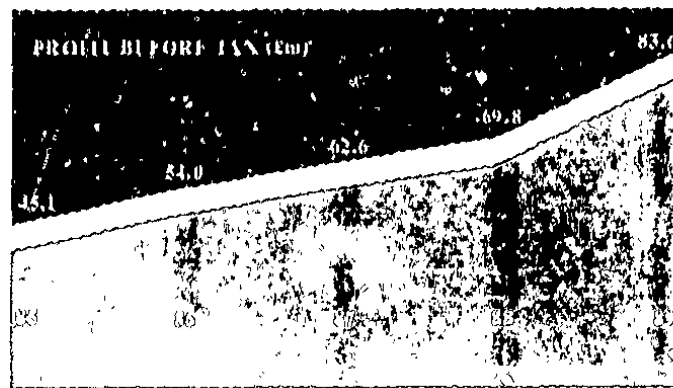
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VICKERS P.L.C. INVESTS IN BUSINESSES TO WHICH ITS
PARTICULAR MANAGEMENT, TECHNICAL AND
MARKETING SKILLS CAN ADD SIGNIFICANT VALUE.



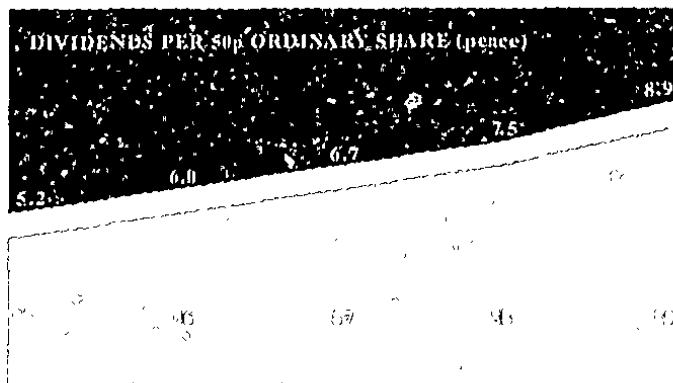
IN EACH OF THE INTERNATIONAL MARKETS IT
SERVES, THE GROUP IS COMMITTED TO SUSTAINED
EARNINGS PERFORMANCE FOR THE BENEFIT OF
SHAREHOLDERS AND EMPLOYEES.



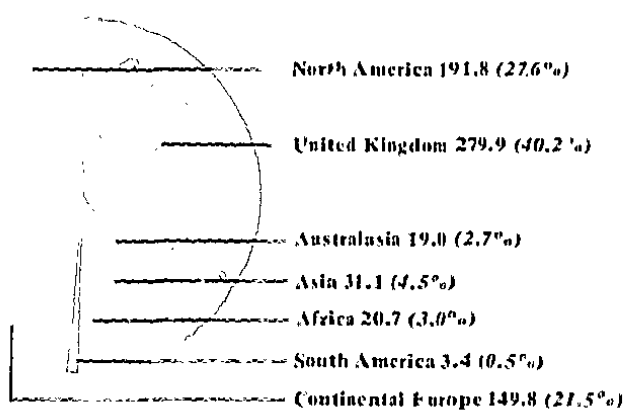


VICKERS PLC

FINANCIAL INFORMATION



TURNOVER BY DESTINATION (£m)





Sir David Plistow (right) with Sir Colin Chandler who became Managing Director in succession to Ron Taylor, on 1 January 1990

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CHAIRMAN'S STATEMENT

Dear Shareholder,

1989 was another very successful year for your Company, with earnings growing for the sixth consecutive year. Pre-tax profits were £83.6 million, an increase on 1988 of 19.8 per cent, and your Board is recommending an increase in the full year dividend of 18.7 per cent, to 8.9p.

Earnings per share were 23.3p, an increase of 20.7 per cent.; the compound annual rate of growth over the last six years has been 27 per cent. This excellent performance reflects the strength and balance of our portfolio of international businesses.

Our success is also a tribute to the quality of Vickers operating management, who have produced good growth, even when faced with difficult market conditions in a number of sectors.

A Dynamic Year

1989 was a particularly active year for your Company, with the sale of Howson-Algraphy and the acquisition of Ross Catherall being major steps forward in the continuing progress of our strategy.

Since the merger with Rolls-Royce Motors in 1980 our success in reorganising the portfolio of businesses within Vickers has been based on our close knowledge of each sector of activity. Because of this understanding we have been able to make the best decisions on when to acquire or sell companies, and when to retain and develop businesses to maximise future returns for shareholders. Last year, in particular, we demonstrated our ability to act when necessary to alter the balance of our business.

Shareholder Value

The important decision to sell Howson-Algraphy for a consider-

ation of £245 million, including interest, in July 1989 was made as part of our long-term strategy. Howson-Algraphy had contributed significantly to the progress made by Vickers. However, in recent years profit growth in that Division had been achieved by increasing volume and market share with decreasing margins.

With the advent of more capacity worldwide and the industry trend towards selling a range of graphic arts products as a package, Howson-Algraphy needed to be part of a large chemical and film company to continue its development and remain internationally competitive. The sale of this business to Du Pont produced an extraordinary profit for shareholders of £125.8 million. In our view, and in the opinion of commentators, the Company realised maximum value for shareholders.

With shareholder value in mind, I would like to comment on views expressed by Sir Ron Brierley, Chairman of Industrial Equity (Pacific) Limited (IIP), a company registered in Hong Kong. Through a subsidiary company, IIP now holds 18.22 per cent of Vickers Ordinary Shares.

In discussion, Sir Ron has aired his opinion that we should sell Rolls-Royce Motor Cars. Heel that I should clarify the issues involved.

Rolls-Royce Motor Cars has thrived since it has been part of Vickers PLC and has been able to invest in advanced production equipment, new products and new market strategies. The growth in profit from Rolls-Royce Motor Cars has been very satisfactory, rising over the last six years from £13.4 million to £24.7 million, latterly against the background of adverse currency factors.

The potential for future earnings growth has also been consider-

ably enhanced following the re-establishment of the Bentley marque and the introduction over the last ten years of new models, such as the Turbo R, which command a high price. This process of model development will continue.

The clear understanding by the management of Vickers of the unique position of Rolls-Royce Motor Cars in the automotive market has been an important factor in its successful development.

It is relevant to remember that during the 1970s when Rolls-Royce Motors was an independently quoted and largely single product company, significant changes in market demand caused exaggerated stock market reaction leading to instability in the share price. The stability provided by Vickers has played a key part in the success of the management of Rolls-Royce Motor Cars.

Your Board has carefully investigated and considered the consequences of a separately quoted Rolls-Royce Motor Cars and firmly concluded that there would be no significant incremental value to Vickers' shareholders in the longer term.

Following the sale of other luxury motor car manufacturers for high prices, there have been attempts to draw a parallel with Rolls-Royce Motor Cars. Rolls-Royce and Bentley motor cars are a unique automotive product, the success of which is based on quality and exclusivity.

Manufacturing and sales volumes have to be carefully co-ordinated and controlled to maintain the prestige of the marques. Any departure from this practice which would require rapidly increasing production would be very damaging.

Rolls-Royce Motor Cars is a very valuable company within Vickers, where it is clearly understood and where maximum long-term value for shareholders can be realised.

Acquisition of Ross Catherall

At the time of the sale of Howson-Algraphy I made it clear that despite high interest rates Vickers would not be content to maintain large cash balances; we would seek to acquire companies that fit within our strategy of being a world leader in all the areas in which we operate. I am delighted that at the end of 1989 we acquired just such a world leader, Ross Catherall Group PLC, for £106.2 million.

Ross Catherall produces specialised materials, largely for the aerospace market, including high quality superalloys, special steels and high technology ceramics, as well as investment castings for automotive turbochargers and other applications. Its products are sold widely throughout Europe, the U.S. and the Far East and it holds the necessary approval from all the world's leading aero-engine manufacturers.

This acquisition, when put alongside our existing gas turbine components Division, Vickers Precision Components, has given us a very strong international aerospace presence, fully capable of exploiting the growing opportunities in this sector.

DIVISIONAL PERFORMANCE IN 1989

Rolls-Royce Motor Cars

The success of Rolls-Royce Motor Cars continued in 1989, with a 16 per cent. increase in worldwide retail sales. However, profit was still affected by adverse currency factors relating to the U.S. Dollar. Exceptional retail sales growth included 17 per cent. in the U.K., 57 per cent. in Europe and 63 per cent. in the Far East. In North America, sales were maintained at 1988 levels despite the weak market for luxury cars in the United States.

There was increased expenditure on research and development in 1989, ahead of the autumn launch of the Rolls-Royce Silver Spirit II, Silver Spur II, Corniche III and new Bentley models. The new models were very well received by press, public and dealers, with

the new computer-controlled suspension system being declared a world leader by commentators.

Defence and Aerospace

It has been a year of sound achievement by Vickers Defence Systems. The development contract for Challenger 2 announced in December 1988 gave Vickers some tough milestones to meet. I am happy to say that the Division has kept ahead of programme for the completion of the prototypes in September 1990.

The Division was also awarded further contracts for Challenger armoured repair and recovery vehicles in 1989. Development trials have been completed and the initial production batch is on schedule.

As indicated in my Interim Statement, profits in 1989 were at a lower level than 1988, reflecting the timing of profits available on major contracts.

Political events in Eastern Europe will clearly have an effect on the defence industry as a whole. However, Vickers Defence Systems has the widest range of armoured fighting vehicles of any single manufacturer in the world and a long history of international sales. The Division is in a good position to respond quickly to overseas orders.

In the House of Commons on 6 February 1990, when questioned about tanks for the British Army, the Secretary of State for Defence stated: "Certainly, Army reductions and the proposals in C.F.E. (Conventional Forces Europe) involve some reductions in tanks on either side but there is no doubt that, even within that framework, we have certain problems with the age of the present tank components and we need to ensure that we have a modern tank capability. I think that there is a prospect of significant purchases of tanks and it is worth putting that on record".

Medical Equipment

Vickers Medical Division continues to make progress. Demand in Europe for neurodiagnostic equipment has been strong and the setting up of Vickers Medical International as a direct European distribution, sales and service network has led to a closer relationship with customers. A number of new medical products were successfully launched in 1989 and a reciprocal distribution agreement for neurodiagnostic equipment was concluded with N.E.C.-SanEi of Japan.

Our medical companies now have integrated international manufacturing and marketing organisations for all three product areas - neonatal incubators, monitoring and neurodiagnostic equipment. We look forward to the benefits of this coming through in 1990.

Marine Engineering

In 1989 the Marine Engineering Division produced a noteworthy recovery, returning to acceptable levels of profitability in a marine engineering market that is still at a low ebb in most parts of the world. The concentration on improving margins by increased productivity and better customer focus has produced much improved results throughout the Division.

Other Activities

Whilst our other activities are relatively small, Crabtree Vickers had a steady year, during which it received the largest order in its history.

Special praise is due to Vickers Pressings which has made tremendous progress during the last few years as a key supplier to major motorcar manufacturers in the U.K. and Europe. The success of the workforce at Pressings in improving both quality and productivity is a fine example for any business, large or small.

Profits arising at Vickers Properties were significantly lower in 1989 at £1.5 million, compared with £5.1 million in 1988. The property

revaluation mentioned in the 1988 Directors' Report has now been completed and the resulting surplus of £650 million has been included in the Group Revaluation Reserve

Environmental Matters

Vickers believes that industry should be an integral part of the community in which it operates. All parts of the Group have been encouraged to ensure that they are sensitive to the effect of their activities on the local community and on the environment as a whole. We continue to monitor this closely and, in 1989, initiated an examination of all Vickers sites around the world to enable us to maintain the highest standards of responsibility.

Directors

At the Annual General Meeting on 26 April 1990, Ron Taylor, Managing Director of Vickers since 1987 and an employee of the Company since 1958, will retire.

Ron Taylor's contribution to this Company has been immeasurable. Throughout his career as an accountant, operating manager and Managing Director, he has provided an example of leadership and management ability from which we can all learn. Under his guidance Howson-Algraphy was built up from a small business into the world's third largest lithographic plate manufacturer.

It is to Ron's credit that he recognised and brought to the Board's attention the logic of selling Howson-Algraphy when the time was right. He has never shirked from making decisions in the best interests of the shareholders, even when these decisions have been personally difficult. His support and the warmth of his friendship will be long remembered by all those who have worked with him.

Tony McCann left Vickers at the end of 1989 to set up his own consultancy. He became part of the Vickers senior management team as Planning Director at the time of the merger with Rolls-Royce Motors, which he had joined in 1977. Tony takes much of the credit for developing the restructuring plan that Vickers has followed.

In November 1989, Sir Colin Chandler joined the Board of Vickers and became Managing Director in succession to Ron Taylor on 1 January 1990. Sir Colin worked for British Aerospace in a number of senior executive positions before being seconded to the Ministry of Defence as Head of Defence Export Services Organisation.

He brings to Vickers wide industrial experience and knowledge of international markets. His experience will further strengthen the management of the Company as we continue to pursue our successful strategy into the 1990s.

It also gives me great pleasure to welcome Des Mawson as an Executive Director, following our acquisition of the Ross Catherall Group.

Dividend

The Board is recommending a final net dividend of 5.6p per 50p Ordinary Share, making a total of 8.9p for the year compared with 7.5p for 1988.

Employees

Once again we owe so much to the hard work and loyalty of all the employees of the Company throughout the world. With their support the 1990s will be a dynamic and successful decade for Vickers.

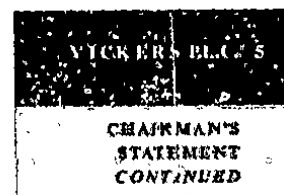
In particular, I must pay tribute to Roger Craster, awarded an M.V.O. by Her Majesty The Queen. A long-time servant of Rolls-Royce Motor Cars, Roger started as an apprentice at Derby in 1933, eventually became Export Manager and a key part of the Rolls-Royce international sales operation. For many years he has also been responsible for our excellent relationship with the Royal Mews over the many Rolls-Royce motor cars used as Royal transport.

Prospects

Your Company has a strong Balance Sheet and a range of high quality products and brands. Vickers is particularly well placed to produce earnings growth despite a more difficult economic climate.



Ron Taylor, who retires at the A.G.M. in April this year.



David Plastow

26 February 1990

Worldwide sales growth for Rolls-Royce and Bentley motor cars continued during 1989. Total sales of £253.2 million were achieved, a 23 per cent increase over the previous year. Profit before interest rose to £24.7 million.

Throughout the year there was a substantial increase in demand for Rolls-Royce and Bentley motor cars in most parts of the world, leading to an increase in overall retail sales of 16 per cent. The only exception to the trend was the United States, but even there Rolls-Royce and Bentley sales remained at 1988 levels whilst other luxury car manufacturers experienced a significant decline.

As a result of successful market development, demand has become more evenly spread throughout the world. Over 65 per cent. of production was exported in 1989 and the most dramatic growth was experienced in the European and Far East markets where retail sales were up nearly 50 per cent. in both. An increase of 80 per cent. was recorded in Japan, a particularly noteworthy performance following similar substantial increases in the last few years.

The strong performance in Europe was achieved across all countries, with particular progress being attained by the top of the range Corniche and Continental models.

Retail sales of over 1,000 were achieved in the U.K. market, a 17 per cent. increase over last year's performance. Many dealers have invested in expanded and improved facilities in the U.K., and Rolls-Royce and Bentley sales recorded a growth rate of almost double that of the total market for cars in the U.K.

The main promotional event of the year was the worldwide launch of the 1990 Rolls-Royce motor cars. Dealer reaction at a series of events in Scotland, Australia and in the United States was extremely positive. This was followed up by a succession of favourable media reports.

Product development and marketing emphasis has been placed on maintaining the position of Rolls-Royce as the leading marque and enhancing the essential character of the motor car. The incorporation of a number of major new features led to the introduction of the new models as Silver Spirit II, Silver Spur II and Corniche III.

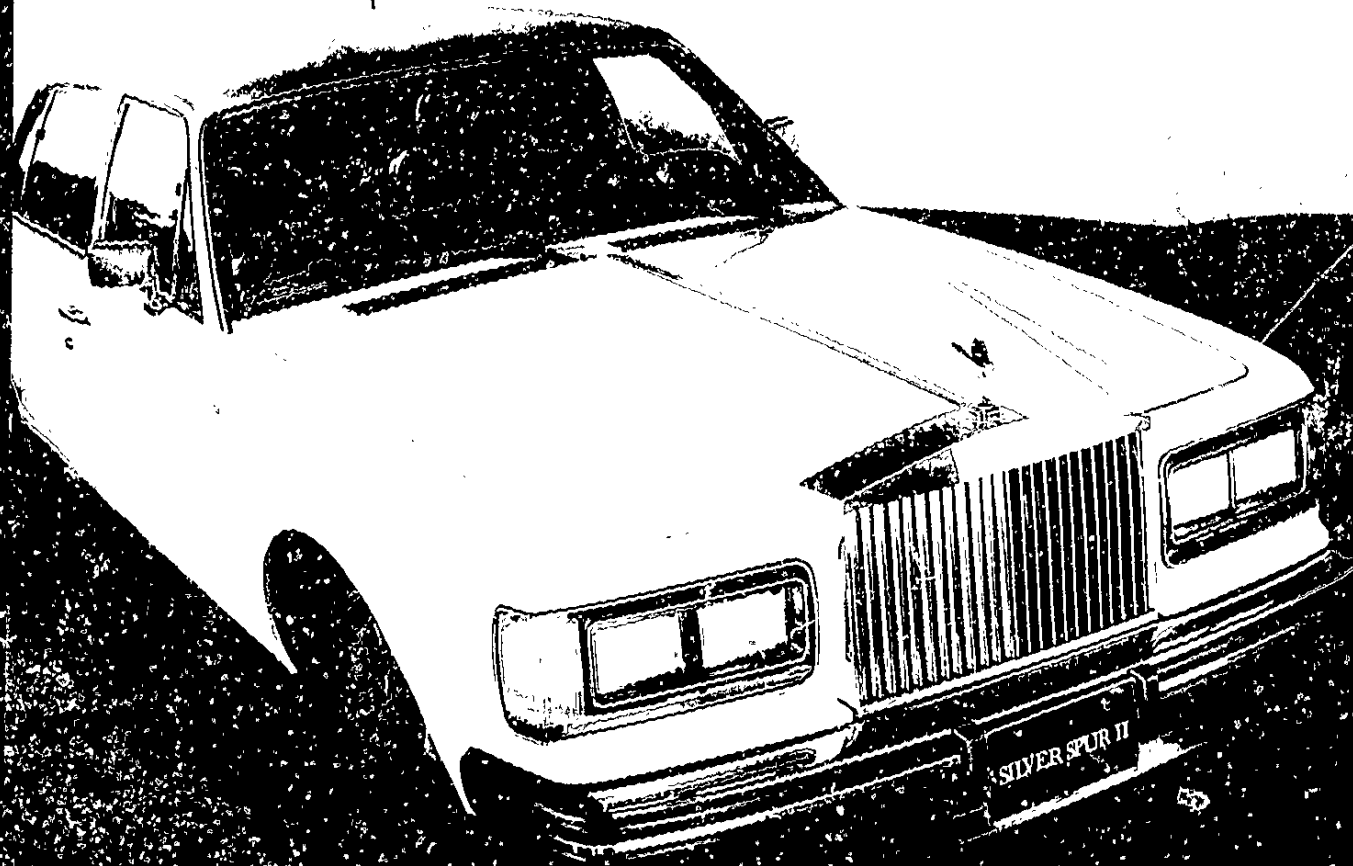
In particular, the new computer-controlled suspension system providing automatic ride control, was acclaimed as a major breakthrough. Rolls-Royce Motor Cars now has a worldwide lead in the introduction of a suspension system which adapts to both driving conditions and driver, to give the most comfortable and safest ride for the speed and the conditions.

From 1990 all Rolls-Royce and Bentley motor cars are able to run on unleaded fuel without modification, and owners of older motor cars have the opportunity of having their cars converted free of charge.

ROLLS-ROYCE MOTOR CARS



The 1990 range of Rolls-Royce motor cars received wide acclaim from customers, dealers and the press. A principal new feature of the range is the world's most advanced automatic ride control. This computer-aided system (left) adjusts the suspension in milliseconds to provide the highest standards of ride and comfort.



The new £10 million computer-controlled paint plant will keep Rolls Royce Motor Cars at the forefront of paint technology.



VICKERS PLC

ROLLS-ROYCE MOTOR CARS CONTINUED

1989 also saw significant developments in manufacturing systems, facility developments and investment in new tooling. Research and development spending during the year totalled £13.7 million, while investment in new equipment and tooling amounted to £22.5 million.

A new £10 million paint plant was commissioned during the year. This important investment will enable Rolls-Royce to enhance and update paint processes and keep in the vanguard of new paint technology. New computer-controlled machine tools have been installed to provide a more efficient flow of components.

Investment and improvement in the whole of the manufacturing and planning system has continued. The new computer-based planning system has resulted in an increased flexibility, increasing ability to switch production easily between models. This allows the company to respond quickly to changes in demand, without loss of output.

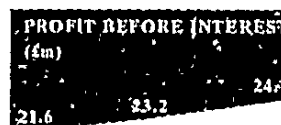
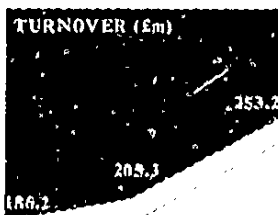
Between 1986 and 1990 Rolls-Royce has succeeded in improving fuel consumption by over 20 per cent. and, by the mid-1990s, the aim is to achieve a further 28 per cent. improvement. Any improvement has a direct beneficial impact on atmospheric pollution.

Specialist Engines

A good level of demand for spares from Specialist Engines was maintained throughout 1989. In addition, several valuable orders were won to supply the Ministry of Defence with a range of specialist spares in 1990/1991.

Output of new and overhauled minehunter generator modules reached record levels and contributed significantly to the year's performance.

Building a Bentley engine at the Crewe factory.



祖傳秘製

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天蓬牌 TENVOX Biji

怡樂汽車音响中心





A number of significant achievements were recorded by Vickers Defence Systems in 1989. The most notable was the successful completion of the first stage of development work on the new main battle tank, Challenger 2.

Challenger 2, which combines an improved Challenger 1 hull with an advanced Vickers turret, has been designed to meet fully the British Army requirement for a tank to replace the ageing Chieftain. Key factors of the design include a totally new approach to the reliability of both hull and turret systems.

Following the award of a development contract for the new tank by the U.K. Government at the end of 1988, the Division went on to meet the first major contractual 'milestone' on schedule in the autumn of 1989. By the end of the year, all the Challenger 2 hulls and turrets had been built and assembled and the Division was on target to complete the development programme in 1990 in line with Ministry of Defence requirements. Preparatory work has also begun on training and equipment testing packages to be offered to the Army to support Challenger 2.

The first public showing of Challenger 2 is planned to take place at the British Army Equipment Exhibition at Aldershot in June 1990.

Whilst work proceeded on Challenger 2, production and delivery of the seventh regiment of Challenger 1 tanks for the British Army continued on programme. In September the Division met the target date for delivery of the first of 17 Challenger training tanks (C.T.T.) to the British Army. The C.T.T. has been designed and developed by the Division and is the first training tank to be purpose-built for the Army. The main production run of training tanks will be delivered in 1990.

The Division also won a new order from the Ministry of Defence following the submission of proposals to convert Chieftain tanks into Royal Engineer vehicles. The multi-million pound contract calls for the design, development and conversion of 32 tanks and will provide work into the 1990s.

Production and trials of an initial batch of Challenger armoured repair and recovery vehicles continued on schedule. Delivery of the bulk of the production vehicles will commence in 1990 in line with time scales designed to meet the British Army's in-service date.

The supply of turrets for the British Army's Warrior infantry fighting vehicle continued on programme at the Newcastle factory. More than 300 turrets have been delivered to the prime contractor, G.K.N., since the first contract was placed. In addition, the Division won two new orders for substantial numbers of turret variants for the Warrior observation post vehicle and the battery command vehicle (B.C.V.). The first four B.C.V. turrets had been delivered by the end of 1989.

The Challenger 2 development programme is running to schedule and the first vehicles are currently undergoing initial field trials.

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DEFENCE AND
AEROSPACE

Further orders have been won for the supply of turrets, seen here under construction, for the British Army's Warrior infantry fighting vehicle.



MANNOVBE (cm)
13.5

PROFIT BEFORE INTEREST
(cm)
15.6

Positive results have
been achieved by the
SATO Group's financial
management and the
company's strong
financial position.



Designed and developed by Vickers, the Challenger training tank is the first training tank to be purpose-built for the British Army.

More than 100 claw compartments for the NATO multiple launch rocket system have so far been delivered. This production programme is scheduled to continue at the Leeds factory until 1993.

A small quantity of Vickers Mark 3 armoured repair and recovery vehicles was completed and dispatched to a customer in Africa: the first time that Vickers recovery vehicles had been supplied to support a fleet of non-Vickers tanks. 1989 also saw satisfactory progress on a contract for the development and prototype manufacture of bridge-launching equipment to be fitted to K1 battle tanks for the Korean Army.

The intake of orders for fighting vehicle spares to the U.K. Ministry of Defence and overseas armies continued to rise. The sale of spares, coupled with commercial engineering contracts for a range of British industry, made a substantial contribution to the financial performance of the Division in 1989.

In 1989 research and development programmes included work on robotics, advanced armours and suspension systems, future turret systems and a computer-based simulator for use on the development of Challenger 2. 1990 will also be a year of considerable challenge for Vickers Defence Systems as the major new vehicle programme makes progress.

Vickers Precision Components

Vickers Precision Components, a supplier of gas turbine engine components to the majority of the world's aero-engine manufacturers, once again had a successful year.


The business has continued with its successful strategy of broadening its customer base by increased penetration of export markets. In North America it has been particularly successful in winning orders for major fabrications in an extremely competitive market.

With the growth in the aerospace industry predicted to continue over the next few years, the business is entering 1990 with a record level of orders. The acquisition of Ross Catherall Group PLC means that V.P.C. will be part of a larger Division in 1990 with wider opportunities to develop a broader product range.

Investment in new technology, plant and equipment will continue at a substantial level, enabling V.P.C. to maintain its position at the forefront of metal-forming technology through the 1990s.

VICKERS PLC 13

DEFENCE AND
AEROSPACE
CONTINUED



A wax cluster of segments for a Rolls-Royce RB211 engine component being built up prior to casting, at Vickers Precision Components.

Disposable monopolar
needle electrodes used in
electro-neurographic
examination, manufactured
by JICA.

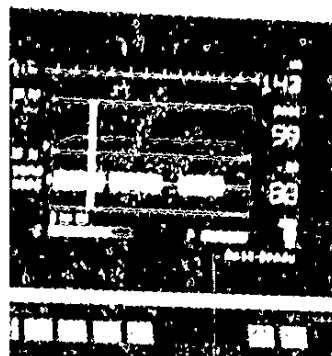


The Medical Division made sound progress in 1989 despite some continued weakness in the North American market. Sales in 1989 grew by 31 per cent over the previous year, including the first full year's contribution from S&W, acquired in May 1988. Profit before interest increased by 29 per cent.

The integration of the three S&W companies required a substantial reorganisation of the Division's European activities. This was achieved through the formation of Vickers Medical International to co-ordinate all European sales, service and distribution operations. New sales and service subsidiaries were formed in Spain and Sweden.

Production of physiotherapy equipment in Belgium was divested to the management and production of neurodiagnostic equipment in France was consolidated into Medelec's Woking factory. As a result of these changes, and the setting up of Vickers Medical International, the Division now has a strong and highly focused direct access to most of the significant European markets. This leaves the Division very well placed to benefit from the Single European Market as it develops.

The new Air Shields C 600
Direct Touch interface with
monitoring combines proven
technology with innovative
features which minimise
infant stress.



Tetascan, also new from
Air-Shields, is an
ultrasound imaging and
data storage system which
enables obstetric staff to
monitor remotely the
condition of up to eight
patients.



THE VICKERS PLC

MEDICAL
EQUIPMENT





The new DG 32 digital electro-encephalograph system from TECA offers the benefits of thermal recording and laser disc storage, simplifying processing and playback of patient data.



Seen here at the Canossa Hospital in Hong Kong is S&W's top-selling 5000 series intensive care monitoring system. This now offers the facility to display three blood pressures plus F.C.G. trace together with trend features on a range of vital parameters.

Rationalisation of sales and service has been particularly successful in the U.K. where the amalgamation of the Air-Shields and S&W activities has improved efficiency. In Canada, Narco Scientific produced an outstanding performance. The Spanish company, which only commenced trading on 1 March, recorded a profit for the year and Italian sales comfortably exceeded expectations.

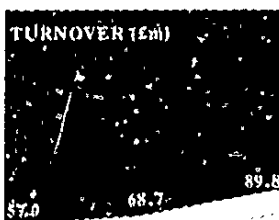
Of the manufacturing operations, Medelec had an excellent year; S&W installed the new Athena monitoring system in a number of key hospitals, and several new product development programmes were completed.

In the neonatal sector Air-Shields introduced a new incubator, C100 Q1, which offers substantial operational advantages over earlier models. The System 6 neonatal monitor and variable height options for both incubators and intensive care warmers were also well received. Air-Shields entered the closely related foetal monitoring market with the successful introduction of an intra-partum monitor, Fetascan.

In the neurodiagnostic sector, a new digital electro-encephalograph (E.E.G.), developed at TECA, was shown for the first time and received an excellent response. An agreement was concluded with N.P.C.-Sanfi of Japan for the Division to distribute Sanfi's E.E.G. products in Europe and U.S.A.

At S&W development of the Athena patient monitoring product range continued. Additional features include a central recorder, oxygen saturation monitoring and arrhythmia analysis. The Athena system now offers a complete range of facilities. It is capable of integration with other intensive care equipment to provide comprehensive patient data management, and is the most advanced product in its field.

The excellent range of new products in all parts of the Division, and the development of an internationally integrated manufacturing and distribution network mean that all the businesses within the Medical Division are well placed to use their positions as key international players in their market sectors to improve performance throughout the 1990s.



VICKERS B.L.C. 17

MEDICAL
EQUIPMENT
CONTINUED



Direct computer-controlled
machining of a highly
skewed fixed-pitch naval
propeller at Stone Vickers.

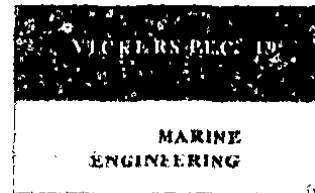


Machining the housing
of a suspension bush
used on British Rail
commuter rolling stock.

The Marine Engineering Division made considerable progress during 1989, continuing the improvement of the previous year and responding well to the challenge of improving profitability in all areas of activity. The results of strong management action to improve efficiency have been most encouraging, with return on capital greatly improved. Sales for the year were £88.2 million, producing a profit of £4.9 million, up by 188 per cent.

This improvement has been achieved by reducing the cost base and by a better customer focus to increase margins in what continues to be a very competitive market, despite a small general upturn in shipbuilding orders.

The businesses in the U.K., Brown Brothers, Stone Vickers and Michell Bearings, now consolidated under one management as Vickers Marine, had an outstanding year. The Advanced Programmes Group is now well established as the Division's new technology research unit and its innovative approach has won a number of



A folding fin stabiliser
designed and built by
Brown Brothers.





development contracts in the defence area for advanced naval equipment such as thermo-electric cooling systems.

In the controllable pitch propeller sector, Stone Vickers performed significantly ahead of forecast and Michell Bearings increased its market share worldwide for marine and industrial specialist bearings. Brown Brothers similarly had a successful year, highlighted by a contract to supply the Royal Canadian Navy frigate programme with advanced digital controls and auto-pilot equipment, which complements the earlier orders for steering gear.

The concentration on developing export markets has been rewarded with notable success, including defence contracts for Australia and France.

Jered Brown Brothers in the U.S. has soundly consolidated its position as a major equipment supplier to the U.S. Navy and has also made notable inroads into overseas markets. Its sales level has been the best ever and it entered 1990 with a record forward workload.

The new management team at KaMeWa in Sweden has re-structured and reduced manufacturing costs whilst maintaining a technical dominance in the propulsion sector with prestigious orders for its wide range of products. Outstanding were the contribution of the twin KaMeWa water-jets for "Gentry Eagle" in its record breaking Atlantic crossing, and an order from Blohm und Voss for the largest water-jets yet to be built.

In 1989 order intake was up 10 per cent. During 1990 the Division will continue to broaden its product range with increasingly advanced and innovative technology which will be necessary to ensure improvement in profitability through an undoubtedly competitive decade.

20 VICKERS PLC

MARINE ENGINEERING CONTINUED

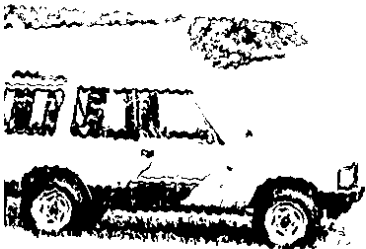
Checking machining
tolerances on a bearing
housing for a Royal Navy
A.O.R. fleet replenishment
vessel.



Two KaMeWa water-jets are
used to drive the catamaran
passenger vessel, 'Shun
Feng', which operates out of
Hong Kong, pictured right.

KaMeWa have pioneered
water jet propulsion and are
today at the forefront of
technological development
in this field.







**Des Mawson, Chairman
of Ross Catherall Group
and a Director of
Vickers PLC.**

Two recent acquisitions have reinforced Vickers strategy of adding to its investment in complementary international businesses which are in growing markets and significant in their fields.

Ross Catherall Group

At the end of 1989 Vickers acquired the Ross Catherall Group for a consideration of £106.2 million.

Ross Catherall is a long-established business producing specialised materials, principally for the aerospace market, including high quality superalloys, special steels and high technology ceramics, as well as investment castings for automotive turbochargers and other applications.

Ross Catherall is based in Sheffield, with additional manufacturing facilities in the Isle of Wight and Denby in the U.K. and Long Beach, California, in U.S.A.

Ross Catherall is an international business and its products are sold throughout Europe, North America and the Far East to customers including all the world's leading aero-engine manufacturers.

Its activities and products are entirely complementary to those of Vickers Precision Components, the leading manufacturer of gas turbine components.

The two businesses will have combined sales of around £80 million and represent a major international presence in the aerospace and automotive turbocharger markets.



**One of the high vacuum
induction melting furnaces
at Ross Catherall, Sheffield,
used for making high
quality superalloys for the
aerospace and gas turbine
industries.**

VICKERS PLC 23

ACQUISITIONS

The exceptional quality of design, materials and construction has earned Riva the reputation of being Europe's most prestigious manufacturer of luxury powerboats in the 26'-60' range. (Below) The new Riva 20 Corsaro.



Cantieri Riva S.p.A.

On 12 February 1990, the acquisition of the whole of the issued share capital of Cantieri Riva S.p.A. was completed for a cash consideration of Lit. 23.75 billion (£11.3m).

Riva is Europe's premier manufacturer of luxury powerboats in the 26'-60' range, and its customers include heads of state, senior industrialists and celebrities.

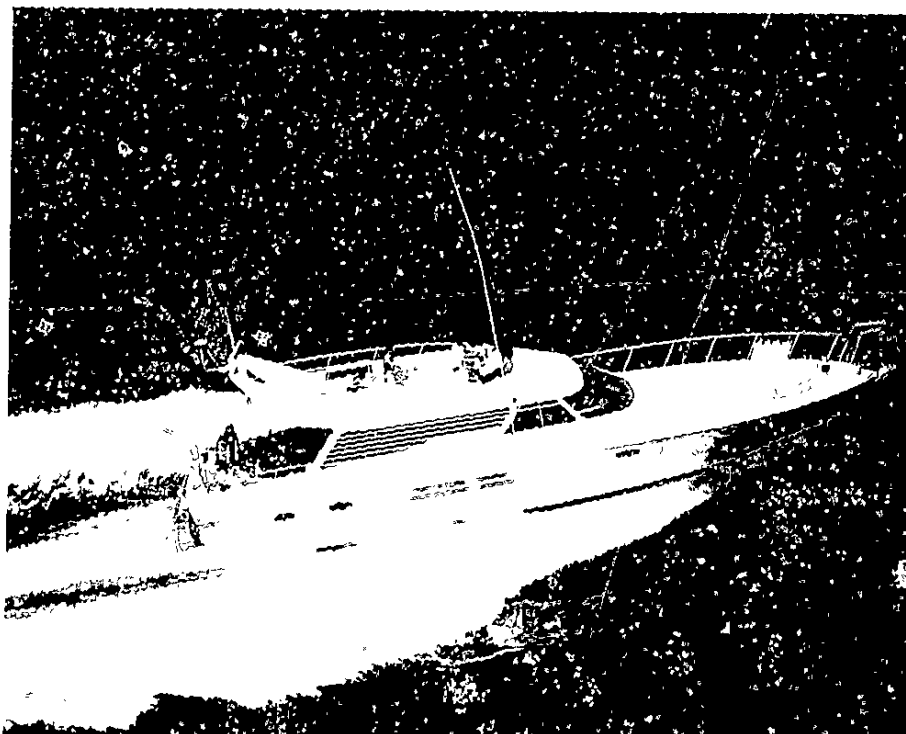
The business has a network of dealers in Europe where two-thirds of its annual sales are achieved. The growing market in the Far East accounts for a quarter of sales and Riva is represented in Japan.

Within Vickers, Riva will be under the same management as Rolls-Royce Motor Cars, whose expertise will enable Vickers to add significant value to Riva, particularly through the achievement of increased Riva sales in North America, the world's largest market for luxury motor yachts.

The two companies have had a long association through their involvement in Symbol Magazine, which jointly promotes the quality linked to Rolls-Royce and Bentley motor cars. Riva gives Vickers an unrivalled position in the manufacture and distribution of engineered luxury products.

34 VICKERS PLC

ACQUISITIONS
CONTINUED



Sir David Mastow
Chairman & Chief Executive
 Age: 57. Vickers Managing Director and Chief Executive since 1980; Chairman and Chief Executive since 1987. Non-Executive Director, Vickers, 1975-1980. Deputy Chairman of Guinness and a Non-Executive Director of Tenneco Inc., Houston, he is a former Non-Executive Director of Legal & General and GKN. He joined Rolls-Royce Motor Car Division in 1958, and became Managing Director, Rolls-Royce Motors in 1972.

Sir Colin Chandler
Managing Director
 Age: 50. Following a commercial apprenticeship served with de Havilland he subsequently held a number of senior appointments at Hawker Siddeley and British Aerospace, becoming Divisional Managing Director in 1978, then Marketing Director, Aircraft Group of British Aerospace in 1983. In 1985 he was appointed Head of Defence Export Services at the Ministry of Defence. He joined Vickers in November 1989 and was appointed Managing Director in January 1990.

Bill Foreman, C.A.
Commercial Director
 Age: 53. Joined Vickers in 1970 as Group Chief Accountant, having been Chief Accountant to The British Printing Corporation. He was appointed to the Vickers Board in 1973 as Director of Finance, subsequently Chief Executive, International Group, becoming Commercial Director in 1982. He is a Non-Executive Director of Chloride Group and Dwek Group.

Roger Head, F.C.A.
Finance Director
 Age: 43. Joined Vickers Engineering Group in 1977. Formerly Financial and Commercial Director, Vickers Design and Projects; subsequently Finance Director, Vickers Engineering Products Group. Became Staff Director, Business Appraisal, Vickers in 1984; appointed Finance Director, April 1987.

Des Mawson
Executive Director
 Age: 66. After holding senior positions with Jessop Saville he joined Ross & Co Foundry as General Manager in 1961. On the merger of Ross & Co with Catherall in 1968, he was appointed Managing Director of the new company, becoming Chairman & Chief Executive in 1986. Appointed to the Vickers Board in December 1989.

Ron Taylor, C.A.
Executive Director
 Age: 58. Appointed Deputy Managing Director in 1984 and Managing Director in 1987. Joined Vickers in 1958, held senior appointments in Printing Machinery Group prior to formation of Howson-Algraphy, where he was appointed Chief Executive in 1972.

Sir Richard Lloyd, Bt.*
Deputy Chairman
 Age: 61. Chairman of Hill Samuel Bank since January 1987. His other directorships include Harrisons & Crosfield, Legal & General, SIEBE and Simon Engineering. He is a Member of the CBI Council and became a Director of Vickers in 1978.

H.R.H. The Duke of Kent, K.G., G.C.M.G., G.C.V.O., A.D.C.*
 Age: 54. Among his business and other public interests, His Royal Highness is Vice-Chairman of the British Overseas Trade Board, President of the Engineering Council, President of BTEC, and Patron of the British Computer Society and The Institute of Exports. He is also Chancellor of Surrey University. The Duke is a Non-Executive Director of BICC and joined the Board of Vickers in 1987.

Derek Kingsbury, C.B.E.*
 Age: 63. Chairman and Chief Executive of the Fairey Group; a member of the Review Board for Government Contracts, Chairman of the Council, Defence Manufacturers Association and Chairman of the Engineering Council CET Pilot Scheme Steering Committee. He joined the Vickers Board in 1981.

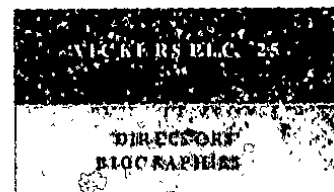
John Raisman, C.B.E.*
 Age: 61. Deputy Chairman of British Telecom and former Chairman and Chief Executive of Shell UK. A Director of Vickers since 1981; also a Director of Glaxo and Lloyds Bank. He is Chairman, Investment Board, Electra Candover Partners and Pro-Chancellor, Aston University.

Martin Taylor, F.C.A.*
 Age: 55. A Vice-Chairman of Hanson, he is also a member of the CBI Council and a Board member of The Securities Association. He was appointed to the Vickers Board in 1986.

**Non-Executive Directors*

Sir Richard Lloyd, Bt., chairs the Audit Committee and the Non-Executive Directors' Committee which is responsible for Directors' remuneration and the Share Option Schemes.

N. Bevins
Secretary



The Directors present the 123rd Annual Report together with the Consolidated Profit and Loss Account for the year ended 31 December 1989, Consolidated and Company Balance Sheets at that date and the Auditor's Report thereon. The information required under the Companies Act 1985, and by The International Stock Exchange, has been incorporated in this Report, in the Review of Activities on pages 6 to 24 and in the accompanying Accounts.

DIVIDENDS	£m	£m
The profit attributable to members of the Company amounts to		180.7
Dividends already paid or accrued are as follows:		
Preference	(0.4)	
Ordinary — interim of 3.3p per 50p Ordinary Share (equivalent, with associated tax credit, to 4.4p gross)	(8.5)	(8.9)
		<hr/> 171.8
Ordinary — the Directors propose a final dividend of 5.6p per 50p Ordinary Share (equivalent, with associated tax credit at the current rate, to 7.5p gross)		(14.5)
Leaving a surplus of		<hr/> 157.3

ACQUISITIONS AND DISPOSALS

On 11 July 1989, following the approval of the members obtained at the Extraordinary General Meeting held the previous day, the whole of the assets and undertaking of the Howson-Algraphy Division was sold to E. I. Du Pont de Nemours & Company Inc., Wilmington, U.S.A., for a cash consideration of £240.0 million.

As a result of an offer made by Lazard Brothers & Co., Limited on 24 October 1989 on behalf of the Company, the whole of the issued share capital of Ross Catherall Group PLC, manufacturers of specialised materials, largely for the aerospace market, including high quality superalloys, special steels and high technology ceramics, was acquired on 30 November 1989 for a consideration of £106.2 million payable as to £91.4 million in cash and as to £14.8 million Floating Rate Loan Notes 1991/95, bearing interest at $\frac{3}{4}$ % below the six month London Inter-Bank Offered Rate for each interest period.

On 12 February 1990, Rolls-Royce Motors Holdings Limited completed the acquisition of the whole of the issued share capital of Cantieri Riva S.p.A., Lake Iseo, Italy, a manufacturer of high performance luxury powerboats, for a consideration of approximately £11.3 million.

DIRECTORATE

Sir Ian Fraser, having reached the age of 65, relinquished his seat on the Board of Directors of the Company on 27 April 1989 and was succeeded as Deputy Chairman by Sir Richard Lloyd, Bt.

Sir Colin Chandler was appointed a member of the Board of Directors of the Company on 23 November 1989 and succeeded Mr. R. O. Taylor as Managing Director on 1 January 1990.

Mr. D. L. Mawson was appointed to the Board on 21 December 1989.

Dr. A. D. McCann relinquished his seat on the Board of Directors on 31 December 1989.

In accordance with the Company's Articles of Association, Sir Colin Chandler and Mr. D. L. Mawson will vacate office at the forthcoming Annual General Meeting and seek re-election. Mr. R. O. Taylor will retire from the Board of Directors of the Company at the conclusion of that Meeting.

The Directors retiring by rotation are Sir David Plastow and Mr. D. J. Kingsbury who, being eligible, offer themselves for re-election. Sir David Plastow has a service contract which expires on 31 May 1992. Mr. Kingsbury does not have a service contract.

Interests in the issued share capital of the Company beneficially held by members of the Board of Directors, or their families, and in the Company's Share Option Schemes, at the beginning and at the end of 1989, are set out in Note 9 to the Accounts on page 38.

SHARE CAPITAL OF THE COMPANY

All of the Resolutions submitted to the Annual and Extraordinary General Meetings held on 27 April 1989 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 following Annual General Meeting (or 1 July 1990, whichever should be the earlier) and disappplied 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 £43,000,000 nominal of Ordinary share capital which represents approximately one-third of the current issued Ordinary share capital. A further 25,009,657 Ordinary Shares are reserved for possible issue under the various Share Option Schemes which have been approved by the Company in General Meeting. Renewal of the disapplication of the 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, a limited amount of Ordinary share capital (viz. £6,475,000 in nominal amount) for cash, otherwise than by way of a rights issue.

It should be stressed that your Directors have no present intention of issuing, or granting rights over, such unissued shares, except in relation to the various Share Option Schemes, and no issue will be made which will effectively alter the control of the Company. Nevertheless, your 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 to develop the Company's interests become available.

Accordingly, a Special Resolution will be proposed at the forthcoming Annual General Meeting to give the Directors the powers and authorities referred to above.

ARTICLES OF ASSOCIATION

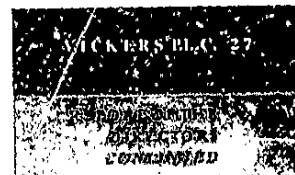
At the forthcoming Annual General Meeting a Special Resolution will be proposed relating to the adoption of new Articles of Association.

The existing Articles were adopted in 1971 and in many respects are now out of date. The Directors, therefore, consider it desirable to adopt new Articles which will give them certain additional powers granted by the Companies Acts 1985 and 1989 and which are in accordance with the current requirements of The International Stock Exchange, London, and modern procedure and commercial practice. The proposed new Articles do not, however, differ in any material respect from the existing Articles; neither do they in any respect vary the class rights of existing shareholders. The differences between the two which, it is thought, should be brought to the notice of members, are set out in the circular enclosed with this Report and Accounts.

Prints of the Articles of Association, both in their existing form and in their proposed form, are available for inspection by any member at the Registered Office of the Company or at the offices of Lovell White Durrant, 73 Cheapside, London, EC2V 6ER, at any time during normal business hours prior to the holding of the Annual General Meeting.

EMPLOYEES

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. 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. The Company's equal opportunities and non-discrimination policy statement includes those objectives.



EMPLOYEE INVOLVEMENT

Previous years' reports have confirmed the Company's commitment to employee involvement and outlined the various arrangements that are in place. Team briefing provides the foundation of the communication arrangements with employees. During 1989 the Board of Directors engaged The Industrial Society to undertake an independent survey of team briefing within the U.K. businesses to ensure that it continued to be effective. The Society's reports were presented to each Division and an overview and assessment were submitted to the Board. The survey confirmed that, generally, team briefing was working well. It also provided a number of helpful recommendations, which have been accepted, to improve the practice further. Overseas, team briefing has been introduced during 1989 at KaMeWa A.B. in Sweden and a similar system is in operation at Air-Shields Vickers Inc. in U.S.A.

A review of the Company's pension schemes, with employees' representatives, has been concluded based on the Actuaries' triennial valuation of those funds.

Reference was made last year to the survey of over 300 senior managers worldwide on the Company's management development programme. The results, conclusions and action programme have been sent to all the managers concerned and, most recently, followed by a revised manual incorporating the changes adopted. This survey was a valuable input to this key area for the future.

FIXED ASSETS

Details of movements in fixed assets are given in Note 19 to the Accounts. As reported last year, a valuation of substantially all of the Group's freehold and leasehold land and buildings was carried out as at 30 November 1988 by Chartered Surveyors in the U.K. and their equivalent overseas. The basis of the valuation was either open market with existing use, or depreciated replacement cost where more appropriate. After allowing for properties sold since that date, the surplus of valuation over book value was £65.0m and this has been incorporated in these Accounts.

RESEARCH AND DEVELOPMENT

It remains the objective of the Company, and of its subsidiaries, to continue to invest significantly in the development of the Group's various products and processes. Your Board considers that this is essential if the Group is to remain competitive and, to that end, ensures that regular monitoring of activities within the sphere of research and development is undertaken during the annual planning cycle.

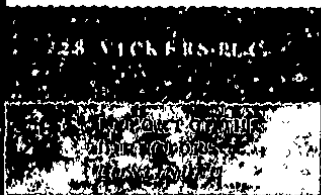
Research and development costs incurred during the year were £46.1m gross (1988: £32.5m) which, after deduction of contributions from customers and government grants, amounted to £21.0m (1988: £22.3m).

AUDITORS

On 1 January 1990 our Auditors changed the name under which they practise to KPMG Peat Marwick McLintock and, accordingly, have signed their Report in their new name. In accordance with Section 384 of the Companies Act 1985, a Resolution for the re-appointment of KPMG Peat Marwick McLintock as Auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

DONATIONS

Donations made in the United Kingdom for charitable purposes during the year amounted to £156,155 gross. No payments were made to political parties.



LARGE SHAREHOLDINGS

The Company has been advised that I.E.P. Securities Limited is the beneficial owner of 47,228,000 Ordinary Shares of 50p each of the Company's issue, representing 18.22% of that issue.

Details of holdings in the Company's Preference Stocks, which also require disclosure in accordance with the requirements of Section 198 of the Companies Act 1985, are as follows:

Stock		%
Preferred 5%	Co-operative Insurance Society Limited	15.03
Preferred 5%	Guardian Royal Exchange Assurance plc	5.50
5% Preference	Co-operative Insurance Society Limited	11.61
5% Preference	Provincial Insurance plc	7.05
Cumulative Preference	Guardian Royal Exchange Assurance plc	22.93
Cumulative Preference	Phoenix Assurance plc	12.98
Cumulative Preference	The Prudential Assurance Company Limited	8.65
Cumulative Preference	Co-operative Insurance Society Limited	8.57
Cumulative Preference	I.E.P. Securities Limited	8.23
Cumulative Preference	Norwich Union Fire Insurance Society Limited	7.28

INCOME AND CORPORATION TAXES ACT 1988

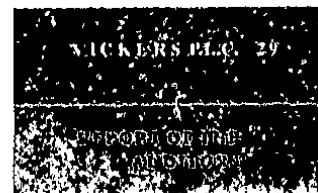
The close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Company.

Signed on behalf of the Board,

Nicholas Bevins

Secretary

26 February 1990



TO THE MEMBERS OF VICKERS P.L.C.

We have audited the financial statements on pages 30 to 32 and 34 to 48 in accordance with Auditing Standards.

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group at 31 December 1989 and of the profit and source and application of funds of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Peat Marwick McLintock

Chartered Accountants

London

26 February 1990

KPMG Peat Marwick McLintock

For the year ended 31 December

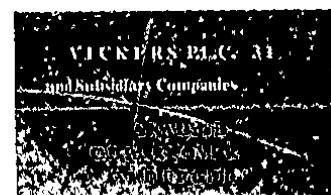
		1989	1988
	Notes	£m	£m
TURNOVER		695.7	776.3
OPERATING PROFIT	2	65.1	76.0
Share of profits of related companies		1.0	1.2
PROFIT BEFORE INTEREST		66.1	77.2
Net interest receivable (payable) and investment income	3	17.5	(7.4)
PROFIT BEFORE TAXATION		83.6	69.8
Taxation	4	(23.0)	(19.7)
PROFIT AFTER TAXATION		60.6	50.1
Minority interests		(0.2)	(0.4)
PROFIT BEFORE EXTRAORDINARY ITEMS		60.4	49.7
Extraordinary items	5	120.3	(6.8)
SHAREHOLDERS' PROFIT		180.7	42.9
Dividends	6	(23.4)	(19.6)
RETAINED PROFIT	7	157.3	23.3
EARNINGS PER 50p ORDINARY SHARE	8	23.3p	19.3p

Movements in reserves are given in Note 19.

3M VICKERS PLC
and Subsidiary Companies

INCORPORATED IN
ENGLAND AND WALES
REGISTERED OFFICE
15, ABchurch Lane
London EC4A 3DF

	TURNOVER		PROFIT	
	1989	1988	1989	1988
	£m	£m	£m	£m
PRINCIPAL ACTIVITIES				
Rolls-Royce Motor Cars	253.2	205.3	24.7	23.2
Defence and Aerospace	136.1	120.5	11.8	15.6
Medical	89.8	68.7	8.9	6.9
Marine Engineering	88.2	75.8	4.9	1.7
Other activities	22.6	28.4	4.4	7.2
	589.9	498.7	54.7	54.6
CONTINUING ACTIVITIES				
Discontinued activities	105.8	277.6	10.4	21.4
	695.7	776.3		
TOTAL TURNOVER				
OPERATING PROFIT			65.1	76.0
Related companies			1.0	1.2
PROFIT BEFORE INTEREST			66.1	77.2
Net interest receivable (payable) and investment income			17.5	(7.4)
PROFIT BEFORE TAXATION			83.6	69.8



TURNOVER BY DESTINATION

	1989	1988
	£m	£m
United Kingdom	279.9	312.5
Continental Europe	149.8	205.0
North America	191.8	185.8
Africa	20.7	11.6
Asia	31.1	28.6
Australasia	19.0	28.9
South America	3.4	3.9
	695.7	776.3

At 31 December

At 31 December		Group		Company	
	Notes	1989 £m	1988 £m	1989 £m	1988 £m
FIXED ASSETS					
Tangible assets	10	219.0	165.3	54.5	68.9
Investments—Group companies	11	—	—	238.3	129.3
—Other investments	12	17.2	18.3	4.8	5.5
		236.2	183.6	297.6	203.7
CURRENT ASSETS					
Stocks and work in progress	13	132.0	162.5	17.9	51.1
Debtors	14	135.6	145.0	108.2	135.0
Cash and bank balances		228.6	50.1	173.9	19.9
		496.2	357.6	300.0	206.0
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR					
Borrowings	15	(43.6)	(23.4)	(35.3)	(15.0)
Other liabilities	15	(203.9)	(188.3)	(159.0)	(125.8)
NET CURRENT ASSETS					
		248.7	145.9	105.7	65.2
TOTAL ASSETS LESS CURRENT LIABILITIES					
		484.9	329.5	403.3	268.9
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR					
Borrowings	15	(44.3)	(54.2)	(40.4)	(48.8)
Other liabilities	15	(11.5)	(6.9)	(3.9)	(1.7)
PROVISIONS FOR LIABILITIES AND CHARGES					
	16	(40.5)	(24.7)	(9.1)	(4.3)
		388.6	243.7	349.9	214.1
CAPITAL AND RESERVES					
Called up share capital	17	137.9	136.5	137.9	136.5
Share premium account	19	24.3	22.3	24.3	22.3
Revaluation reserve	19	65.0	13.1	18.4	5.2
Profit and loss account	19	161.2	70.6	169.3	50.1
SHAREHOLDERS' INTEREST					
		388.4	242.5	349.9	214.1
MINORITY INTERESTS					
		0.2	1.2	—	—
		388.6	243.7	349.9	214.1

26 February 1990

David Plastow

David Plastow
R.B. Head

} Directors

R.B. Head

PROFIT AND LOSS ACCOUNT	1989 £m	1988 £m	1987 £m	1986 £m	1985 £m	1984 £m
Turnover	695.7	776.3	788.3	691.8	611.2	528.8
Operating profit	65.1	76.0	69.5	59.9	50.3	41.4
Related companies	1.0	1.2	1.4	—	1.5	(2.2)
Profit before interest	66.1	77.2	70.9	59.9	51.8	39.2
Net interest receivable (payable) and investment income	17.5	(7.4)	(8.3)	(5.9)	(6.7)	(8.4)
Profit before taxation	83.6	69.8	62.6	54.0	45.1	30.8
Taxation—Group companies	(22.6)	(19.2)	(16.7)	(14.7)	(11.2)	(5.4)
—Related companies	(0.4)	(0.5)	(0.6)	—	(0.2)	1.0
Profit after taxation	60.6	50.1	45.3	39.3	33.7	26.4
Minority interests	(0.2)	(0.4)	(0.5)	(0.3)	—	0.2
Profit before extraordinary items	60.4	49.7	44.8	39.0	33.7	26.6
Extraordinary items						
—Group companies	120.3	(6.8)	(2.5)	(8.3)	0.9	(6.7)
—Related companies	—	—	—	0.4	7.6	(3.5)
Shareholders' profit	180.7	42.9	42.3	31.1	42.2	16.4
Dividends	(23.4)	(19.6)	(17.5)	(15.2)	(12.4)	(9.6)
Retained profit	157.3	23.3	24.8	15.9	29.8	6.8

BALANCE SHEET

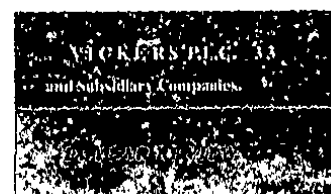
Fixed assets	236.2	183.6	194.8	177.8	149.5	184.7
Net current assets	248.7	145.9	119.9	132.5	137.1	125.0
Amounts falling due after more than one year	(55.8)	(61.1)	(59.0)	(58.9)	(70.5)	(71.5)
Provisions for liabilities and charges	(40.5)	(24.7)	(29.0)	(37.5)	(25.8)	(29.3)
	388.6	243.7	226.7	213.9	190.3	208.9
Shareholders' interest	388.4	242.5	222.4	208.9	189.7	208.1
Minority interests	0.2	1.2	4.3	5.0	0.6	0.8
	388.6	243.7	226.7	213.9	190.3	208.9

EMPLOYEES

Average number of employees	12,238	15,541	16,731	15,871	15,801	15,403
Total wages and salaries (£m)	194.1	206.7	207.4	186.5	160.0	141.2

EARNINGS PER SHARE

Earnings per 50p Ordinary Share	23.3p	19.3p	17.4p	16.3p	14.5p	11.4p
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1 BASIS OF CONSOLIDATION

The Accounts, prepared on the historical cost basis of accounting modified to include the revaluation of land and buildings, comprise a consolidation of the Accounts of the Company and its subsidiary companies and its share of the post-acquisition results of related companies.

The results of subsidiary and related companies acquired or sold during the year are included in the Accounts from or to the effective dates of acquisition or disposal.

Where businesses or subsidiaries 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.

2 OVERSEAS CURRENCIES

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

Exchange differences arising on the retranslation of the net investments in overseas subsidiaries, 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.

3 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.

4 EXTRAORDINARY ITEMS

Reorganisation costs charged as extraordinary items relate to the net costs of closure, disposal or relocation of a significant and identifiable part of a business. Other reorganisation costs are charged against operating profit.

5 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.

6 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.

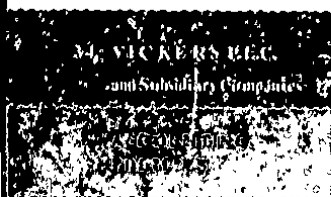
Other plant and equipment is depreciated, mainly in equal annual instalments, so as to write off the cost of such assets over their estimated useful lives. These lives are reviewed on a regular basis. The depreciation rates used are:

	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.

Capital grants are deducted from the cost of the relevant fixed assets. Other grants are taken to profit in the year in which they are received.



7 TAXATION

The charge for taxation is based upon the profit for the year and takes into account deferred taxation on timing differences except where there is reasonable probability that no such taxation will become payable in the foreseeable future.

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 for the period.

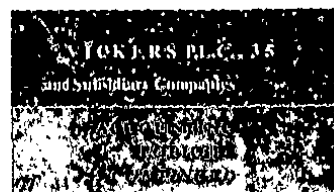
No provision is made for United Kingdom and foreign taxation which would arise in the event of the distribution of the retained profits of overseas subsidiaries unless such distribution is proposed.

8 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.

9 PENSION FUNDING

The Company and its major subsidiaries 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 are allocated over the average remaining service lives of current employees.



1 ACQUISITIONS AND DISPOSALS

(a) Acquisition of Ross Catherall Group PLC.

The fair value of the consideration was £106.2m (cash £91.4m, loan notes £14.8m) giving rise to goodwill of £72.6m.

	Book value £m	Revaluation £m	Provisions £m	Fair value to the Group £m
Fixed Assets				
Tangible	7.5	3.5 (i)	—	11.0
Investments	0.2	—	(0.2)	—
Current Assets				
Stock	7.7	—	—	7.7
Debtors	10.8	—	—	10.8
Investments	10.1	—	—	10.1
Cash at Bank	7.0	—	—	7.0
Total Assets	43.3	3.5	(0.2)	46.6
Liabilities				
Provisions	(0.4)	—	—	(0.4)
Creditors	(6.8)	—	(0.2) (ii)	(7.0)
Taxation	(3.9)	—	—	(3.9)
Total liabilities	(11.1)	—	(0.2)	(11.3)
Net Assets	32.2	3.5	(0.4)	35.3

Notes (i) Increase in the value of freehold land and buildings arising from the property valuation carried out as at 30 November 1989.

(ii) Provision for potential pension liability.

(b) Disposal of the Howson-Algraphy Division.

The profit arising on the disposal of the Howson-Algraphy Division, after allowing for taxation and disposal expenses, was £125.8m and has been dealt with in Extraordinary Items. Goodwill arising on businesses forming part of that Division had been written off to reserves at the date of acquisition, and it is now impractical to determine the amount of this purchased goodwill.

2 OPERATING PROFIT

	1989 £m	1988 £m
Turnover	695.7	776.3
Cost of sales	(512.0)	(553.6)
Gross profit	183.7	222.7
Administrative expenses	(114.7)	(133.0)
Distribution costs	(9.2)	(18.9)
Other operating income	5.3	5.2
Operating profit	65.1	76.0
After charging:		
Research and development	21.0	22.3
Depreciation	21.2	23.0
Auditors' remuneration	0.8	0.9
Operating lease charges:		
Hire of plant and machinery	0.7	1.2
Other lease charges	4.7	5.2
After crediting:		
Rental income, less outgoings, from properties	0.6	0.2
Profit on disposal of fixed assets	2.1	6.1

3 NET INTEREST RECEIVABLE (PAYABLE) AND INVESTMENT INCOME

	1989 £m	1988 £m
Interest payable and similar charges:		
Borrowings totally repayable within one year	(5.3)	(5.0)
Borrowings totally repayable between one and five years	(5.2)	(4.5)
All other borrowings	(0.5)	(0.7)
	<u>(11.0)</u>	<u>(10.2)</u>
Interest capitalised	1.0	0.6
Interest receivable	27.3	2.0
Investment income	0.2	0.2
	<u>17.5</u>	<u>(7.4)</u>

Interest payable on finance leases included above amounted to £0.2m (1988: £0.2m).

4 TAXATION

	1989 £m	1988 £m
United Kingdom taxation:		
Corporation Tax	13.8	12.5
Deferred taxation	0.8	(0.1)
Overseas taxation:		
Current taxation	9.4	7.6
Deferred taxation	(0.7)	0.1
Prior years	(0.7)	(0.9)
Related companies	0.4	0.5
	<u>23.0</u>	<u>19.7</u>

The United Kingdom Corporation Tax charge computed at 35% (1988: 35%) has been reduced by £8.7m (1988: £6.2m) due to utilisation of Advance Corporation Tax previously written off.

5 EXTRAORDINARY ITEMS

The following amounts, which derive from events outside the ordinary activities of the Group, have been classified as extraordinary items:

	1989 £m	1988 £m
Profits on disposal of businesses	148.6	6.9
Losses on disposal and closure of businesses	(3.4)	(13.5)
Relocation costs	—	(0.2)
	<u>145.2</u>	<u>(6.8)</u>
Taxation—U.K.	(23.7)	—
—Overseas	(1.2)	—
	<u>120.3</u>	<u>(6.8)</u>

The taxation charge on the extraordinary items has been reduced by £24.2m due to utilisation of Advance Corporation Tax previously written off.

VICKERS LTD 37
and Subsidiary Companies
NOTES TO THE
ACCOUNTS
CONTINUED

6 DIVIDENDS

	1989	1988
	£m	£m
Preference, paid April and October	0.4	0.4
Ordinary:		
Interim of 3.3p (4.4p gross), paid November 1989	8.5	7.4
Proposed final of 5.6p (7.5p gross), payable May 1990	14.5	11.8
	<u>23.4</u>	<u>19.6</u>

7 RETAINED PROFIT

	1989	1988
	£m	£m
The Company	14.8	31.3
Group companies	41.9	(8.3)
	<u>156.7</u>	<u>23.0</u>
Related companies	0.6	0.3
	<u>157.3</u>	<u>23.3</u>

8 EARNINGS PER SHARE

The calculation of earnings per 50p Ordinary Share is based on the profit after taxation and before extraordinary items of £60.4m (1988: £49.7m) less the preference dividends of £0.4m (1988: £0.4m) and the average number of Ordinary Shares ranking for dividend of 257,524,574 (1988: 255,595,484). Fully diluted earnings per share would not be materially different.

9 DIRECTORS AND EMPLOYEES

(a) Directors' Interests

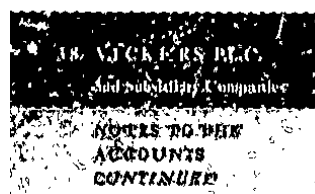
Interests in the share capital of the Company beneficially held by members of the Board of Directors, or their families, are detailed below:

	At 31 December 1989			At 1 January 1989		
	Ordinary Shares	Option Schemes	Savings Related	Ordinary Shares	Option Schemes	Savings Related
		Executive			Executive	
Sir David Plastow	13,737	286,000	9,986	13,737	436,000	8,114
Sir Richard Lloyd, Bt.	1,250	—	—	1,250	—	—
Sir Colin Chandler	2,000	—	—	—	—	—
Mr. C. W. Foreman	41,562	130,500	9,986	41,562	230,500	8,114
Mr. R. B. Head	1,250	146,375	9,986	1,250	183,875	8,114
H.R.H. The Duke of Kent	1,000	—	—	1,000	—	—
Mr. D. J. Kingsbury	11,562	—	—	1,562	—	—
Mr. D. L. Mawson	—	—	—	—	—	—
Dr. A. D. McCann	50,000	68,750	8,114	50,000	207,500	8,114
Mr. J. M. Raisman	1,562	—	—	1,562	—	—
Mr. M. G. Taylor	1,250	—	—	1,250	—	—
Mr. R. O. Taylor	1,875	82,500	8,114	1,875	207,500	8,114

Information in respect of the subscription prices and exercise dates under the Share Option Schemes is set out in Note 17.

Mr. D. L. Mawson has purchased 1,000 Ordinary Shares following his appointment to the Board on 21 December 1989 and has exchanged his options under the Ross Catherall Group Plc Executive Share Option Scheme 1989 for 92,550 options under the Company's Executive Share Option Scheme. There have been no other changes in the above-mentioned holdings since the end of 1989.

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



(b) Directors' and Employees' Emoluments	1989	1988
	£	£
Emoluments of Directors		
Fees	43,333	50,000
Other emoluments	1,192,313	860,620
Compensation to a former Director in respect of loss of office	—	50,000
Pensions and pension contributions (including £210,000 in 1988 in respect of a former Director)	228,432	368,584
Emoluments of the Chairman (and highest paid Director)	406,996	295,517

The following table shows, in bands, the emoluments of other Directors and of those employees in the United Kingdom whose emoluments exceeded £30,000 in the year, excluding Company pension contributions:

Emoluments £	Other Directors		Employees	
	1989	1988	1989	1988
5,001 to 10,000	4	5		
10,001 to 15,000	1	—		
15,001 to 20,000	1	—		
25,001 to 30,000	—	1		
30,001 to 35,000	1	—	20	21
35,001 to 40,000	—	—	17	16
40,001 to 45,000	—	—	21	11
45,001 to 50,000	—	—	16	17
50,001 to 55,000	—	—	8	9
55,001 to 60,000	—	—	6	—
60,001 to 65,000	—	—	6	4
65,001 to 70,000	—	—	1	5
70,001 to 75,000	—	—	8	5
75,001 to 80,000	—	—	5	—
80,001 to 85,000	—	—	1	—
95,001 to 100,000	—	—	1	—
100,001 to 105,000	—	—	—	1
105,001 to 110,000	—	2	—	1
110,001 to 115,000	—	—	1	—
115,001 to 120,000	—	—	—	1
120,001 to 125,000	—	—	2	1
130,001 to 135,000	—	1	—	—
140,001 to 145,000	1	—	—	—
150,001 to 155,000	1	—	—	—
160,001 to 165,000	—	—	—	1
170,001 to 175,000	1	—	—	—
185,001 to 190,000	—	1	—	1
245,001 to 250,000	1	—	—	—

One Director received emoluments totalling £4,391 and another Director waived emoluments totalling £4,164.

(c) Number of Employees

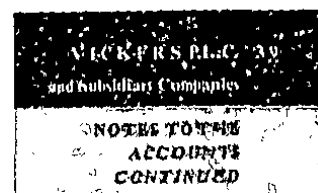
The average number of employees during the year was made up as follows:

Production	4,924	5,948
Selling, distribution and administration	7,314	9,593
	12,238	15,541

(d) Employment costs

Employee costs, including those of Executive Directors and senior employees:

	£m	£m
Wages and salaries	194.1	206.7
Social security costs	19.3	24.9
Other pension costs	1.3	2.7
	214.7	234.3



10 TANGIBLE ASSETS

	Land and buildings £m	Plant, machinery and vehicles £m	Office furniture and equipment £m	Tooling £m	Construction in progress £m	Total £m
(a) Group						
Gross book value						
At 1 January 1989	90.3	113.8	24.9	34.8	12.6	276.4
Exchange adjustment	2.0	3.1	0.8	0.5	—	6.4
Capital expenditure	1.1	18.1	6.0	10.6	8.3	44.1
Acquisitions of businesses	6.1	4.2	0.2	—	0.5	11.0
Transfers	(2.6)	6.5	0.4	—	(4.3)	—
Revaluations	52.8	—	—	—	—	52.8
Disposals	(0.5)	(3.8)	(0.2)	(0.2)	(1.6)	(6.3)
Disposals of businesses	(21.7)	(44.6)	(6.6)	(5.3)	(0.2)	(78.4)
At 31 December 1989	127.5	97.3	25.5	40.4	15.3	306.0
Depreciation						
At 1 January 1989	15.9	61.7	12.9	20.6	—	111.1
Exchange adjustment	0.6	1.8	0.4	0.3	—	3.1
Provided during the year	3.5	10.5	3.9	3.3	—	21.2
Write-back on revaluations	(12.2)	—	—	—	—	(12.2)
Disposals	(0.3)	(2.8)	(0.2)	(0.1)	—	(3.4)
Disposals of businesses	(3.4)	(22.5)	(3.9)	(3.0)	—	(32.8)
At 31 December 1989	4.1	48.7	13.1	21.1	—	87.0
Net book value at 31 December 1989						
Owned assets	123.4	44.9	12.2	19.3	15.3	215.1
Leased assets	—	3.7	0.2	—	—	3.9
Total	123.4	48.6	12.4	19.3	15.3	219.0
Net book value at 31 December 1988	74.4	52.1	12.0	14.2	12.6	165.3

Net book value includes net interest capitalised of £1.6m (1988: £1.2m).

(b) Company

Gross book value						
At 1 January 1989	42.4	47.5	10.0	2.9	6.1	108.9
Capital expenditure	0.6	3.0	2.5	0.3	0.4	6.8
Transfers	—	6.1	—	—	(6.1)	—
Revaluations	13.8	—	—	—	—	13.8
Disposals	(0.3)	(2.0)	(0.2)	(0.2)	—	(2.7)
Disposals of businesses	(15.6)	(31.7)	(3.7)	(2.4)	—	(53.4)
At 31 December 1989	40.9	22.9	8.6	0.6	0.4	73.4
Depreciation						
At 1 January 1989	6.2	26.4	5.9	1.5	—	40.0
Provided during the year	1.6	3.4	1.4	0.4	—	6.8
Write-back on revaluations	(3.8)	—	—	—	—	(3.8)
Disposals	—	(1.5)	—	(0.2)	—	(1.7)
Disposals of businesses	(2.4)	(16.2)	(2.6)	(1.2)	—	(22.4)
At 31 December 1989	1.6	12.1	4.7	0.5	—	18.9
Net book value at 31 December 1989						
Owned assets	39.3	8.7	3.9	0.1	0.4	52.4
Leased assets	—	2.1	—	—	—	2.1
Total	39.3	10.8	3.9	0.1	0.4	54.5
Net book value at 31 December 1988	36.2	21.1	4.1	1.4	6.1	68.9

(c) Land and Buildings

The gross book value of land and buildings at the end of the year comprises:

	Group			Company		
	Long		Short	Long		Short
	Freehold	leasehold	leasehold	Freehold	leasehold	leasehold
	£m	£m	£m	£m	£m	£m
Cost	6.5	2.2	1.0	0.8	—	0.5
Valuation as at 30 November 1988	114.5	3.3	—	38.0	1.6	—
	121.0	5.5	1.0	38.8	1.6	0.5

On an historical cost basis land and buildings would have been included as follows:

	Group	Company
	£m	£m
Cost	68.9	26.1
Accumulated depreciation	(11.8)	(4.5)
Net book value at 31 December 1989	57.1	21.6

(d) Analysis of Depreciation Charge

	1989	1988
	£m	£m
Depreciation on owned assets	19.9	21.0
Depreciation on leased assets	1.3	2.0
Depreciation provided during the year	21.2	23.0

11 INVESTMENTS - GROUP COMPANIES

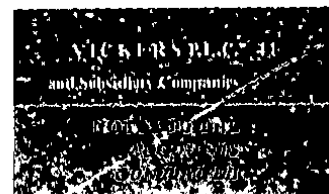
	Cost	Provisions	Net
	£m	£m	£m
At 1 January 1989	140.8	(11.5)	129.3
Acquisitions	109.0	—	109.0
At 31 December 1989	249.8	(11.5)	238.3

A list of principal subsidiary companies is given on page 49.

12 OTHER INVESTMENTS

	Group			Company		
	Related	Other	Total	Related	Other	Total
	Companies	Investments		Companies	Investments	
	£m	£m	£m	£m	£m	£m
At 1 January 1989	14.1	4.2	18.3	1.9	3.6	5.5
Acquisitions	—	0.1	0.1	—	0.1	0.1
Share of retained profits for the year	0.3	—	0.3	—	—	—
Disposals	—	(1.5)	(1.5)	—	(0.8)	(0.8)
At 31 December 1989	14.4	2.8	17.2	1.9	2.9	4.8

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



13 STOCKS AND WORK IN PROGRESS

	Group		Company	
	1989	1988	1989	1988
	£m	£m	£m	£m
Long term contract work in progress	75.1	70.8	68.3	58.7
Instalments on account	(62.0)	(39.1)	(56.5)	(28.9)
	13.1	31.7	11.8	29.8
Other work in progress	49.4	43.5	6.4	7.2
Instalments on account	(6.8)	(4.4)	(2.8)	(1.6)
	42.6	39.1	3.6	5.6
Net work in progress	55.7	70.8	15.4	35.4
Materials, bought out components and general stores	39.5	40.3	2.3	7.4
Finished goods	36.8	51.4	0.2	8.3
Total stocks and work in progress	132.0	162.5	17.9	51.1

Instalments in advance of contract expenditure have been shown separately within current liabilities.

14 DEBTORS

	Group		Company	
	1989	1988	1989	1988
	£m	£m	£m	£m
Amounts falling due within one year:				
Trade debtors	105.4	120.3	23.5	44.4
Amounts owed by Group companies	—	—	64.0	74.5
Other debtors	7.6	8.9	2.0	5.5
Prepayments and accrued income	7.4	4.3	3.8	0.9
	120.4	133.5	93.3	125.3
Amounts falling due after more than one year:				
Trade debtors	0.2	1.9	—	0.2
Other debtors	8.2	9.6	8.1	9.6
Prepayments	6.8	—	6.8	—
	135.6	145.0	108.2	135.0

During 1989 an amount of £20,000 was outstanding in respect of a relocation loan made to Mr. R. B. Head prior to his appointment as a Director. The loan bears interest at the rate of 2½% per annum and is repayable in full by 13 April 1993. At the year end £18,000 was outstanding in respect of a relocation loan made to an officer of the Company.

VICKERS
and Subsidiary Companies

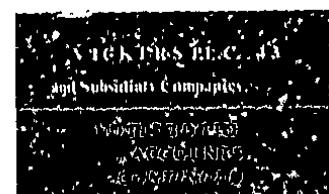
REGISTERED OFFICE
VICKERS LTD
10, ABINGDON ROAD
OXFORD OX2 0AP

15 CREDITORS

	Group		Company	
	1989	1988	1989	1988
	£m	£m	£m	£m
Amounts falling due within one year:				
Loans and overdrafts	42.6	21.5	34.8	13.5
Obligations under finance leases	1.0	1.9	0.5	1.5
Borrowings	43.6	23.4	35.3	15.0
Instalments in advance of contract expenditure	11.3	8.4	9.7	7.2
Trade creditors	53.2	73.8	18.0	37.0
Amounts owed to Group companies	—	—	65.6	34.2
Loan from related company	10.8	10.8	10.8	10.8
Accruals and deferred income	34.6	32.6	6.6	8.9
Taxation on profits	47.7	16.4	28.3	8.4
Other taxation and social security	4.5	5.4	1.1	1.7
Proposed dividend	14.7	12.0	14.7	12.0
Other creditors	27.1	28.9	4.2	5.6
Other liabilities	203.9	188.3	159.0	125.8
Total amounts falling due within one year	247.5	211.7	194.3	140.8
Amounts falling due after more than one year:				
Borrowings under medium term committed facilities	43.4	52.7	40.1	47.9
Obligations under finance leases	0.9	1.5	0.3	0.9
Borrowings	44.3	54.2	40.4	48.8
Amounts owed to Group companies	—	—	—	0.2
Taxation on profits	3.7	0.6	2.8	—
Other creditors	7.8	6.3	1.1	1.5
Other liabilities	11.5	6.9	3.9	1.7
Total amounts falling due after more than one year	55.8	61.1	44.3	50.5
Borrowings repayable in:				
One to two years	16.2	1.7	15.0	0.6
Two to five years	26.6	50.6	25.4	48.2
Over five years 1995–2008	1.5	1.9	—	—
	44.3	54.2	40.4	48.8
Not wholly repayable within five years	2.1	3.5	—	—

Borrowings of Group companies are secured, by way of charges on fixed assets, to the extent of £3.0m (1988: £3.4m). The Company's borrowings are unsecured.

Interest rates on borrowings are based on margins over variable lending rates.



16 PROVISIONS FOR LIABILITIES AND CHARGES

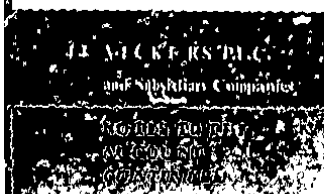
Group	Warranty £m	Acqui- sitions £m	Reorgan- isation £m	Other liabilities £m	Deferred taxation £m	Total £m
At 1 January 1989	14.3	1.4	2.8	6.1	0.1	24.7
Exchange adjustment	0.7	—	0.1	0.4	(0.1)	1.1
Provided	15.4	1.0	2.0	9.3	—	27.7
Used	(9.5)	(1.6)	(2.3)	(1.2)	—	(14.6)
Released	(1.2)	—	(0.5)	(3.0)	(0.1)	(4.8)
Acquisitions of businesses	—	—	—	0.1	0.3	0.4
Disposals of businesses	—	—	(0.2)	(0.5)	(0.5)	(1.2)
Transfer from revaluation reserve	—	—	—	—	7.2	7.2
At 31 December 1989	19.7	0.8	1.9	11.2	6.9	40.5
Company						
At 1 January 1989	1.6	0.8	1.2	0.7	—	4.3
Provided	1.4	1.0	1.8	4.8	0.5	9.5
Used	(0.4)	(1.2)	(1.8)	(0.2)	—	(3.6)
Released	(0.3)	—	(0.3)	(0.5)	—	(1.1)
At 31 December 1989	2.3	0.6	0.9	4.8	0.5	9.1

	Group		Company	
	1989	1988	1989	1988
	£m	£m	£m	£m
Deferred taxation				
Excess capital allowances over accumulated depreciation	2.7	1.2	1.7	—
Provided against property sales	7.2	0.6	—	—
Advance Corporation Tax	(1.2)	(1.3)	(1.2)	—
Other timing differences-overseas	(1.8)	(0.4)	—	—
	6.9	0.1	0.5	—

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	14.6	19.3	5.2	10.9
Other timing differences	(5.2)	(5.0)	(2.4)	(2.5)
Capital gains on revaluation of properties and rolled over gains	19.8	4.5	8.4	4.3
	29.2	18.8	11.2	12.7
Advance Corporation Tax	(5.2)	(13.1)	(5.2)	(9.1)
	24.0	5.7	6.0	3.6

Advance Corporation Tax not yet utilised, amounting to £6.4m (1988: £37.6m), including that shown above, has been written off in the year in which it has arisen and is available for the reduction of liabilities to Corporation Tax in future years.



17 SHARE CAPITAL

	Group and Company			
	Authorised		Issued	
	1989	1988	1989	1988
	£m	£m	£m	£m
Preferred 5% Stock (now 3.5% plus tax credit)	0.8	0.8	0.8	0.8
5% Preference Stock (now 3.5% plus tax credit)	0.7	0.7	0.7	0.7
Cumulative Preference Shares and Stock (now 5% plus tax credit)	7.0	7.0	6.9	6.9
	8.5	8.5	8.4	8.4
Ordinary Shares of 50p each	182.5	182.5	129.5	128.1
Authorised share capital	191.0	191.0		
Share capital, allotted, called up and fully paid			137.9	136.5

The three Preference classes are of £1 units.

The number of Ordinary Shares in issue at 31 December 1989 was 259,150,308 (1988: 256,193,592).

During the year ended 31 December 1989:-

(a) 2,956,716 Shares, with a nominal value of £1.4m, were issued for a total consideration of £3.4m on the exercise of options under the Company's Share Option Schemes and

(b) the following options were granted:-

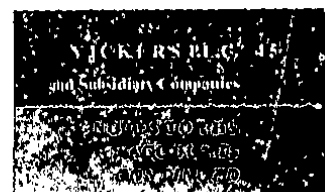
- on 15 March to 4 participants over 80,000 Shares at a subscription price of 192p under the terms of the Approved Share Option Scheme;
- on 31 October to 17 participants over 448,000 Shares at a subscription price of 213p under the terms of the Approved Share Option Scheme;
- on 31 March to 360 participants over 382,339 Shares at a subscription price of 167.7p under the terms of the Savings-Related Share Option Scheme; and
- on 2 November to 1,001 participants over 1,235,918 Shares at a subscription price of 192.3p under the terms of the Savings-Related Share Option Scheme.

At 31 December 1989 options had been granted and were still outstanding in respect of Ordinary Shares under the following Schemes:

	Number of Shares	Range of Subscription Prices	Exercisable
Approved Share Option Scheme	4,508,000	104.0p-213.0p	1990-1999
Savings-Related Share Option Scheme	8,058,854	91.2p-200.7p	1990-1994

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

As permitted by Section 228(7) of the Companies Act 1985, the Profit and Loss Account of the Company is not presented as part of these Accounts. The profit before extraordinary items of the Company amounted to £27.4m (1988: £57.3m).



19 RESERVES

Group	Share Premium £m	Revaluation Reserve £m	Profit and Loss Account £m	Related Companies' Reserves £m
At 1 January 1989	22.3	13.1	59.0	11.6
Exchange adjustment	—	—	2.4	—
Retained profit for the year	—	—	156.7	0.6
Premium on share issues	2.0	—	—	—
Goodwill written off	—	—	(74.9)	—
Reserves reclassified	—	(5.8)	5.8	—
Revaluation of land and buildings	—	57.8	—	—
Realisation of revaluation on disposals	—	(0.1)	—	—
At 31 December 1989	24.3	65.0	149.0	12.2

The amount of unrealised exchange losses (net of gains) on net borrowings at 31 December 1989 included in reserves amounted to £2.7m.

The revaluation surplus of £65.0m on land and buildings has been credited to the Revaluation Reserve net of deferred tax of £7.2m.

Company	Share Premium £m	Revaluation Reserve £m	Profit and Loss Account £m
At 1 January 1989	22.3	5.2	50.1
Retained profit for the year	—	—	114.8
Premium on share issues	2.0	—	—
Reserves reclassified	—	(4.4)	4.4
Revaluation of land and buildings	—	17.6	—
At 31 December 1989	24.3	18.4	169.3

20 CAPITAL COMMITMENTS

	Group		Company	
	1989 £m	1988 £m	1989 £m	1988 £m
Outstanding contracts for capital expenditure	9.9	21.5	1.0	0.9
Further capital expenditure authorised	7.4	4.4	0.2	0.6
	17.3	25.9	1.2	1.5

21 OPERATING LEASE COMMITMENTS

	Property Leases £m	Other Operating Leases £m
Annual rentals payable on leases expiring:		
Within one year	0.5	1.0
Between two and five years	1.3	2.1
Beyond five years	1.9	0.1
	3.7	3.2

22 SOURCE AND APPLICATION OF FUNDS — Supplementary Information

	1989		1988	
	Acquisitions	Disposals	Acquisitions	Disposals
	£m	£m	£m	£m
Tangible fixed assets	11.0	45.6	5.2	26.6
Goodwill	74.9	—	7.3	—
Stocks	7.7	35.9	6.8	29.5
Debtors	10.8	52.9	5.6	39.1
Creditors	(11.3)	(43.1)	(5.4)	(29.7)
Minority interests	(0.2)	(1.3)	—	—
Cost of acquisitions	92.9		19.5	
Net assets disposed of		90.0		65.5

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 subsidiaries totalling £6.6m (1988: £5.9m).

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 significant loss in excess of the amounts provided.

24 PENSIONS

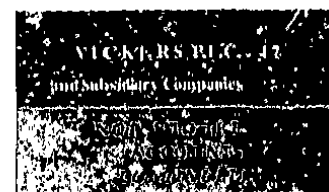
The Group operates a number of pension schemes both in the United Kingdom and overseas. The major schemes are the two main schemes established in the United Kingdom, the Vickers Group Pension Scheme ("VGPS") and the Rolls-Royce Motors Pension Fund ("RRMPF") covering approximately 5,400 employees and 5,600 employees respectively. Both are defined benefit schemes, and the pension costs relating to these Schemes are assessed in accordance with the advice of qualified independent actuaries using the Projected Unit Cost Method. The assets of these Schemes are held in separate trustee administered funds.

There are 11 schemes in place in the Group's overseas companies, of which 9 are defined benefit schemes and 2 defined contribution schemes. None of the schemes is material in a Group context, and all of the defined benefit schemes have a surplus of accumulated fund assets over accrued liabilities.

These overseas schemes cover approximately 82% of eligible employees.

The pension charge for the year has been reduced as a result of the significant disposal of businesses in both 1988 and 1989, and by the introduction of SSAP24 ("Accounting for Pension Costs"). The net pension charge for the Group was £1.3m (1988: £2.7m) of which £1.0m (1988: £1.1m) relates to the overseas schemes.

At the date of the last actuarial valuations (April 1989) the market value of the VGPS and RRMPF assets was £393m, and the actuarial value of these assets was 133% of the benefits that had accrued to members. The actuarial surpluses on these Schemes totalled £86.4m at that date, and, on the advice of the respective actuaries, Group funding of these Schemes will remain suspended until the next actuarial valuations. 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 3% per annum. Differences between the amounts charged in the Accounts and the amounts transferred to the Schemes are shown in Note 14 (included in Prepayments falling due after more than one year) and in Note 15 (included in Other Creditors falling due after more than one year).



SOURCE OF FUNDS

	1989		1988	
	£m	£m	£m	£m
Profit after interest	83.6		69.8	
Dividend from related company	0.3		0.4	
	83.9		70.2	
Items not involving the movement of funds				
Depreciation	21.2		23.0	
Income from related companies	(1.0)		(1.2)	
Minority interests	(0.1)		—	
Currency variations	(0.2)		0.8	
Total generated from operations	103.8		92.8	
Funds from other sources				
Shares issued	3.4		1.4	
Disposal of fixed assets	2.7		11.3	
Disposal of investments	1.5		2.0	
Disposal and closure of businesses				
—net assets disposed of	90.0		65.5	
—extraordinary profits (losses)	145.2		(6.8)	
		346.6		166.2

APPLICATION OF FUNDS

Dividends paid	(20.7)	(18.0)
Tax paid	(16.3)	(15.1)
Purchase of fixed assets	(44.1)	(35.9)
Provisions	7.0	0.9
Other investments	(0.1)	(1.5)
Acquisitions (net of cash acquired)	(92.9)	(19.5)
	(167.1)	(89.1)
Movement in working capital		
Stocks and work in progress	2.3	(31.1)
Debtors	(32.7)	(18.6)
Creditors	19.1	7.6
	(178.4)	(131.2)
	168.2	35.0

MOVEMENT IN NET BORROWINGS

Net borrowings at 1 January	27.5	62.5
Increase/(decrease) in long term loans	(9.3)	0.9
Decrease in finance lease obligations	(1.5)	(4.3)
Decrease in short term borrowings		
net of cash at bank	(157.4)	(31.6)
	(168.2)	(35.0)
Net (cash)/borrowings at 31 December	(140.7)	27.5

ROLLS-ROYCE MOTOR CARS

*Rolls-Royce Motor Cars Limited, Crewe.

Mulliner Park Ward Division, London

*Rolls-Royce Motor Cars Incorporated, Lyndhurst, New Jersey, U.S.A.

*Rolls-Royce Motor Cars International S.A., St.-Prex, Switzerland.

*Cantieri Riva S.p.A., Lake Isco, Italy.

DEFENCE AND AEROSPACE

Vickers Defence Systems, Leeds and Newcastle upon Tyne.

Ross Catherall Group PLC, Killamarsh, Sheffield.

*Ross & Catherall Limited, Killamarsh, Sheffield.

Vickers Precision Components, Crewe and Shrewsbury

*Ross Catherall Ceramics Limited, Denby, Derby.

*Truecast Limited, Ryde, Isle of Wight.

*Certified Alloy Products Incorporated, Long Beach, California, U.S.A.

MEDICAL

Air-Shields Vickers, Inc., Hatboro, Pennsylvania, U.S.A.

*Air-Shields, Inc., Hatboro, Pennsylvania, U.S.A.

Air-Shields Vickers, U.K., Basingstoke.

Medelec Limited, Woking.

*S & W Medico Teknik A/S, Albertslund, Denmark.

*TECA Corporation, Pleasantville, New York, U.S.A.

Vickers Medical International, Basingstoke.

*Études et Constructions Electro-Mécaniques et Médicales, S.A., Lognes, France.

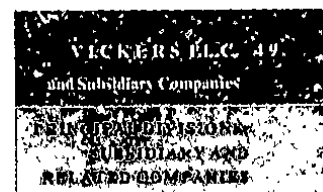
*Medelec Belgium, N.V., Antwerp, Belgium.

*Medelec Espana S.A., Madrid, Spain.

S & W Vickers Limited, Sidcup.

*S & W Elektromedizin G.m.b.H., Munich, West Germany.

*Vickers Medical Italia S.p.A., Milan, Italy.



MARINE ENGINEERING

Vickers Marine.

Brown Brothers & Company Limited, Edinburgh.

Michell Bearings, Newcastle upon Tyne.

Stone Vickers Limited, Greenwich.

*Jered Brown Brothers Inc., Troy, Michigan, U.S.A.

*KaMeWa A.B., Kristinehamn, Sweden.

OTHER ACTIVITIES

Crabtree Vickers, Leeds.

Vickers America, Inc., Lyndhurst, New Jersey, U.S.A.

Vickers Pressings, Newcastle upon Tyne.

Vickers Properties Limited, London.

RELATED COMPANY

Brown & Root Vickers Limited, London (30%)—balance held by Brown & Root (U.K.) Limited.

Note: There are excluded from the above list certain operating units which, in the opinion of the Directors, do not materially affect the results of Vickers P.L.C. The whole of the issued share capital of each of the companies shown is held by Vickers P.L.C. or, where indicated by an asterisk, by one of its wholly-owned subsidiary companies. All of the companies shown are incorporated, and operate principally, in the countries indicated.

NOTICE IS HEREBY GIVEN that the one hundred and twenty-third Annual General Meeting of the members of Vickers P.L.C. will be held at the Conference Hall, Millbank Tower, Millbank, London, SW1P 4RA, on Thursday, 26 April 1990, at 12 noon, and that the business to be brought before the meeting will be:

1. To approve the Accounts for the year ended 31 December 1989 together with the Reports of the Directors and Auditors thereon.
2. To declare a final dividend of 5.6p per Ordinary Share of 50 pence equivalent, with associated tax credit at the current rate, to 7.5p gross on the Ordinary Shares in respect of the year 1989, payable on 11 May 1990.
3. To re-elect as Directors:-
 - a. Sir Colin Chandler
 - b. Mr. D. L. Mawsonwho, having been appointed members of the Board of Directors since the last Annual General Meeting, retire under the terms of the Articles of Association.
4. To re-elect as Directors:-
 - a. Sir David Plastow
 - b. Mr. D. J. Kingsburywho retire by rotation under the terms of the Articles of Association.
5. To re-appoint KPMG Peat Marwick McLintock as Auditors of the Company and to resolve that their remuneration be agreed by the Directors.

As Special Business, to consider and, if thought fit, to pass the following Resolutions which will be proposed as Special Resolutions:

1. To resolve that:-
 - (a) the Directors be generally and unconditionally authorised pursuant to and in accordance with Section 80 of the Companies Act 1985 to exercise for the period ending upon the conclusion of the next Annual General Meeting or 1 July 1991, whichever shall be the earlier) all the powers of the Company to allot and to make offers or agreements to allot relevant securities up to an aggregate nominal amount of £43,000,000 provided that equity securities allotted or offered or agreed to be allotted wholly for cash otherwise than in connection with a rights issue shall not exceed the aggregate nominal amount of £6,475,000 being approximately 5 per cent. of the Company's issued Ordinary share capital as at 31 December 1989;
 - (b) the Directors be empowered to allot and to make offers or agreements to allot equity securities pursuant to and during the period of the said authority as if Section 89(1) of the said Act did not apply to any such allotment;
 - (c) the said authority and the said power shall allow and enable the Directors to make offers or agreements which would or might require the making of allotments after the expiry of the said period;
 - (d) the authorities and powers hereby conferred shall be in substitution for any previous such authority or power; and
 - (e) for the purposes of this Resolution:-
 - (i) "rights issue" means an offer of securities open for acceptance for a period fixed by the Directors to holders of Ordinary Shares on the Register on a fixed record date in proportion to their then holdings of such shares (but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory), and
 - (ii) words and expressions defined in or for the purposes of Part IV of the Companies Act 1985 shall in this Resolution bear the same meaning.
2. To resolve that the Articles of Association contained in the printed document to be submitted to this Meeting and, for the purpose of identification, signed by the Chairman thereof, be and the same are hereby adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association thereof.

By order of the Board,
Nicholas Bevins
Secretary
26 March 1990

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 24 April 1990.

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

Copies of Directors' service contracts (unless expiring, or determined 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 15 minutes prior to the Meeting and during the continuance thereof.

REGISTERED OFFICE

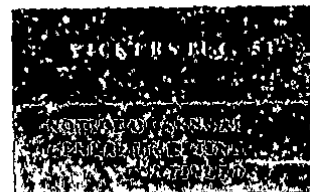
Vickers House,
Millbank Tower,
Millbank,
London, SW1P 4RA
Tel. no.: 01-828 7777*

REGISTERED IN LONDON
UNDER NO.3543

TRANSFER OFFICE

The Royal Bank of Scotland plc,
P.O. Box 435,
Oxen House,
8 Bankhead Crossway North,
Edinburgh, EH11 4BR
Tel. no.: 031-442 4111
and
29 Gresham Street,
London, EC2V 7HN
Tel. no.: 01-623 4356*

*The London code changes on 17 May 1990 to 071.



SHAREHOLDERS DIARY

1989 29 SEPTEMBER

Interim dividend for 1989 paid on:
Preferred 5% Stock
5% Preference Stock
Cumulative Preference Stock

3 NOVEMBER

Interim dividend for 1989 of 3.3p paid
per 50p Ordinary Share

1990 26 FEBRUARY

Final dividend recommendation for
1989 announced on Ordinary Shares,
together with results for year ended
31 December 1989

26 APRIL

123rd Annual General Meeting to be
held at the Conference Hall, Millbank
Tower, at 12 noon

26 MARCH

Report and Accounts posted to
Shareholders

11 MAY

Final dividend on Ordinary Shares, if
approved, to be paid to Shareholders
on the Register at 12 April 1990

30 MARCH

Final dividend for 1989 paid on:
Preferred 5% Stock
5% Preference Stock
Cumulative Preference Stock

SEPTEMBER

Results for the six months ending
30 June 1990 to be announced

ANALYSES OF ORDINARY SHAREHOLDERS

31 December 1989

CATEGORY	Number	%	Holding	%
Individuals	26,809	91.5	34,885,356	13.5
Banks and nominee companies	1,831	6.3	109,698,255	42.3
Investment companies	52	0.2	2,637,675	1.0
Insurance companies	127	0.4	24,887,962	9.6
Other companies	394	1.3	66,903,028	25.8
Pension funds	20	0.1	13,531,726	5.2
Universities, schools and other corporate bodies	72	0.2	5,606,306	2.6
	29,305	100	259,150,308	100

SIZE OF SHAREHOLDING

1-500	13,489	46.0	3,318,203	1.3
501-1,000	5,532	18.9	4,198,232	1.6
1,001-1,500	2,922	10.0	3,654,534	1.4
1,501-2,500	3,433	11.7	6,857,520	2.6
2,501-12,500	3,230	11.0	15,243,946	5.9
12,501-60,000	349	1.2	9,596,282	3.7
60,001-125,000	108	0.4	9,565,074	3.7
125,001-250,000	77	0.2	13,648,138	5.3
Over 250,000	165	0.6	193,068,379	74.5
	29,305	100	259,150,308	100