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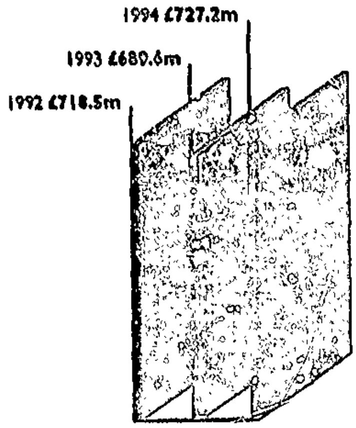
# VICKERS P.L.C.

# ANNUAL REPORT & ACCOUNTS 1994

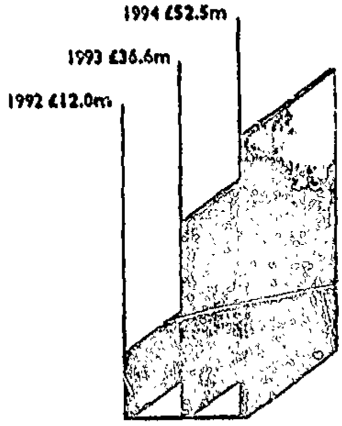
18-07-95

# HIGHLIGHTS OF FINANCIAL PERFORMANCE

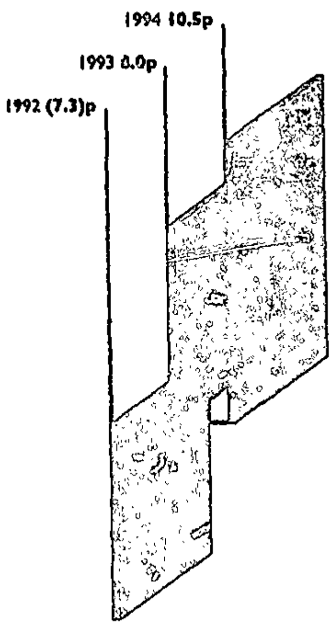
- **Operating Profit before restructuring costs increased by 43% from £36.6m to £52.5m.**
- **Turnover improved 5.5% from £689.6m to £727.2m. Group return on sales before restructuring costs up from 5.3% to 7.2%.**
- **Normalised earnings per share advanced by 31% from 8p to 10.5p.**
- **Dividend per 50p Ordinary Share up by 58% from 3p to 4.75p.**
- **Net cash at year end increased from £18.6m to £51.4m.**



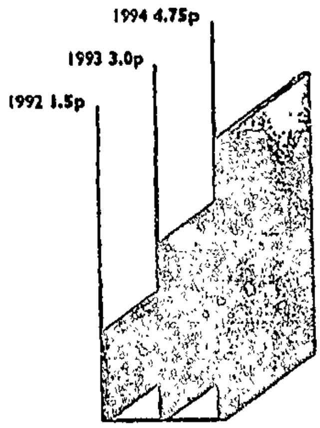

**Turnover**




**Operating Profit before restructuring costs**




**Normalised Earnings/(Loss) per Ordinary Share**




**Dividend per 50p Ordinary Share**

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# CHAIRMAN'S STATEMENT

THE PROFITS of your Company grew vigorously in 1994. Operating profit before restructuring costs was £52.5m (1993 £36.6m) and, after the restructuring costs and the loss on the disposal of a subsidiary totalling £9.1m, profit before tax was £44.8m (1993 £32.3m). The tax charge was £12.1m (1993 £6.6m), leaving profits after tax for 1994 of £32.7m (1993 £25.7m). Normalised earnings per share are calculated at 10.5p., a 31% improvement over the figure of 8.0p. achieved in 1993. Sir Colin Chandler explains the highlights of this year's results and activities in his Chief Executive's Operating Review.

### Increased sales and dividend

Vickers' 1994 sales improved by 5.5% over 1993 to £727.2m and it is a sign of the strengthening of the Company that the Group return on these sales before restructuring costs rose from 5.3% to 7.2%. Profits increased over 1993 in each of our core Divisions, except Medical.

It is against this background of progress and growth that the Board has decided to recommend to shareholders a final dividend of 3.0p (1993 1.75p). Together with the interim dividend of 1.75p, this makes a total for the year of 4.75p, an increase of 1.75p, or 58% on 1993. This dividend recommendation is consistent with the Board's declared policy of raising the rewards to shareholders broadly in proportion to the Company's growth in earnings, while maintaining dividend cover of at least twice normalised earnings (1994 2.2 times; 1993 2.6 times) so that the Company's growth can be sustained by investing retained earnings in the business.

### Cash and investment

Another noticeable feature of Vickers' 1994 performance has been our strong cash generation, again resulting in net cash at the year end. This positive cash position has given the Company the necessary scope to accelerate approvals of important investment proposals for new plant and projects and to consider acquisitions of complementary businesses. The investment by Cosworth in a new aluminium castings facility at Worcester is an example of the former, and our purchase of FF Jet in Finland to add on to KaMeWa's water jet propulsion activities is an example of the latter.

Being cash positive has also contributed to the confidence with which Vickers has entered into collaboration with BMW for the next generation of Rolls-Royce and Bentley models. It is through such investments, acquisitions and collaborations, that the way is being paved for the continued and successful rebuilding of Vickers under Sir Colin Chandler's leadership.

### Participative management and workforce

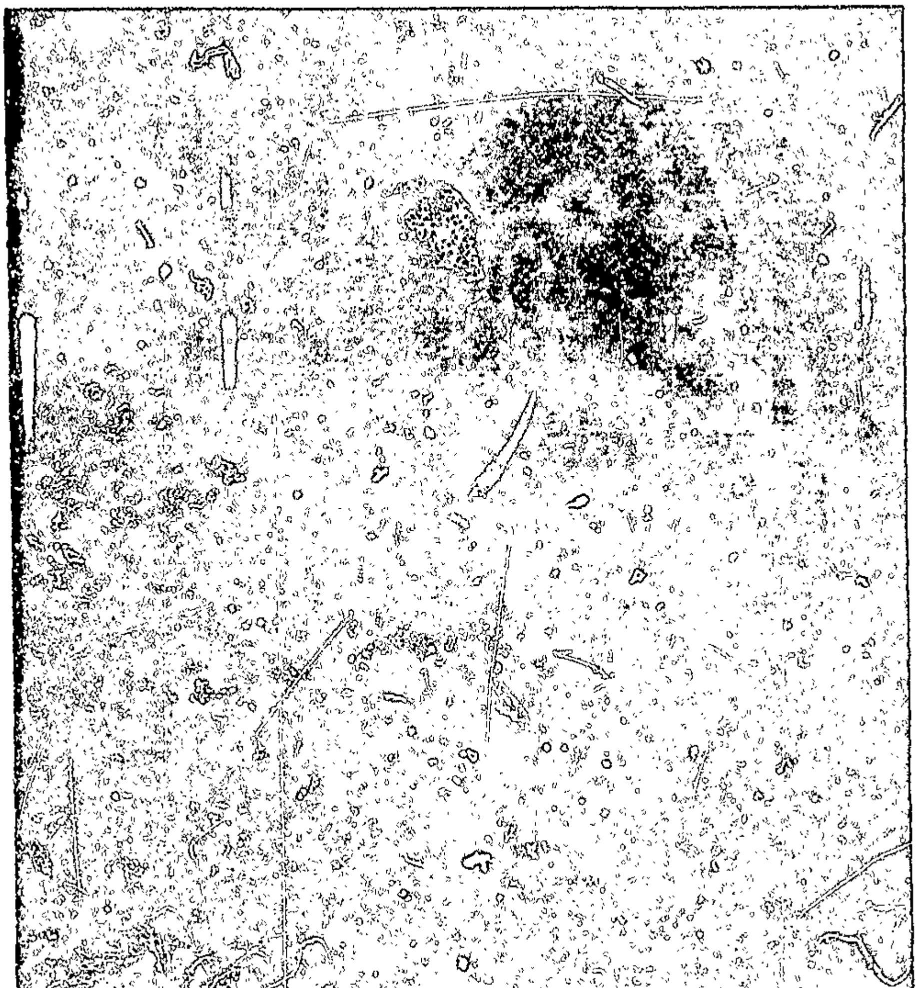
Sir Colin and his team have exercised determination in applying their deliberately participative method of management throughout the Company. The strategic direction of each business is shaped within a framework of consultation while maintaining the accountability of the line managements concerned. This ensures individual responsibility and maximises entrepreneurial enterprise within the overall context of Vickers' ownership and control.

I would like to commend to shareholders the unstinting efforts of all our executives, staff and workforce in achieving Vickers' success, which the Board recognises and for which it is extremely grateful.

### Board changes

There are some changes in your Board's membership to report to you. With the exception of Chairmen of committees of the Board, your Non-Executive Directors typically serve for six to nine years. Following this pattern, His Royal Highness The Duke of Kent is not offering himself for re-election at the Annual General Meeting. His Royal Highness joined the Board in 1987 and Vickers has been especially privileged to have had the benefit of his wise and knowledgeable counsel on international trade and military matters for eight years. We will greatly miss his contribution to our affairs and his good company, as will those many employees with whom he built up a natural rapport and understanding.

Sir Richard Lloyd, Bt.



The Board has appointed three new Directors who come up for election at the Annual General Meeting. On 1 June 1994, Andrew John was promoted to the Board as Commercial Director. On 7 October, Sipko Huismans, Chief Executive of Courtaulds, joined us as a Non-Executive Director. On 1 January 1995 Chris Woodwark was also promoted to the Board. The experience which all three bring to the Board greatly adds to its strengths. As already announced, Peter Ward, who played such a significant part in reviving the fortunes of Rolls-Royce Motor Cars, of which he remains Chairman, is relinquishing that appointment and his membership of the Board when he leaves Vickers later this year.

## Prospects

Following the very effective improvements which have been carried out in Vickers over the past two years, I am confident, given that the situation in our markets remains on its present course, that prospects for the Company in 1995 will continue to be encouraging and provide further growth for shareholders.

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## CHIEF EXECUTIVE'S OPERATING REVIEW

*DURING 1994, VICKERS continued to fulfil its promise to shareholders. Strong management, building on the financial and efficiency measures implemented during the previous year, continued to deliver real, tangible benefits – profit and earnings growth.*

*Two significant events underpinned the Group's future. The UK Government confirmed a follow-on order for 259 Challenger 2 tanks. In addition, the collaborative agreement between Rolls-Royce Motor Cars and BMW is exciting and holds much promise for the years ahead. A sound financial performance reflected a story of continuing recovery and growth in our core businesses, except Medical – and in some of our non-core ones as well. With a strong net cash position, the Group is poised to take advantage of attractive business opportunities as they arise.*

### A year of growth and achievement

Vickers' performance during 1994 saw the benefits accruing from the changes made during the previous year. Identification and control of constructive change is now continuous, and the ready acceptance of this unrelenting challenge by the management team is a significant factor in our achievements.

Against the background of Vickers' fundamental strengths – quality brand names that are market leaders – we worked hard at sharpening the competitive edge of our businesses. We are now seeing some global economic growth and benefits will flow through to Vickers' businesses, although not necessarily at the same speed due to the varying conditions in the market niches in which our businesses operate.

The financial performance of the Group continued on an upward path. Profit growth was healthy, with positive cash flow resulting in a strong year-end net cash position. Capital expenditure in the year, together with approved and committed expenditure at the end of the year, amounted to £43.2m and is expected to rise this year.

### Rolls-Royce Motor Cars

The collaborative agreement between Rolls-Royce Motor Cars and BMW should prove to be an extremely significant development for the future of the business. It will provide for the future supply of engines for Rolls-Royce and Bentley cars and offers the prospect of collaborative engineering over the longer term.

Rolls-Royce Motor Cars continued to refresh its existing range of models: evolutionary engineering was complemented by an increasing emphasis on limited edition niche and bespoke models. 1994 successes included the Rolls-Royce Flying Spur and the Bentley Turbo 'S'. Although unit sales growth appears modest – around 4% – a richer product mix meant increased profitability. This is expected to be an increasing trend for the future.

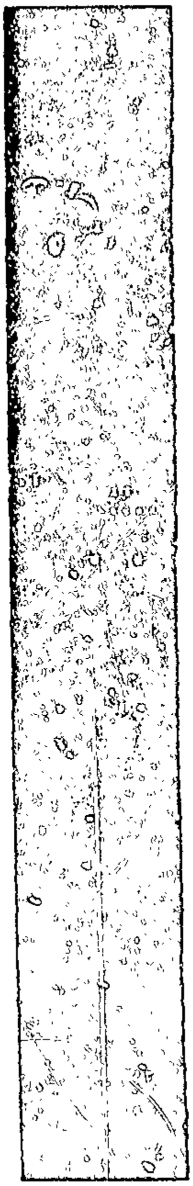
### Cosworth

Cosworth enjoyed a year of great achievement on the racing circuit and in its financial results. The 1994 Formula 1 drivers' world championship was won by Michael Schumacher in a Benetton-Ford using the Cosworth-developed Ford Zetec-R engine, while on the Indy circuit, Ford-Cosworth-powered cars scored four race victories.

The road engines business won other contracts to offset lower sales levels of the Ford Scorpio and RS Escort. Increasingly, Cosworth is supplying many specialist components as well as complete engines. 1994 was a turnaround year for the castings business: having won a valuable contract for the new Jaguar AJ26 engine, Cosworth is already investing in a new £8m facility.

### Defence Systems

1994 was a very successful year for Vickers Defence Systems. In May, Challenger 2 met the British Army's Formal Acceptance standards, an important and commendable achievement in its own right, which led directly to the MoD's confirmation of a follow-on order for an additional 259 Challenger 2s. The early timing of the follow-on order was particularly pleasing, as was the fact that it was placed in a single tranche. The Defence Systems Division's order book is now over £1.5 billion. Sadly however, even with this workload, we still needed a modest reduction in the workforce to make the business more competitive.



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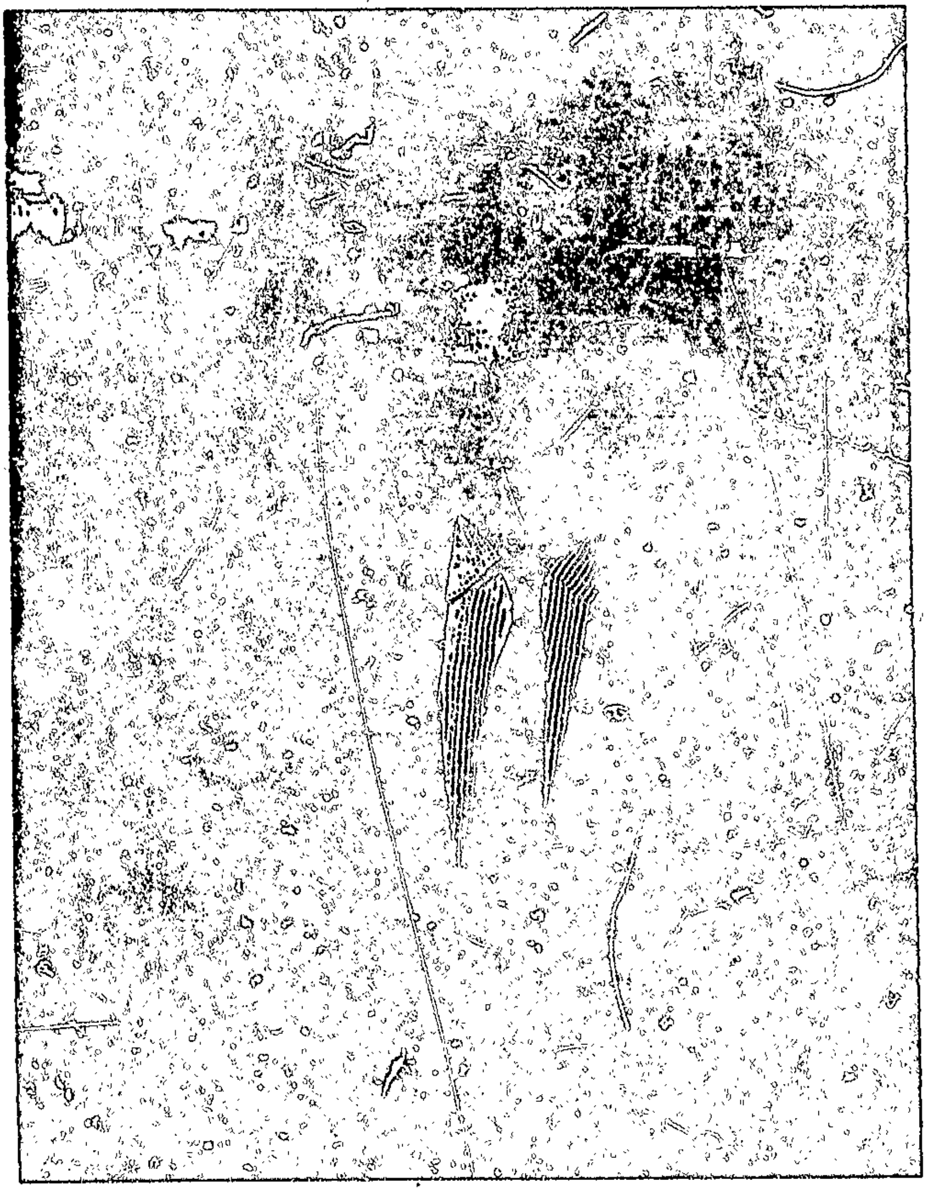
### Propulsion Technology

The decision taken late in 1993 to group the Company's aerospace and marine engineering businesses in a new division, Propulsion Technology, has made the operation more effective. The individual companies enjoyed mixed fortunes in 1994, but all are leaner, fitter and strongly placed in their respective markets to exploit growth opportunities.

The world aerospace market remained flat, although we still made a profit. Observers forecast that this market will recover strongly in 1996 and we are ready to take advantage when that happens. In contrast to aerospace, there was persistent growth in demand for turbocharger wheels, particularly for the car and light truck diesel market. The marine propulsion business continued to expand and featured an outstanding performance from KaMeWa.

Sir Colin Chandler



### Medical

Profits were down on 1993. However, the medical business took a number of initiatives to improve operating efficiency in 1994, notably reducing distribution costs in Europe. Uncertainty over the proposed health care reforms in the United States was translated into deferral of purchase decisions. Nevertheless, we still have the world's strongest neonatal intensive care business. The neuro-diagnostic business continued to perform well, holding its strong market position, but our monitoring equipment business faced difficulties in certain markets.

### Other activities

Brown Brothers made excellent progress in 1994, achieving record sales, profit and orders, whilst Jered Brown Brothers in the US set out to break-even after losses in 1993 and succeeded in beating this target.

### Growth continues......

Vickers continued to deliver growth during a rewarding 1994. The businesses moved forward purposefully and most reported improved profitability, taking advantage of the leaner structure and new culture introduced a year earlier. Vickers is now in a strong financial position. Our core businesses are market-leading, quality operations, poised to take full advantage of upturns in their respective markets. We look forward to growth continuing in 1995.

# OPERATING REVIEW

THE AUTOMOTIVE GROUPING, *comprising Rolls-Royce Motor Cars, Cosworth and Riva, overall enjoyed a year of growth and success. Building on the efficiency and productivity measures of the previous year, Rolls-Royce Motor Cars increased sales and profitability. Significantly, the company's long term future was secured by a collaborative agreement with BMW. Cosworth-developed engines again dominated the motor racing scene, highlighted by powering Michael Schumacher and Benetton to victory in the Formula 1 drivers' world championship. Riva made further progress towards break-even.*

**Rolls-Royce car sales up: high-value product mix**

Sales of Rolls-Royce and Bentley motor cars increased by 4% during 1994 against the background of a 7% decline in the overall worldwide luxury car sector. Worldwide sales of 1,414 units represented a level comfortably above break-even volume. More importantly, the product mix contained an increasing proportion of high specification, limited edition niche and bespoke models which boosted overall profitability.

In the UK and Japan, sales rose by 20% and 22% respectively over 1993 levels. The Pacific markets, especially Australia, also saw strong growth. North America saw an upturn in demand in the last four months of the year, leaving total sales only slightly down on 1993 levels. Sales mirrored downward market trends in Germany and France, although there was evidence of improvement in these markets towards the end of 1994 and this has continued into 1995.

**New model launches help 1994 end on a high note**

The introduction of highly-acclaimed limited-edition models benefited all markets in the latter part of the year. In the US this included a turbocharged Rolls-Royce Corniche S. Demand also surpassed supply targets in selected markets for the Bentley Turbo 'S'. Later in the year came the successful launch of the fastest ever Rolls-Royce motor car, the turbocharged Flying Spur. Regular updating of the range continued into 1995 with the launch of the new Bentley Azure convertible in March.

**A centre of excellence**

The continued success of the bespoke coachbuilding and design operation at Mulliner Park Ward, Crewe, exceeded expectations. Aston Martin acknowledged these outstanding skills by signing an important contract for the painting at Crewe of its highly-acclaimed new DB7 model.

**(Right) The latest addition to the Bentley range. The Pininfarina-styled limited edition Azure convertible, launched March 1995.**

**(Below) The turbo-charged Rolls-Royce Flying Spur. A limited edition model offering a unique blend of luxury and enhanced performance.**

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The Parts and Accessories business enjoyed a very productive 1994 with sales ahead of 1993. The Specialist Engines business, serving the British Army and Royal Navy, also made a valuable contribution to overall profitability.

The Company maintained its commitment to research and development and £10m of capital investment funded the evolutionary engineering that delivered the special limited edition models.

### The drive for efficiency and superior quality continues

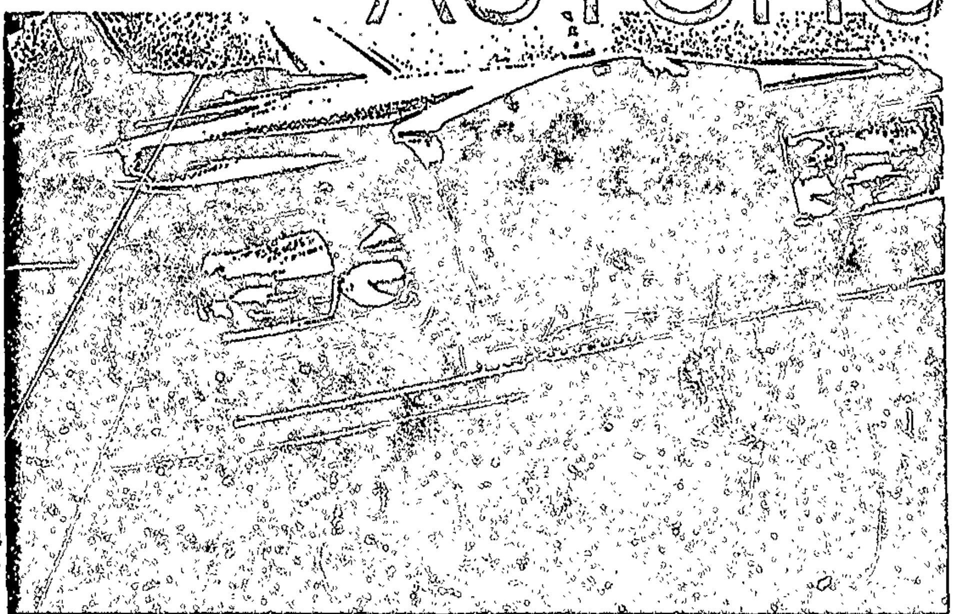
Increases in productivity and reduced build-cycle times were among a range of improvements in manufacturing performance. The achievement of these, while satisfying an increasingly complex build programme, is a fine testimony to the calibre of the workforce.

### Rolls-Royce and BMW – a partnership for the future

The agreement reached with BMW, which provides initially for the future supply of engines, should prove to be an important milestone for Rolls-Royce Motor Cars in mapping the medium and long term future of this famous company. New legislative requirements on emissions and fuel consumption will impose an increasingly expensive burden on engine manufacturers. However, the association with BMW will secure the best available engines without the need for such costly investment by Rolls-Royce Motor Cars.

Concept Java was presented at the 1994 Geneva Show, generating great excitement. A study to refine this project, before decisions are made on its next stage, will be undertaken in 1995.

# AUTOMOTIVE



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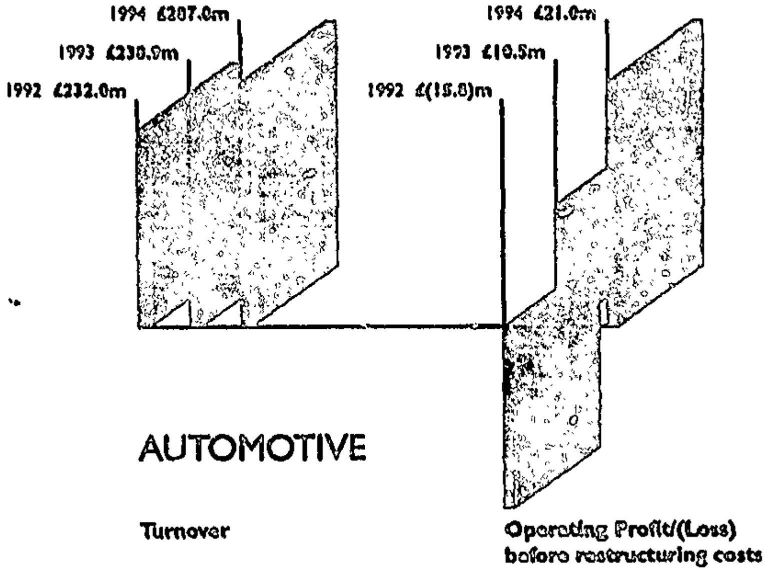
# OPERATING REVIEW - A TOM IVE




## AUTOMOTIVE

### Cosworth – a racing success

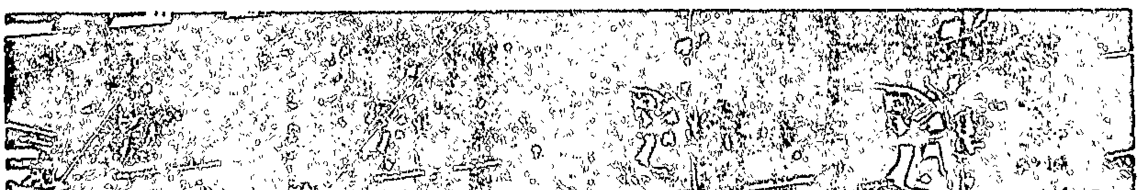
Cosworth is synonymous with success on the motor racing circuit and the 1994 season was highlighted by Michael Schumacher winning the Formula 1 drivers' world championship in a Benetton-Ford powered by the Cosworth-designed and built Ford Zetec-R engine. In its début year, this engine won its first four races, and eight in all – the highest accolade to Cosworth's engineering excellence.

In Formula 3000, Cosworth engines were used by the winner of the European Championship for the fourth successive year, while in the North American IndyCar series, Ford-Cosworth XB engines scored four more race victories in their third year of competition.

Ford-Cosworth engined cars again recorded numerous rallying successes. In touring cars, the Ford Mondeo with its Cosworth-prepared engine won the FIA Touring Car World Cup, followed rapidly by the TOCA Shoot-Out. Meanwhile, Opel scored its first victory in the highly-competitive German Touring Car Championship in the first year of its partnership with Cosworth.

### Domination of the grid

Winning is exciting, but equally important to Cosworth's racing business is domination of the starting grid. In addition to Benetton with its Ford Zetec-R engine, four other F1 teams used the acclaimed Ford HB engine. Cosworth thus supplied more than a third of the F1 grid and more teams than any other manufacturer. In IndyCar racing, 60% of the cars used Ford-Cosworth engines. Engine rebuilds are as important as engine manufacture for Cosworth's racing business.



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(Above) The Sauber Ford C14, fitted with the Cosworth-designed and built Ford-Zetec R engine, in practice for the 1995 F1 season.

(Below left) A Cosworth-designed and built engine powered Michael Schumacher to victory in the 1994 F1 world drivers' championship.

In response to the latest F1 regulations, two new V8 engines will be introduced for the 1995 season and there is every expectation they will maintain Cosworth's high standards. Sauber will be the 1995 Ford Works Team and confidence is high.

## Engine business looks ahead

The prospects for Cosworth's road engine business improved in 1994 as the modified version of the 24-valve V6 engine was launched in Ford's re-styled Scorpio car. Sales of the previous version of the Scorpio and the RS Escort Cosworth were a little disappointing, but new manufacturing business was attracted to compensate. Investment continues apace and Cosworth is injecting some £3m in a new facility to expand its capabilities at the forefront of power train development. The new facility will be equipped with some of the most comprehensive vehicle development equipment in the industry.

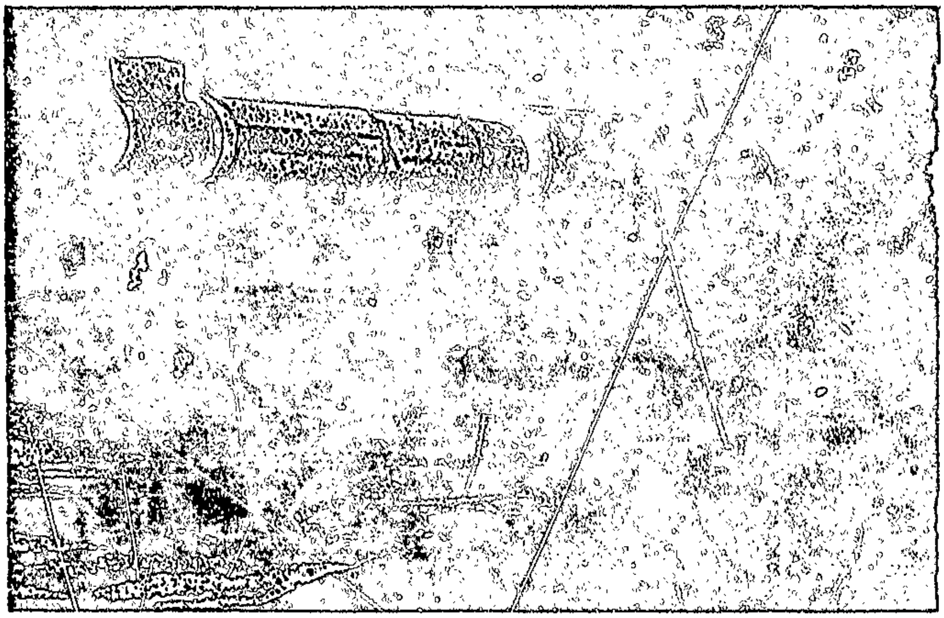
## Profitable new investment opportunities in castings

Cosworth's Worcester-based castings business announced an £8m investment in a new facility to meet the growing demand from the automotive industry for high-quality precision castings for aluminium cylinder heads and blocks. Prompted by the contract won from Jaguar to supply cast components for its new AJ26 engine, phase one of the new aluminium casting facility is set for completion early in 1996.

## Riva holds firm

Cantieri Riva, the Italian luxury power boat maker, maintained sales levels and improved its order intake in the face of restrained demand. While restructuring costs contributed to a loss, the management took corrective action, at the same time ensuring product development expenditure on key products was maintained. This included a new 33 Gitano with three engine options introduced at the 1994 Genoa Show, along with improvements to the existing range. Further product extension plans include an Open Speed Cruiser in the 50 foot range, to be launched in 1995.

# OPERATING REVIEW



VICKERS DEFENCE SYSTEMS *reached a milestone year in 1994. The first Challenger 2 Main Battle Tank was delivered to the British Army after meeting the rigorous Formal Acceptance Standards of the Ministry of Defence. This feat was crowned in May when the MoD confirmed a follow-on order of 259 tanks. Vickers Defence Systems is proud of its responsibility in providing an important component in the country's defence equipment and delighted that the Division's order book has now risen to £1.5 billion, securing the future of the business into the next century.*

**Challenger 2 rolls out**

The Challenger 2 Main Battle Tank Development and Trials programme, one of the most rigorous ever implemented for a land-based defence system, was completed successfully. Indeed, the National Audit Office recorded this as one of only two such projects to be fulfilled on time and to cost. Formal Acceptance of Challenger 2 by the UK Ministry of Defence was achieved in May.

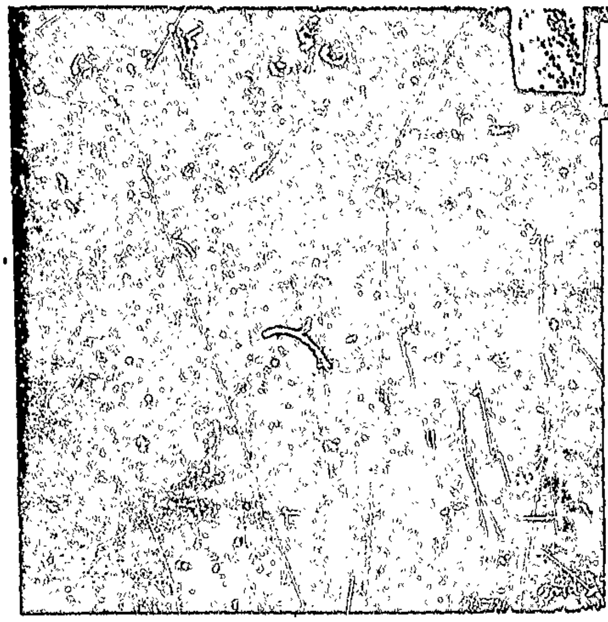
In July, the Secretary of State for Defence confirmed the purchase, in a single tranche, of an additional 259 Challenger 2 tanks and a substantial logistics package, to make up the British Army's required total of 386 tanks. Also in July, the first production Challenger 2 was handed over to the Secretary of State for Defence at a special ceremony at the Leeds factory.

The transition from Challenger 2 Development and Trials to initial deliveries, coinciding with the completion of other major contracts, resulted in reduced 1994 Divisional sales compared with the previous year. Nevertheless, an increased trading profit was made. Turnover is due to rise sharply in 1995 as Challenger 2 production gets into its stride.

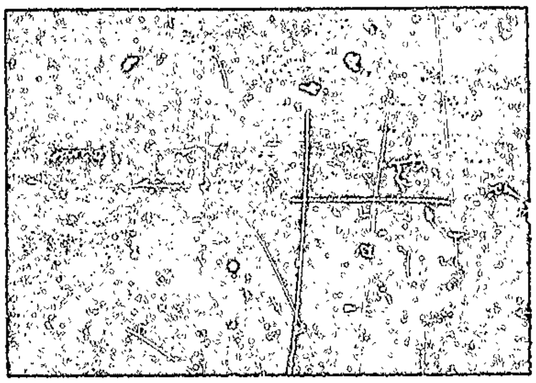
**(Above)** Challenger 2 going through its paces at the Armoured Trials and Development Unit, Bovington.

**(Right)** The Challenger Armoured Repair and Recovery Vehicle has been in service with the British Army since 1990.

# DEFENCE



plant is responsible for meeting the first overseas order for Challenger 2 to the Royal Army of Oman. This contract provides for a comprehensive range of equipment in addition to Challenger 2, including driver training tanks, recovery vehicles, tank transporters, command vehicles and a full logistic support package. The Newcastle plant will also begin deliveries of Challenger 2 to the UK MoD later this year.



**Follow-on order secures the future**

The UK MoD Challenger 2 orders have helped to secure the future of the Division over at least the medium term, standing in excess of £1.5 billion and helping protect jobs both at our factories and those of our suppliers.

While attention is often focused on the tank itself, other elements of the Challenger 2 contract are not insignificant. The large logistic support component is valued at over £244m and this is the first time the Ministry has entrusted total logistic support responsibility for a tank weapon system to a prime contractor.

With initial production for the UK MoD concentrated at Defence Systems' Leeds factory, the Newcastle upon Tyne sister

**Fighting vehicles for the next century**

Already, the Division is looking at more distant horizons. During 1994, Defence Systems completed an initial feasibility study for the UK MoD on the next generation of reconnaissance vehicles, known as TRACER. While formal go-ahead is awaited, the Division believes that this programme is likely to continue. If so, Vickers will again relish the prospect of an international competition run by the UK MoD to select the right vehicle.

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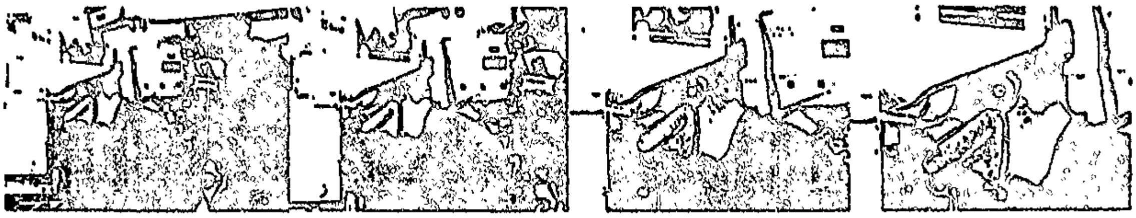
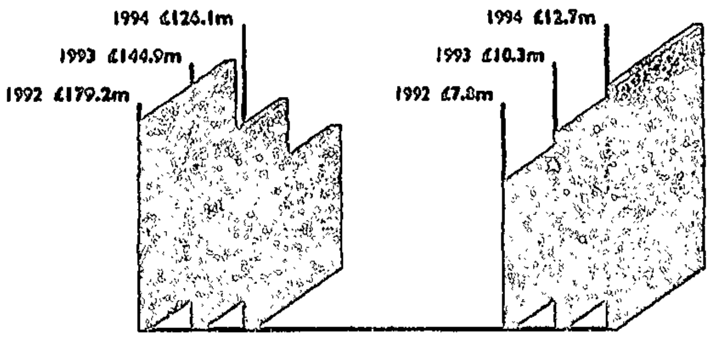


### Other important contracts

By the middle of 1994, the Division completed a contract to supply turrets to GKN for the Warrior Armoured Infantry Vehicle. These vehicles continue to serve in Bosnia, where they have additional protection from special appliqué armour, also manufactured by Defence Systems.

1994 also saw the completion of a contract to supply Vickers Mark 3 medium tanks, recovery vehicles, bridgelayers and logistics support. Initial deliveries to Hyundai of bridging systems for the Korean K1 tank also commenced during the year.

The Division delivered the first of its Precision Gunnery Training simulators to the UK MoD in November for assessment, following the contract award in 1993. Challenger 2 tank crews




## DEFENCE

**Turnover**

**Operating Profit before restructuring costs**

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(Left) Defence Systems' Precision Gunnery Training simulator can be adapted to any type of tank.

(Below) Challenger 2s for the Royal Army of Oman in production at Vickers Defence Systems' factory in Newcastle upon Tyne.

will use this equipment, but it can be adapted to any type of tank. Training systems that utilise simulation have great potential, given increasing environmental and budgetary pressures.

Technical and Logistic Services Limited (TLS), the joint-venture company formed by GKN Defence, SERCO and Vickers, made its first bid in 1994. Although the in-house tender to run 18 Base Workshop under the UK MoD's market testing programme won on this occasion, it was encouraging that TLS was confirmed as having submitted the best commercial offering. With a new UK MoD market testing programme underway, TLS will continue to bid for suitable projects.

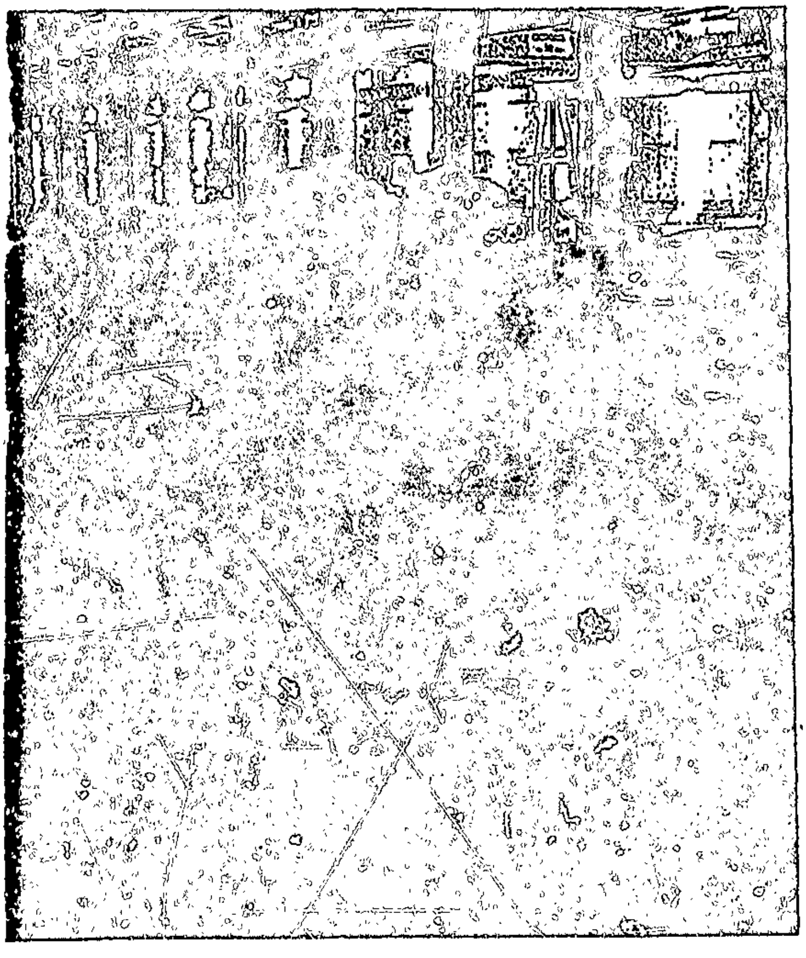
**Efficiency and highest product quality**

It was important for Vickers Defence Systems to introduce a new manufacturing strategy to achieve the highest product quality and adopt flexible manufacturing systems. A £12m investment programme in new machine tools and quality control systems began in 1993 and remains firmly on track. Despite the heavy workload, it is imperative that the business remains cost-efficient. As part of the necessary restructuring process, the workforce was trimmed at both sites – achieved through voluntary redundancy and early retirement – the costs being included in the 1994 results.

Recognition of the Division's high standards was also achieved. The Quality Management System operated by Vickers Defence Systems obtained approval to the ISO 9001 standard in July, following rigorous assessment by Lloyds Register Quality Assurance. The Division has now commenced a programme aimed at achieving the Investors in People accreditation.

**Future benefits**

Vickers Defence Systems Division can reflect on a highly successful year of notable achievements. Even though sales volumes were down during transition to full Challenger 2 delivery rates, profits were up. Once Challenger 2 production has accelerated, the financial benefits will also flow through and the Division will be well placed to build on its success and strengthen its position as the UK's leading supplier of armoured vehicle systems.



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# OPERATING REVIEW

THE COMPANIES *that make up Vickers Propulsion Technology Division enjoyed mixed fortunes in 1994. The aerospace market remained flat, although the businesses still made a profit. Actions were taken to position the businesses to exploit the more favourable market conditions that are forecast to return in 1996. There was strong growth in the automotive market for turbocharger wheels. The marine engineering businesses continued to prosper, led by an outstanding performance from KaMeWa. All of the businesses are now leaner and have sound operations. Already inter-company synergies are being exploited in this second year, following their grouping under the Propulsion Technology heading.*

**Lean, efficient and profitable**

The companies that comprise Vickers' aerospace and marine engineering business are reporting full year results as a single grouping for the first time, following the creation of the Propulsion Technology Division in 1993.

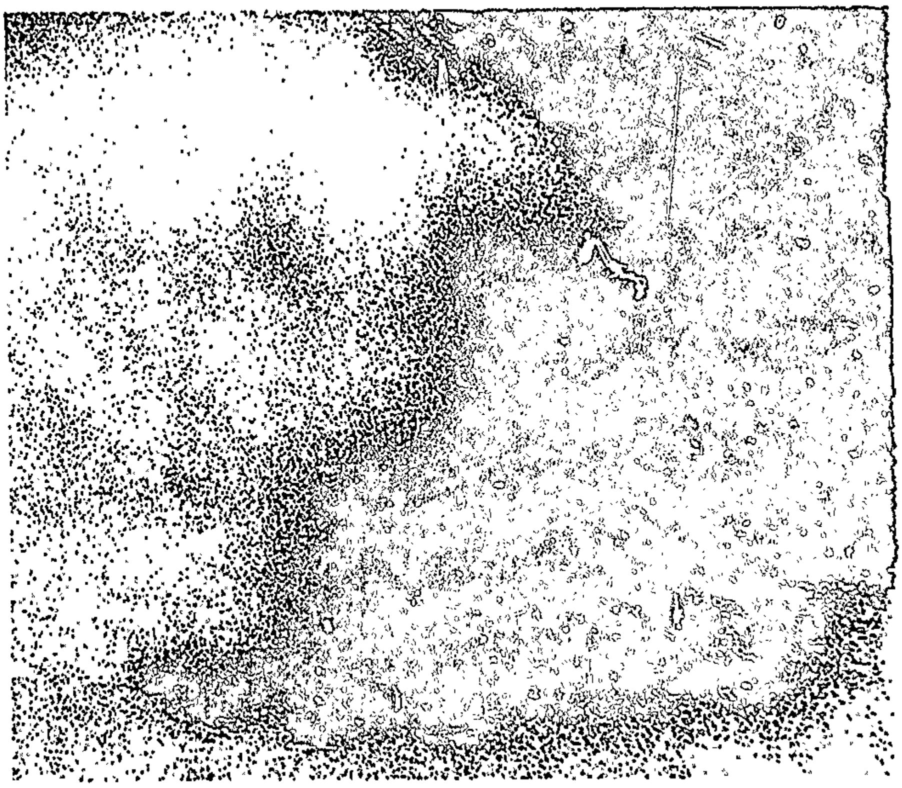
Trading conditions remained difficult in the aerospace market. Therefore, it was a very determined performance that resulted in profitable operation, despite having to incur further restructuring costs during the year.

The automotive market for turbocharger wheels maintained good growth in 1994 and helped offset the weaknesses in the aerospace market. This demand growth is continuing into the current year.

The marine market overall staged some recovery in 1994 and this was exploited to the full by Vickers' businesses. The order book grew in size and real advances have been made.

Across the Division, the drive for efficiency continued, while maintaining capital investment and expenditure on research and development. The businesses are lean and ably positioned to reap maximum benefit from growth opportunities in their respective markets.

(Below) KaMeWa leads the way in the rapidly developing market for water jet propulsion systems, particularly for high-speed ferries.



**Aerospace advances despite difficult market conditions**

Superalloy producer **Ross & Catherall** consolidated its position in the world market in the face of a downturn in demand from aero-engine manufacturers. The company increased its delivery of superalloy to the European market by some 35%.

In the US the Division's other superalloy producer, **Certified Alloy Products Inc.**, found success through extending its customer base beyond its traditional aerospace and automotive markets.

The supply of alloy for the manufacture of medical implants is a good example. The company also received its first production orders from Japan for Pratt & Whitney approved alloys.

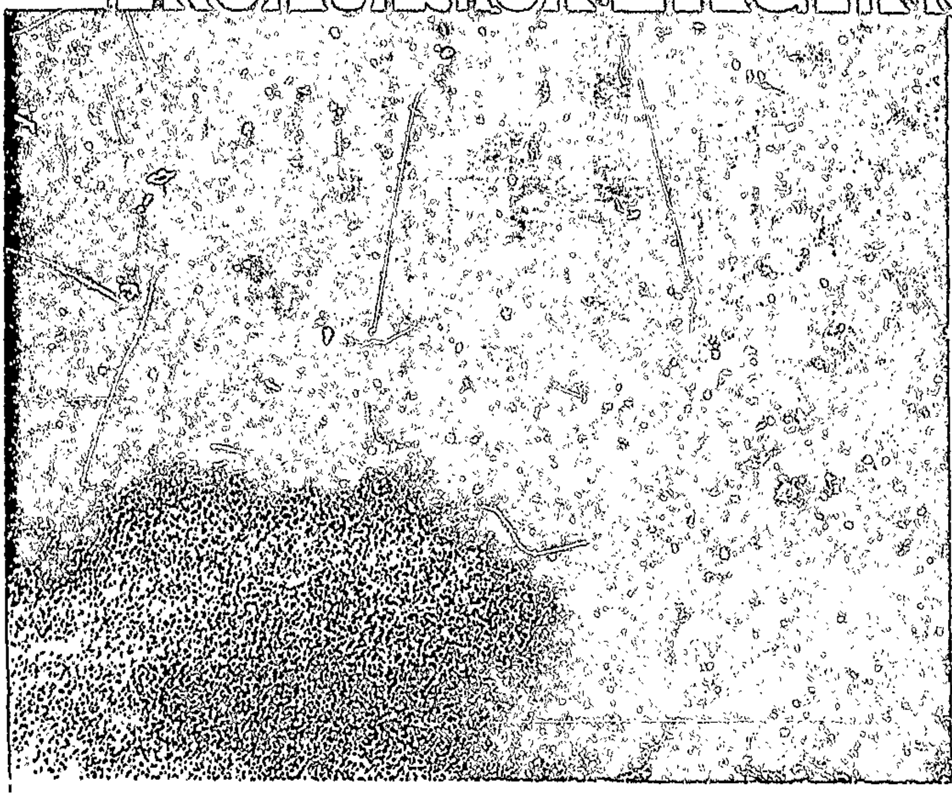
**Ross Catherall Ceramics** saw volumes remain at similar levels to 1993. However, many new tooling orders were received for new parts which bodes well for the anticipated recovery in the aerospace market in 1996. Market approval is expected soon for a new material to manufacture large cores for land-based industrial gas turbines, which will open up fresh opportunities.

After a difficult 1993, **Vickers Aerospace Components** reversed its fortunes and turned in a creditable performance in 1994. It became involved in several new engine development programmes which will provide future opportunities. The business also attained preferred supplier status with Pratt & Whitney Canada. In addition to being a leading manufacturer of fabricated parts for gas turbine engines, the company continued to expand its capabilities to manufacture complex airframe components using the super-plastic forming process.

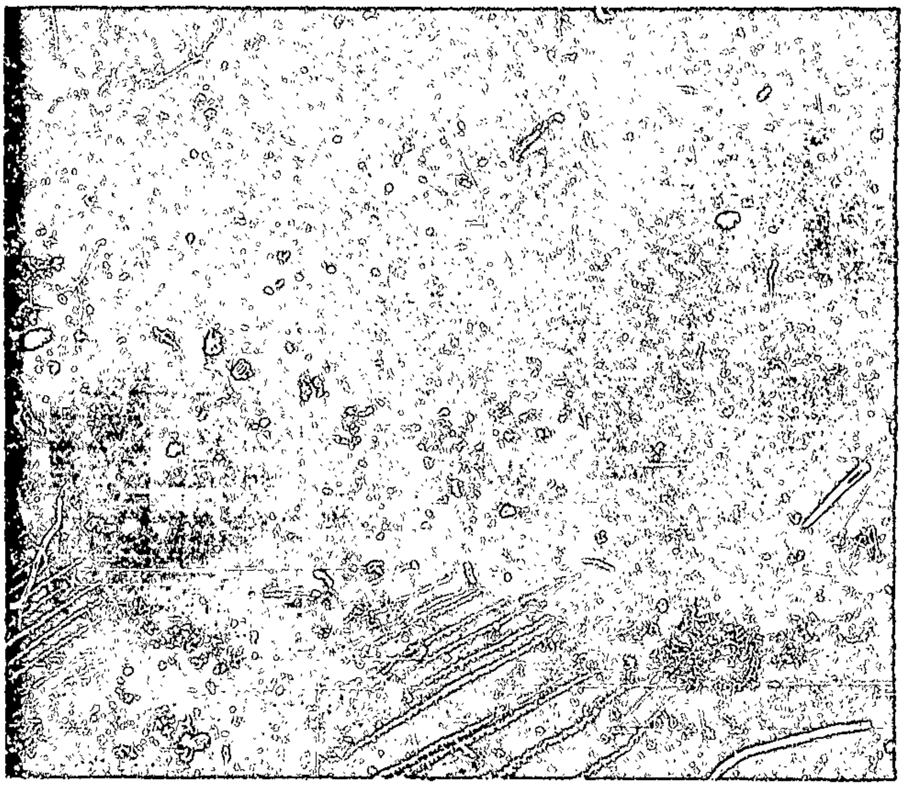
A notable achievement in 1994 by **Vickers Airmotive**, which repairs hot-end components for gas turbine engines, was certification by the US Federal Aviation Agency (FAA), which enables the company to repair engine components on FAA-registered aircraft.

Successfully converting a host of new business opportunities into firm production orders was the highlight at **Vickers Precision Machining**. The key was to move into non-traditional areas such as the machining of turbine blades and large industrial gas turbine nozzle guide vanes and blades.

# PROPULSION TECHNOLOGY



# OPERATING REVIEW - PROPULSION TECHNOLOGY



## Above-average performance in marine market

**KaMeWa** turned in an outstanding performance, boosting sales, profit and order intake. Best known for its water jet technology, it was the more traditional propeller operation that performed particularly well over the year. In August 1994, KaMeWa acquired FF Jet, a Finnish manufacturer of water jets. This will strengthen the KaMeWa range at the smaller thrust levels and FF Jet will benefit from KaMeWa's technical and marketing skills.

KaMeWa is the undisputed world leader in water jet technology and continues to set the standards that others follow.

Linked very closely to KaMeWa is Stone Vickers, which remains the principal supplier of main propellers to the Royal Navy. Together, the two companies launched the European Maintenance and Repair Centre in 1994. This major initiative channels the Group's marine propulsion expertise into the service market. Excellent transport links into Europe from its base in Kent mean quick access to a valuable market place.

(Above) Blades for a controllable-pitch propeller under manufacture at KaMeWa, one of the world's leaders in this sector of the market.

(Above right) Pratt & Whitney gas turbine engine discs manufactured from powdered metal derived from alloy produced by Certified Alloy Products.

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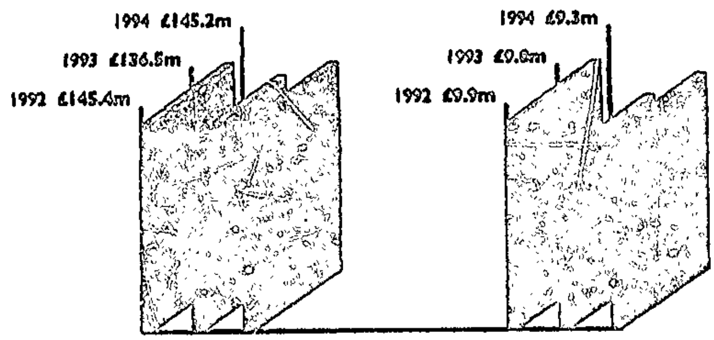
**Good growth in automotive markets**

Vickers' investment casting company, **Trucast**, fortified its position as Europe's leading producer of hot-end turbocharger wheels. A 20% increase in sales in 1994, with a further rise anticipated for 1995, led to the commissioning of the company's ninth manufacturing line. Trucast's turbocharger wheels are made from nickel-based superalloy supplied by both Ross & Catherall and Certified Alloy Products, illustrating the close links between the businesses in the Division.

Meanwhile **Michell Bearings** maintained its position as a leading designer and manufacturer of complete whitemetal bearings for marine and industrial uses. However, tough competition restricted profitability. To sharpen its competitive edge, over £1.5m was invested in two large machining centres to complement a major re-engineering programme. Michell is also setting up a joint venture manufacturing company in India, with start-up due in the first half of 1995.




## PROPULSION TECHNOLOGY

**Turnover**

**Operating Profit before restructuring costs**

# OPERATING REVIEW

*VICKERS MEDICAL had a disappointing 1994. With many markets on hold due to uncertainty over health reforms, emphasis shifted to operational measures, aimed at reducing costs and focusing the business on particular market sectors. Vickers' medical businesses remain fundamentally strong, with quality brand names that are market leaders. Measures taken in 1994 to align the business structures to changing markets should bring improvements in 1995.*

**Costs cut to match market conditions**

After making promising headway during 1993, Vickers Medical reached something of a plateau in 1994. Market conditions set the context, especially in North America and important European markets like Germany, France and Italy.

The spectre of possible health care reforms in the US led to cost-cutting and consolidation amongst providers, and this became the dominant factor in depressing the hospital equipment market. This effect was mirrored in the European market. While drugs must still be administered, hospitals can – and did – postpone the decision to buy medical equipment. Consequently, competition intensified for a smaller market volume.

These difficult trading conditions caused a reduction in turnover of 8.5%. Together with rationalisation costs, principally in restructuring the European distribution network, this had a consequent effect on profit.

Actions are being taken to cut costs and are driven by a need to match market conditions. The German distribution business was sold; logistic support for the Belgian, French and Dutch markets is being combined in a single office in Antwerp; and the Japanese office is being closed. This leaner structure has reduced lines of communication and brought the manufacturing operation nearer to the market place.

In all cases, however, the sales capability remains intact. Most of these changes related to Medelec, but they also affected Air-Shields. Products of both companies will now be distributed in more areas through third-party arrangements. The results of this rationalisation, complemented by two small acquisitions made during the year, improve the prospects for 1995.

Vickers Medical Division has world-leading businesses manufacturing and supplying equipment in three main areas: neonatal intensive care products neuro-diagnostic systems and intensive care patient monitoring and resuscitation equipment. They possess fundamental strengths in their brand names and operate in a market which, despite current conditions, still offers prospects and opportunities.

**Air-Shields maintains position as world leader**

The recession in the US market inevitably hit Air-Shields business in neonatal products, but the company fought back by cultivating its international activities, increasing its market share in many countries. Exports account for over 40% of sales from the manufacturing plant in Hatboro, Pennsylvania. Air-Shields holds around 60% of the US market and 70% of the UK market. The company has reinforced its position as the world's leading neonatal intensive care equipment business with a range of products including intensive care and transport incubators, warmers, neonatal monitoring systems and obstetric patient data management systems.

During the year Air-Shields acquired a Californian software company, and renamed it Air-Shields Information Systems. Its business activity is the development of computer-based products for obstetric and other markets. The new company made a promising début and will contribute materially to Air-Shields' growth in the future. Air-Shields also introduced a replacement mid-range incubator and products to enable better control of oxygen within the incubator.

(Right) The Athena neonatal monitoring system linked to an Air-Shields C550 QT incubator.

# MEDICAL

### Useful progress by S&W Medico Teknik

In a fiercely competitive market, S&W Medico Teknik, manufacturer of high-technology intensive care patient monitoring systems and cardiac emergency and resuscitation equipment, saw sales of its defibrillators rise by some 30%. This followed the introduction of the Cardio-Aid series of products and their extension to include unique oxygen monitoring capabilities.

Volumes were maintained in high-level system monitoring equipment, but margins came under pressure. The new Diascope mid-range monitor series established its market position and its capabilities were extended to allow full networking with other products in S&W's range. However, pricing pressure and actions to reduce the cost base in Germany and Denmark left profitability lower than it would otherwise have been.

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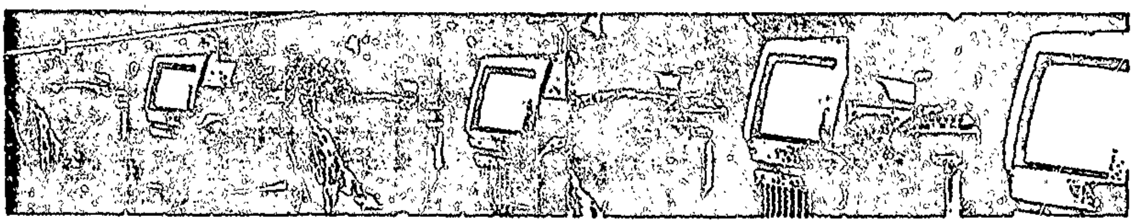
# OPERATING REVIEW - MEDICAL



### Diagnostic business performs well

The best performance in the Division came in neuro-diagnostic equipment and accessories. This comprises EMG (electromyography) equipment, used by neurologists in the assessment of electrical impulses in the body's muscle tissue and nervous system, and EEG (electroencephalography) equipment, which monitors the electrical activity of the brain. These products and related accessories are manufactured mainly by Medelec in Old Woking, Surrey, but also at TECA Corporation of Pleasantville, New York. Both businesses performed well, retaining their position as market leaders, increasing sales and profit.

New product introductions were concentrated in the digital encephalography field. The range was extended to include the DG Examiner, a mid-range digital EEG product for hospital use and the DG Discovery, a portable product designed principally for private practice and the small general hospital. Both products enable more routine clinical users to employ this new technology.

The neuro-diagnostic accessories business also did well. TECA introduced the Myoject disposable needle and marketed it jointly with a drug company as part of a programme for the control and treatment of spasticity.

### Lowering customer service costs

The steps taken to refocus the distribution network in continental Europe, will lower customer service costs. The amalgamation of the businesses in France, Holland and Belgium into a single operation and outlet for Medelec products will also provide greater focus in growing the diagnostic business.

### Strategic alliance means more effective marketing

The UK distribution business, S&W Vickers, has worked successfully over many years with Datex, the Finnish anaesthesia company. That relationship has been strengthened by the acquisition of MIE Limited, a small UK manufacturer and distribution company, from Datex. This has been added to S&W Vickers, which has been renamed Vickers Medical Limited. This acquisition forms part of a wider agreement under which Datex and Vickers Medical will jointly market anaesthesia products in the UK and elsewhere.

### Commitment to quality and efficiency bodes well for the future

All the manufacturing businesses in the Division obtained certification to the ISO 9001 quality standard during the year. This acknowledged Vickers' commitment to quality in design and in manufacturing. Medelec became one of the first UK companies in the medical field

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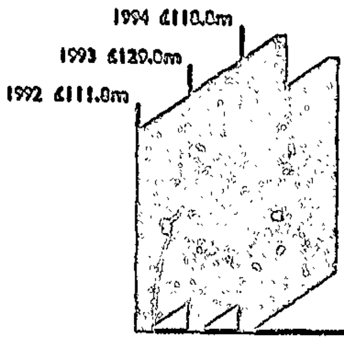
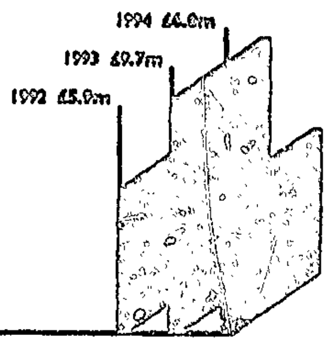
(Left) The Medelec DG Discovery portable EEG system, introduced in 1994, is designed primarily for private practice and the smaller general hospital.

(Below) The Medelec Sapphire Premiere EMG system. This high-performance product, used in the diagnosis of neuromuscular problems, continues to prove successful with clinicians around the world.

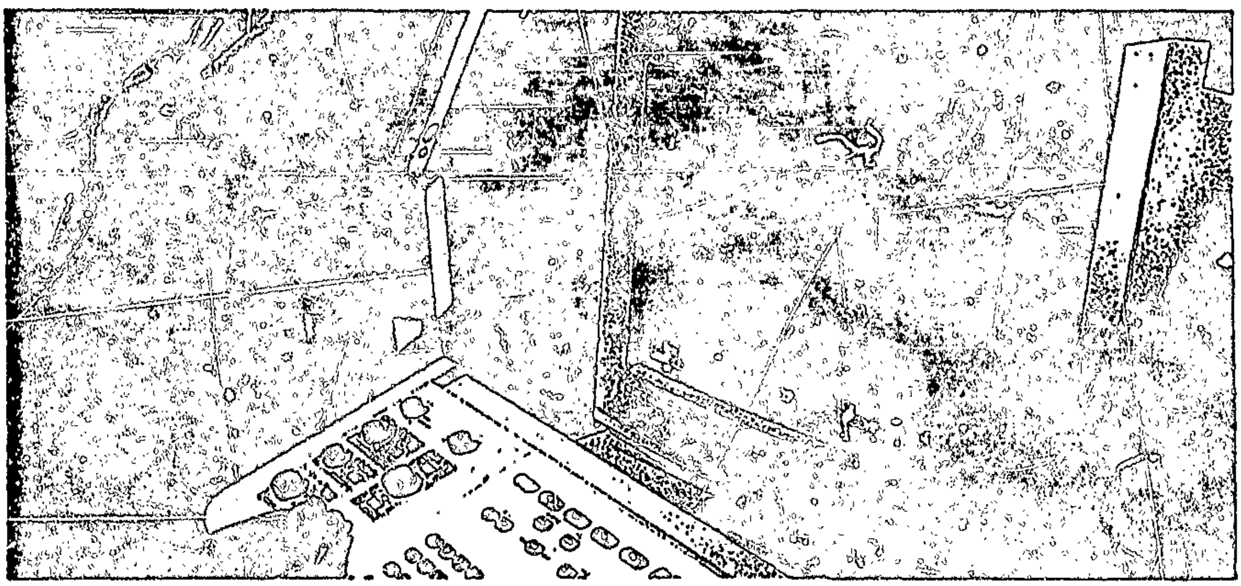



## MEDICAL

Turnover

Operating Profit before restructuring costs



allowed to affix the CE mark to its products on the basis of self-certification.

The CE mark denotes a quality standard set by European directive which, from 1996, will be a requirement for all companies wishing to market their products throughout the European Union.

While the Division was frustrated in its attempt to improve on its previous year's performance, its businesses turned in creditable operating performances in a highly competitive market. The financial performance in 1993 itself had been considerably ahead of the previous year. However, the nature of the business and the trends which impact upon it, mean that the year-on-year growth curve is not always an even one.

The Divisional management took the steps necessary to make the operating and distribution units more efficient in relation to a changing market place.

These measures, together with the product quality standards now being achieved, bode well for the future and should help bring about an improved performance in 1995.

# OPERATING REVIEW - OTHER ACTIVITIES

OTHER ACTIVITIES COMPRISE *Brown Brothers of Edinburgh, Jered Brown Brothers Inc., Vickers Pressings and Vickers Properties. Brown Brothers, the world's leading designer and manufacturer of marine motion control equipment, delivered an exceptional performance in 1994. Jered Brown Brothers Inc. returned to profitability in 1994, following the relocation and restructuring costs incurred over recent years.*

**Achievement in offshore sector**

As the oil industry moves towards a second peak in production levels, Brown Brothers scored a major achievement in winning the contract to supply a high-pressure liquid and gas axial and toroidal swivel stack to Golar-Nor Offshore for installation on the PETROJARL 4 floating production storage and offloading vessel. This is being built to serve the first phase of BP Exploration's Atlantic Frontier Programme. An additional three-path swivel stack was supplied for inclusion in the modifications on PETROJARL *I* to operate in Arco's Blenheim field.

These orders have re-established Brown Brothers in the offshore market and complement the already successful stabiliser and steering gear products currently supplied to the commercial and naval marine markets.

New deep water opportunities in oil exploration's frontier areas require new technologies to exploit them and Brown Brothers has these technologies.

**Increasing share of stabiliser market**

The successful folding-fin stabilisers designed and manufactured by Brown Brothers continued to attract buyers, lifting the company's worldwide market share to more than 30%. One major order came from Odense Shipyard, Denmark, for six of the largest units of the VM series stabilisers. This equipment will be installed on container vessels for A.P.Moller of Copenhagen. One of last year's major orders will reach operational service in 1995, with the maiden cruise of P&O's prestigious super-liner, Oriana.

During 1994 the company delivered stabiliser and steering systems to VSEL for the British Royal Navy's new Helicopter Carrier, due to enter service in 1997. Brown Brothers remains a leading supplier to foreign navies. One such order in 1994 was for stabiliser and steering systems to GEC Yarrow for the Royal Malaysian Navy Frigates: the first vessel – "L.D. LEKIU" was launched in December 1994. To support the Royal Canadian Navy, an indigenous repair and overhaul arrangement was established with Steel and Engine Products Ltd., Canada.

**Profitability restored at Jered Brown Brothers**

Jered's target for 1994 was to breakeven. It beat this through good management which adopted aggressive attitudes towards the cost base, spurred on simultaneously by a strong order book.

**ELCAS passes initial test**

The US Navy's ELCAS (Elevated Causeway) project entered manufacture during 1994 and has passed the engineering and in-water tests successfully. The complete system is to be demonstrated during April 1995. The advance funding for material for the roadway extension contract modification has been received, ensuring pontoon production throughout 1995.

**Major components order for aircraft carrier**

The decision of the US Government to go ahead with the aircraft carrier CVN76, the USS Ronald Reagan, was followed in February 1995 by a $31m order to Jered Brown Brothers by Newport News shipyard for elevators, steering gear, cranes and other major mechanical equipment. This underpins Jered's traditionally strong position in supplying components for these major capital ships.

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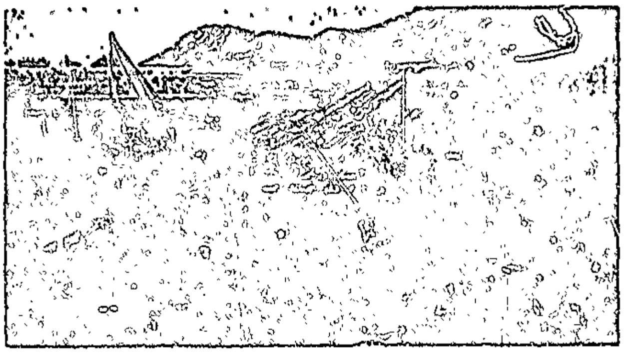
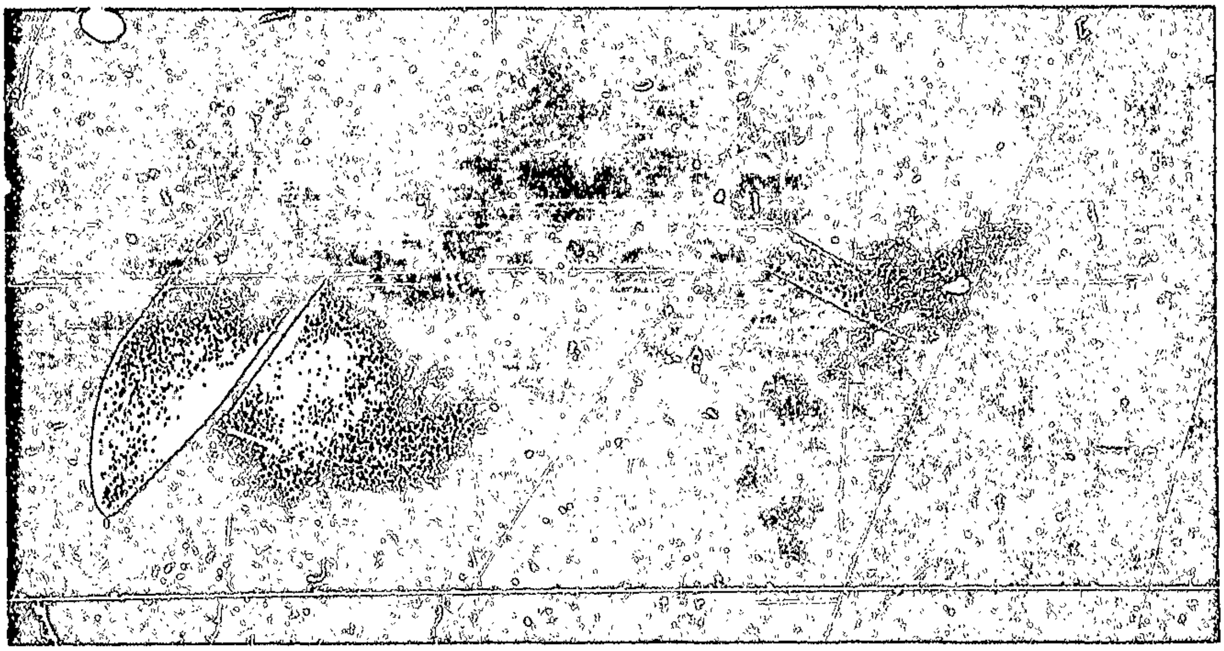
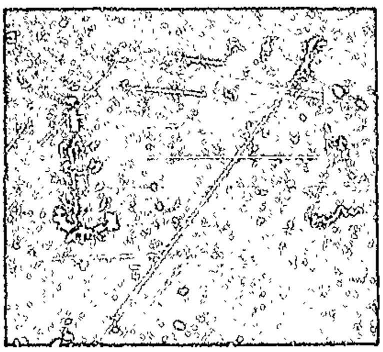
(Right) Artist's impression of ELCAS, the Elevated Causeway system under construction by Jared Brown Brothers for the US Navy.

(Below) The successful VM series of folding fin stabilisers has helped Brown Brothers win more than 30% of the world market for this type of equipment.

(Bottom) Computer generated design of a high pressure liquid and gas axial and toroidal swivel stack by Brown Brothers.







Vickers Pressings continued to enhance its reputation as a preferred supplier of sheet metal parts, turning in another satisfactory trading performance in 1994 – the more so, given that it operates in the competitive market supplying motor body panels and sub-assemblies to the European motor industry.

Vickers Properties continued to provide an expert service to Group operating companies on all property matters. The company commenced a 100,000 square foot development at South Marston Park, Swindon, for the Early Learning Centre, due for completion in early 1995. More generally, there are some indications that the property market will improve in 1995.

# HEALTH AND SAFETY, THE ENVIRONMENT AND COMMUNITY RELATIONS

*DURING 1994, as part of a review of its performance on both Health and Safety and the Environment, the opportunity was taken to effect a closer correlation between these areas in order to achieve a more effective policy and better use of resources.*

*In May 1994 a new corporate policy addressing Health, Safety and the Environment was adopted and issued to Vickers' businesses, which were required to review and update their individual policies and implement the corporate objectives.*

Recognising the need for top level commitment, a programme of senior management health and safety training courses began in 1994. By the end of the year, some 200 senior personnel had attended courses and further levels of training were carried out at several businesses.

An independent review was carried out by external consultants to ensure that policy documentation prepared by the businesses reflected current legislative and business needs.

The use of consultants continued throughout the year and included an environmental analysis of the proposed sites for the new Cosworth Castings facility, the new Emissions and Driveability Centre for Cosworth Engineering, and an audit of health and safety procedures and practices at Stone Vickers.

### Health and Safety

A number of businesses made further progress on a wide range of health and safety matters. Rolls-Royce Motor Cars provided 350 man-hours of training on a range of issues such as skin care and health promotion. All levels of management at Cosworth Castings received training on health and safety responsibilities and Cosworth Engineering Inc. provided safety training to new and existing employees.

A comprehensive training and briefing programme for senior management began at Defence Systems and will extend to all employees. Michell Bearings provided a 5 day health and safety course and at Vickers Aerospace Components, occupational training was undertaken for employees engaged in vapour degreasing, resistance welding, superplastic forming and laser safety. Similarly, many other programmes were implemented at Vickers' businesses in the UK and USA.

### Investment

Investment in facilities also plays a significant role in improving health and safety in the workplace. For example, Cosworth Engineering has invested in anti-slip flooring in key areas, extraction/filter units and mechanical handling equipment to reduce the risk of injury. Improved safety and lower noise levels are sought at Ross & Catherall by the introduction of mechanical handling and bar extraction equipment. A number of similar developments have been implemented within the Group.

Reduced accident rates are reported by several businesses. KaMeWa's workplace injury rate fell by 44% and Michell Bearings by 30%, while in its manufacturing area, Rolls-Royce Motor Cars achieved a 6% reduction.

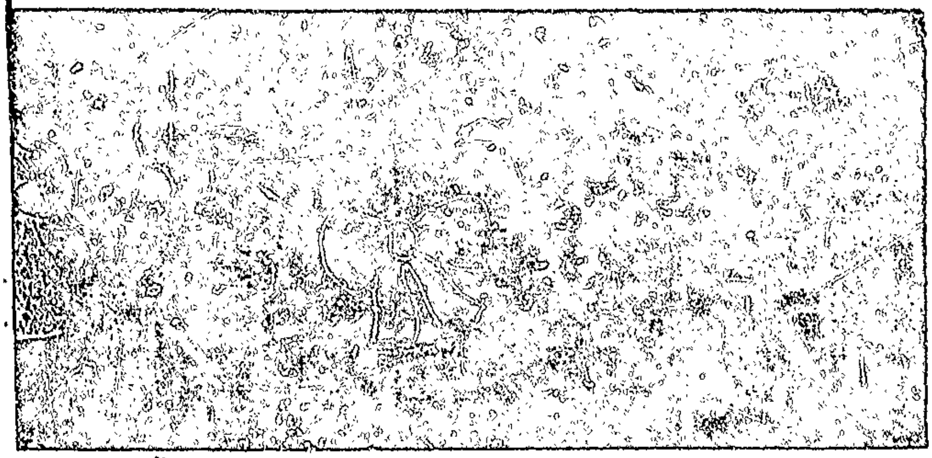
Safe working awards were made by the British Safety Council to Cosworth Castings and Ross Catherall Ceramics (RCC's 16th consecutive award). In addition, Vickers Airmotive, Vickers Aerospace Components and Ross & Catherall all received safe working awards from the Engineering Employers Federation.

Risk Assessment is a cornerstone of health and safety management and progress has been reported on a wide range of assessments completed throughout the Group.

### Vickers and the environment

Areas such as process improvements, waste reduction, recycling and spillage prevention all received attention, each helping to improve the Company's performance in managing its environmental responsibilities.

Under the heading of process improvements, Rolls-Royce Motors Cars has agreed an upgrading programme with the Local Authority for certain prescribed processes involving paint and adhesives, which will



(Above) Employees at Rolls-Royce Motor Cars taking part in the 'World's Biggest Coffee Morning', to help raise funds for the training of Macmillan nurses.

achieve the standards set for 2001 by 1998.

Cosworth Engineering has reduced their use of Trichloroethane 1.1.1 by 85% and the elimination, or significant reductions in the use, of solvent-based substances have also been achieved at a number of other businesses. Across the company, various process improvements have been introduced and the new Cosworth Castings facility at Warndon will incorporate the very latest technology and equipment enabling increases in process efficiency and significant environmental improvements.

### Waste Management

Careful attention to waste management has seen the appropriate Duty of Care visits to waste contractors' operations by Brown Brothers, while Rolls-Royce Motor Cars' control systems have been successfully audited by the regulatory authority to prove compliance.

As an example of how well industry can work closely with other parties, Cosworth Castings has been co-operating with the Hereford and Worcester County Council in the preparation of the County Waste Management Plan. Cosworth was selected to assist because of its initiatives on environmental and waste issues.

Waste reduction and recycling initiatives have realised benefits, including a 75% reduction in solid waste disposal by TECA and 20% at KaMeWa.

To strengthen further existing spillage prevention controls, a number of additional measures have been implemented. Examples include a new storage facility at Certified Alloy Products Inc. to eliminate the risk of oil release and the attention paid by Jered Brown Brothers to the reduction of materials held in its hazardous waste storage building.

The above provides an overview of the many areas in which the Company has been active in 1994.

### Vickers in the community

The Company receives numerous applications for help and, wherever possible, provides support. For example, Vickers was actively involved in the National Society for Epilepsy 'Snapshot' Appeal, of which Sir Colin Chandler is Chairman and Martin Taylor an honourary director. The Company also sponsored WellBeing, the health research charity. Rolls-Royce Motor Cars (R-RMC) is involved in many local initiatives, including the Business Enterprise Partnership, Crewe Development Agency and Business Link.

R-RMC has also donated over £35,000 in three years to the Lyceum Theatre refurbishment, and employees have contributed £5,000 to the sound loop in the theatre.

In Vickers Medical Division, Air-Shields has supported the Buckinghamshire County Association for retarded children by sub-contracting simple manufacturing tasks. Medelec has been involved in numerous local education projects including work experience and 'business games'; and S&W Medico Teknik donated three Cardio-Aid defibrillators to the Copenhagen Fire Brigade.

Vickers Defence Division continues to participate in local community projects such as the City Challenge, the (Newcastle) Education Business Partnership and the Engineering Education Scheme. The business has strong links with a number of local schools and provides work experience placements. It also organises Equal Opportunities events to encourage women in engineering.

Cosworth Engineering has an active and extensive programme of involvement in local activities. These include a local 'Industry Matters' group and fund raising for the National Association of Boys Clubs. The company is an active member of "Coalition Against Crime" and "Action Against Crime" – both local initiatives. Cosworth Castings participates in various programmes run by the local Training and Enterprise Council, and liaison programmes with local schools.

Good corporate citizenship continues to be important to Vickers. The examples above are a few of the levels of actively-encouraged involvement which range from individual initiatives to the Group as a whole.

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# FINANCIAL REVIEW AND HIGHLIGHTS

On turnover of £727.2m (1993 £689.6m) the Group recorded an operating profit before restructuring of £52.5m (1993 £36.6m), with improved performances recorded in all principal areas of activity other than the Medical Division.

Restructuring costs totalled £6.7m (1993 £1.2m) and related to further programmes to reduce future operating costs. The £2.4m loss on disposal of a subsidiary resulted from the sale of a small overseas distribution company in the Medical Division. This loss included £1.8m of goodwill previously written off and now charged to the Group's profit and loss account as required by Accounting Standards.

Net interest receivable for the year was £1.4m compared with £3.1m payable in 1993. This improvement was consistent with the continuing cash generation from the Group and the resultant closing net cash position. The translation effect of changes in exchange rates had an immaterial impact on the results for the year.

The taxation charge in 1994 was £12.1m, representing an effective rate of 27%. Excluding the loss on disposal of a subsidiary, this rate falls to 26% and includes the benefit of the utilisation of losses brought forward and ACT relating to prior years of £13.2m. Following the Group's continuing recovery of UK-based profits, the Group's tax charge can be expected to increase as a percentage of pre-tax profits in future years.

Earnings per share (e.p.s.) on an FRS 3 basis improved to 9.8p in 1994 compared with 8.0p in 1993. Normalised e.p.s., excluding the loss on disposal of a subsidiary, were 10.5p compared with 8.0p in 1993.

During 1994 the Group continued to experience a healthy trading cash inflow of £53.7m so that at the end of 1994 net cash was £51.4m compared with the opening net cash position of £18.6m. The Group continued to benefit during the year from significant instalments in advance of expenditure on certain contracts. At the end of 1994 these were £113.7m (1993 £77.5m), of which £42.3m was receivable at the year end. The Group has £150m of committed credit facilities in place with several major banks for five year periods commencing in 1992.

Under the new corporate governance requirement, the Board has confirmed that it has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

New Accounting Standards FRS 4 (Capital Instruments) and FRS 5 (Reporting the Substance of Transactions) are in force in this year's Accounts. Neither has had a material effect on the Group's results.

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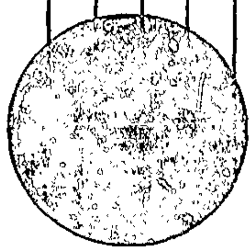
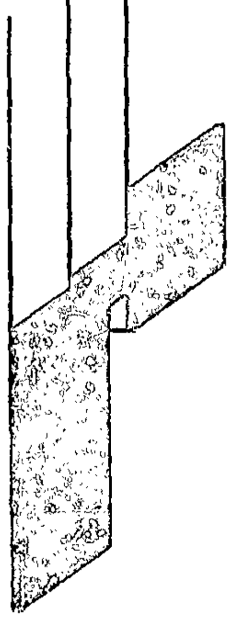
Roger Head, Managing Director, Finance and Planning




**1994 Turnover by Principal Activity**




**Balance Sheet Net Cash/ (Net Indebtedness)**

## BOARD OF DIRECTORS








**Membership of Board committees**

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

◊ Member of the Chairman's and Nominations committees.

Δ Member of the Audit and Remuneration committees.

† Member of the Executive Committee.

∅ Member of the Finance Committee.

Mr Peter Boxer, Director of External Relations, is a member of the Executive and Finance committees.

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

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**Sir Richard Lloyd Bt.** ◊ Δ
*Chairman*

Age 66. Appointed to the Board in 1978, becoming Chairman in 1992. Chairman Designate of Argos and Deputy Chairman of Hill Samuel Bank. Other directorships include Harrison and Crosfield, Slebe and Simon Engineering. He is a Member of the Advisory Board of the Royal College of Defence Studies and of the Council of the CBI.

**Sir Colin Chandler** ◊ † Ø
*Chief Executive*

Age 55. Joined Vickers in 1989 becoming Managing Director in 1990 and Chief Executive in 1992. He previously held a number of senior appointments at Hawker Siddeley and British Aerospace. In 1985 he was appointed Head of Defence Export Services at the MoD. He is a Non-Executive Director of TI Group and Siemens Plessey Electronic Systems.

## EXECUTIVE DIRECTORS

**Roger Hood B.Sc.(Econ), F.C.A.** † Ø
*Managing Director, Finance & Planning*

Age 48. Joined Vickers Engineering in 1977, subsequently holding a number of senior posts within the Group. He became Finance Director Vickers PLC in 1987. Appointed Managing Director Finance in 1992, assuming responsibility for Corporate Development in 1993.

**Andrew John LL.B.** † Ø
*Commercial Director*

Age 42. Joined Vickers in 1981 as Company Solicitor, subsequently becoming Head of Group Legal and Contracts Department between 1986 and 1989. He rejoined Vickers in 1991 as Director of Commercial Affairs. Appointed to the Board in June 1994.

**Peter Ward** †
*Chairman Rolls-Royce Motor Cars*

Age 49. Joined Rolls-Royce Motors in 1963, becoming Managing Director in 1986. Appointed Chief Executive of Rolls-Royce Motor Cars in 1987 and Chairman and Chief Executive in 1991. He joined the Vickers Board in 1991.

**Chris Woodwark, B.Sc.(Econ), Dip.M., F.I.C.M.** †
*Chairman, Cosworth Engineering; Chief Executive Rolls-Royce Motor Cars*

Age 48. Appointed Chief Executive, Cosworth in 1993, becoming Chairman of Cosworth, Chief Executive of Rolls-Royce Motor Cars and an Executive Director of Vickers in January 1995.

## NON-EXECUTIVE DIRECTORS

**H.R.H. The Duke of Kent K.G., G.C.M.G., G.C.V.O., A.D.C.** ◊ Δ

Age 59. The Duke is Vice Chairman of The British Overseas Trade Board, President of the Engineering Council, President of BTEC, and a Non-Executive Director of BICC. He joined the Vickers Board in 1987.

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

Age 52. Chief Executive of Charter, he is also Chairman of Cape; ESAB A.B.; Pedrol International and Hargreaves Quarries. He is a Non-Executive Director of M&G Recovery Investment Trust. Appointed to the Vickers Board in 1991.

**Sipko Huismans B.A.(Com.)** ◊ Δ

Age 54. Chief Executive of Courtaulds. Elected a Director of Courtaulds in 1984, becoming Chairman of the Group's Chemical and Industrial Executive in 1988. Appointed Managing Director of Courtaulds in 1990 and Chief Executive in 1991. Joined the Vickers Board in October 1994.

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

Age 60. Vice Chairman of Hanson, a member of the Council of the CBI; a member of the Industrial Development Advisory Board of the DTI; CBI representative on the Committee on the Financial Aspects of Corporate Governance; a Director of the National Westminster Bank and Chairman of National Westminster Life Assurance. Appointed to the Vickers Board in 1986.

# REPORT OF THE DIRECTORS

The Directors of Vickers P.L.C. present their Annual Report and the Audited Accounts for the financial year ended 31 December 1994.

**Principal activities**

Vickers P.L.C.'s principal activities are the production and sale of Rolls-Royce and Bentley motor cars, Cosworth high-efficiency automotive engines, armoured fighting vehicles, marine propulsion systems, superalloys for the aerospace and automotive industries and medical equipment.

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

**Dividends**

An interim dividend of 1.75p (1993: 1.25p) net per Ordinary Share was paid on 19 October 1994. The Directors are recommending a final dividend of 3.0p (1993: 1.75p) net per Ordinary Share, making a total for the 1994 financial year of 4.75p (1993: 3.0p) net per Ordinary Share. Subject to approval by shareholders of this recommendation at the forthcoming Annual General Meeting, the final dividend will be paid on 5 May 1995 to shareholders registered on 6 April 1995.

Dividends paid on Preference Stock in respect of the 1994 financial year amounted to a total of £0.4 million.

After taking account of these dividends, which amount to £16.1 million, a sum of £16.5 million has been transferred to reserves.

**Directors**

Details of those Directors who served throughout the financial year are given on page 29.

Mr G Boxall retired from the Board on 31 May 1994. Mr A L John was appointed an Executive Director on 1 June 1994 and Mr S Huismans was appointed a Non-Executive Director on 7 October 1994. Since the end of the financial year, Mr C J S Woodwark became an Executive Director on 1 January 1995. In addition, Mr P Y Ward is relinquishing his membership of the Board when he leaves Vickers later this year.

In accordance with the Articles of Association, at the forthcoming Annual General Meeting:

Mr S Huismans, Mr A L John and Mr C J S Woodwark will vacate office and offer themselves for election.

HRH The Duke of Kent and Mr R B Head will retire by rotation. Mr Head will offer himself for re-election.

HRH The Duke of Kent has decided not to offer himself for re-election.

Mr Head and Mr John have service contracts which are subject to 36 months' notice by the Company. Mr Woodwark has a service contract which is subject to 30 months' notice by the Company. Mr Huismans, being a Non-Executive Director, does not have a service contract.

**Remuneration of Directors**

The salaries, bonuses and any grant of share options or phantom options in respect of the Executive Directors are determined by the Remuneration Committee. This Committee comprises all of the Non-Executive Directors and is chaired by Sir Richard Lloyd.

It determines the remuneration of the Executive Directors by judging their performance against a range of operational and commercial criteria. In making its judgements, it has access to independent advice. The Committee considers that the remuneration of Executive Directors must be set at a level which encourages the recruitment and retention of high calibre individuals capable of delivering shareholder value. Thus, remuneration levels are designed to be competitive with those available elsewhere.

continued

The Executive Directors' remuneration comprises four elements:

(a) Salary: This reflects experience, responsibilities and market comparisons.
(b) Bonus: The bonus scheme applicable to 1994 was designed to reward the achievement of certain earnings per share and cash flow targets and also the attainment, in that year, of certain specific objectives which will prove to be of long term value to the Company and its shareholders.
(c) Pension and other benefits: These are competitive with those available elsewhere in the market.
(d) Long-term incentives: These consist of grants of Approved share options and phantom options.

Details of Directors' remuneration and interests in the issued share capital of the Company are set out in Note 8 to the Accounts.

**Corporate Governance**

The Company has complied throughout the financial year with those elements of the Code of Best Practice issued by the Committee on the Financial Aspects of Corporate Governance that were in force for the year. The only element of the Code not yet in force is that relating to reporting on internal controls for which the guidance for directors has only recently been published. It will be in place in the Company's next financial year.

The auditors, KPMG, have confirmed that in their opinion: with respect to the Directors' statement on going concern on page 35, the Directors have provided the disclosures required by paragraph 4.6 of the Code (as supplemented by the related guidance for directors) and the statement is not inconsistent with the information of which they are aware from their audit work on the Accounts; and that the Directors' statement above appropriately reflects the Company's compliance with the other paragraphs of the Code in force specified by the Listing Rules for their review. They have carried out their review in accordance with the Bulletin issued by the Auditing Practices Board, which does not require them to perform any additional work necessary to express a separate opinion on the effectiveness of the Company's system of corporate governance procedures, or on the ability of the Group to continue in operational existence.

The Board of Directors, which meets regularly, comprises five Executive and five Non-Executive Directors. All of the Non-Executive Directors are independent of Vickers' management and they represent a strong element on the Board.

The separate roles of the Non-Executive Chairman and the Chief Executive are clearly delineated. They provide leadership and guidance to the Board, which in turn reserves to itself a range of key decisions to ensure that it retains proper direction and control of the Group. The Board delegates the day-to-day management of the Group's affairs to the Chief Executive and to individual managers. However, there are also a number of committees of the Board, each with individual terms of reference, which underpin its activities.

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

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

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

Remuneration Committee: This Committee is chaired by the Chairman and comprises the Non-Executive Directors. It meets at such times as may be determined by the Chairman and recommends to the Board the level of remuneration, in all its forms, payable to the Executive Directors. It also administers the Vickers Share Option schemes.

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# REPORT OF THE DIRECTORS

Executive Committee: Chaired by the Chief Executive and comprising the Executive Directors and the Director of External Relations, this Committee provides a forum for joint discussion of all major matters affecting Vickers and is attended by all of the Divisional Chief Executives.

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

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

**Share Capital**

All of the resolutions submitted to the Annual General Meeting held on 28 April 1994 were duly passed, including that which authorised the Directors, in accordance with Section 80 of the Companies Act 1985, to allot relevant securities during the period ending upon the conclusion of the next Annual General Meeting (or 1 July 1995, whichever should be earlier) and disapplied the statutory pre-emption rights relating to the issue of Ordinary Shares for a wholly cash consideration.

It is the opinion of the Directors that such authorities should be renewed for a further period of one year in respect of an aggregate of £53,300,000 nominal Ordinary Shares representing less than one-third of the current total number of Ordinary Shares issued. Renewal of the disapplication of statutory pre-emption rights would continue to allow the Directors to issue Ordinary Shares, in accordance with recommended institutional investor guidelines, by way of a rights issue and, in addition, £8,200,000 nominal Ordinary Shares for cash representing approximately 5% of the total number currently issued.

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

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

**Share Option Schemes**

At the 1994 Annual General Meeting, it was resolved that the Vickers 1994 Approved Savings-Related Share Option Scheme and 1994 Approved Share Option Scheme should be adopted.

The latter Scheme was adopted on the basis that all options granted under the Scheme would be subject to performance conditions designed so that options could not be exercised unless there was a sustained improvement in the underlying financial performance of the Company during the option period. Any share options which may be granted under the Scheme, are subject to an objective performance target determined by the Remuneration Committee. This target has already been applied to grants during 1994 of phantom share options (details of which are contained in Note 8 to the Accounts). It requires that in any consecutive period of three years, the Company's percentage growth in annualised earnings per share shall have been at least equivalent to the percentage increase, if any, in the retail prices index plus 10%. The Committee has also expressed the desire that participants should apply a proportion of the net proceeds towards retention of shares in the Company.

continued

### Large shareholdings

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

| | % |
|---|---|
| **Ordinary Shares** | |
| Schroder Investment Management Limited | 11.18 |
| Gartmore Investment Management Limited | 9.95 |
| Norwich Union Fund Managers Limited | 3.62 |
| Scottish Amicable Investment Managers Limited | 3.39 |

The holding of Ordinary Shares by Gartmore Investment Management Limited is non-beneficial and relates not only to the disclosing company but also to its subsidiary and associate companies and/or certain pension funds, unit trusts and investment trusts under its management.

| | |
|---|---|
| **Preferred 5% Stock** | |
| Mr P. S. Allen | 20.36 |
| Co-operative Insurance Society Limited | 15.03 |
| Provincial Insurance plc | 13.33 |
| The Investment Company PLC | 9.93 |
| Trustees of the Associated British Engineering Pension Fund | 5.25 |
| I.E.P. Securities Limited | 3.01 |
| **5% Preference Stock** | |
| The Investment Company PLC | 20.90 |
| Provincial Insurance plc | 16.79 |
| Mr P. S. Allen | 14.97 |
| Co-operative Insurance Society Limited | 11.61 |
| **Cumulative Preference Stock** | |
| Commercial Union Investment Management Limited | 22.93 |
| Phoenix Assurance plc | 12.98 |
| The Prudential Assurance Company Limited | 8.65 |
| Co-operative Insurance Society Limited | 8.57 |
| I.E.P. Securities Limited | 8.33 |
| Ecclesiastical Insurance Group | 7.28 |
| Norwich Union Fire Insurance Society Limited | 7.28 |
| The Investment Company PLC | 6.63 |

### Fixed assets

Details of significant changes in the fixed assets are given in Note 10 to the Accounts. The Directors are of the opinion that the overall value of the Group's properties, on an existing use basis, taking into account that they are held for the longer term and depreciated accordingly, is not materially different from that shown in the Accounts.

### Research and development

Regular monitoring of research and development activities is undertaken during the annual planning cycle. Research and development costs incurred during the financial year were £38.4m (1993: £76.0m) which, after deduction of contributions from customers and government grants, amounted to £21.1m (1993: £27.8m). The high figure in 1993 compared to 1994 represented the completion of unfunded elements of the Challenger 2 programme.

### Equal opportunities

The Company's policies on equal opportunities and non-discrimination have been reviewed and updated during the year. These specifically refer to employment of people with disabilities to ensure applications for employment by such people are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of employees becoming disabled, every effort is made, including appropriate training, to ensure that their employment with the Group continues. It is the policy of the Company to further, as far as possible, the training, career development and promotion of disabled employees.

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# REPORT OF THE DIRECTORS

**Employee Involvement**

Communicating to employees information about the business in which they work and the activities of the Group as a whole is vitally important. The well-established practice of team briefing is an essential part of this process and is particularly important in helping to achieve a common awareness on the part of all employees of the financial and economic factors affecting the performance of the Group and its constituent parts. Improvements in the effectiveness of this and other ways of communicating with employees are continually sought.

The Company has an Approved Savings-Related Share Option Scheme which, by encouraging share ownership, in turn encourages the involvement of employees in the Company's performance.

**Training and development**

During the year more companies within the Group have committed to achievement of the Investors in People national training standard as part of our continuing commitment to the training and development of employees.

An annual review and report on training and development is presented to your Board, whose support is important in ensuring we maintain a supply of well trained managers within the Company.

On a selective basis, senior executives have the opportunity of attending the finest international business schools such as Harvard, INSEAD and London. Our Management Skills programme at Ashridge Management College continues to provide a firm foundation in the essential skills of management. Our Development Workshops for junior management are well established and are now available to employees not only in the UK businesses but also on a global basis.

The Performance Review system has been revised and relaunched during the year and will in future concentrate upon the important areas of individual development and setting business-related job objectives.

In addition to the formal structure in which the Company provides training, we are promoting the philosophy of continuous self development in which employees take personal responsibility for their own development supported as appropriate by the Company.

Recruitment of young people, including graduates, has increased in 1994, although the level of intake is still significantly below the levels prior to the onset of recession. We are confident that these modest levels of recruitment will continue to increase during the next and following years as further evidence of our commitment to long term growth.

**Donations**

During the financial year, Vickers made donations totalling £160,000 gross in support of a number of national and local charitable activities in the United Kingdom.

The Company made no political donations during the financial year.

**Auditors**

On 6 February 1995, the Company's auditors changed the name under which they practise to KPMG and accordingly have signed their Report in their new name. A resolution for the re-appointment of KPMG as auditors of the Company and authorising the Directors to fix their remuneration is to be proposed at the forthcoming Annual General Meeting. X

**Insurance for Directors and Officers**

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

**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
28 February 1995

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

The Directors consider that, in preparing the Accounts, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed. The Directors consider that the Accounts have been prepared on a going concern basis.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose, with reasonable accuracy, the financial position of the Company and which enable them to ensure that the Accounts comply with the Companies Act 1985.

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

# REPORT OF THE AUDITORS

To the members of Vickers P.L.C.

We have audited the Accounts on pages 36 to 57.

**Respective responsibilities of Directors and Auditors**

As described above the Company's Directors are responsible for the preparation of Accounts. It is our responsibility to form an independent opinion, based on our audit, on those Accounts and to report our opinion to you.

**Basis of opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Accounts.

It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Accounts, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

**Opinion**

In our opinion the Accounts give a true and fair view of the state of affairs of the Company and the Group as at 31 December 1994 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

KPMG
Chartered Accountants
Registered Auditors

London
28 February 1995

# ACCOUNTING POLICIES

**Basis of consolidation**

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

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

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

**Foreign currencies**

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

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

**Turnover**

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

**Research and development expenditure**

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

**Taxation**

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

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

Advance Corporation Tax, which is not considered recoverable against taxation liabilities in the foreseeable future, is included in the taxation charge of the period.

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

continued

### Earnings per share

Earnings per share is presented in accordance with FRS 3.

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

### Tangible assets

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

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

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

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

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

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

### Stocks and work in progress

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

### Pension funding

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

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

| For the year ended 31 December | Notes | 1994 £m | 1994 £m | 1993 £m | 1993 £m |
|---|---|---|---|---|---|
| **Turnover** | | | | | |
| Continuing operations | | 724.2 | | 689.6 | |
| Acquisitions | | 3.0 | | - | |
| **Total turnover** | 2 | | 727.2 | | 689.6 |
| Operating costs | 3 | | (681.4) | | (654.2) |
| **Operating profit** | | | | | |
| Continuing operations, before restructuring | | 51.9 | | 36.6 | |
| Restructuring costs | 3 | (6.7) | | (1.2) | |
| | | 45.2 | | 35.4 | |
| Acquired operations | | 0.6 | | - | |
| | 3 | | 45.8 | | 35.4 |
| Loss on disposal of subsidiary | 1 | | (2.4) | | - |
| **Profit on ordinary activities before interest** | | | 43.4 | | 35.4 |
| Net interest receivable/(payable) and other similar items | 4 | | 1.4 | | (3.1) |
| **Profit on ordinary activities before taxation** | | | 44.8 | | 32.3 |
| Taxation | 5 | | (12.1) | | (6.6) |
| **Profit on ordinary activities after taxation** | | | 32.7 | | 25.7 |
| Minority interests – Equity | | | (0.1) | | (0.1) |
| **Shareholders' profit for the financial year** | | | 32.6 | | 25.6 |
| Dividends – Equity and non equity | 6 | | (16.1) | | (10.3) |
| **Profit transferred to reserves** | | | 16.5 | | 15.3 |

| | Notes | Pence | Pence |
|---|---|---|---|
| **Earnings per 50p Ordinary Share** | 7 | | |
| FRS 3 basis | | 9.8 | 8.0 |
| Normalised earnings basis | | 10.5 | 8.0 |

| | £m | £m |
|---|---|---|
| **Retained profit** | | |
| The Company | 5.2 | 15.2 |
| Subsidiary undertakings | 11.3 | 0.1 |
| | 16.5 | 15.3 |

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## BALANCE SHEETS

| At 31 December | Notes | Group 1994 £m | Group 1993 £m | Company 1994 £m | Company 1993 £m |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Tangible assets | 10 | 227.3 | 229.6 | 72.2 | 71.7 |
| Investments – Subsidiary undertakings | 13 | – | – | 484.6 | 484.1 |
| – Other investments | 14 | 8.8 | 8.8 | 0.1 | – |
| | | 236.1 | 238.4 | 556.9 | 555.8 |
| **Current assets** | | | | | |
| Stocks and work in progress | 15 | 167.0 | 140.3 | 46.1 | 27.8 |
| Debtors falling due after more than one year | 16 | 23.1 | 19.4 | 21.6 | 18.3 |
| Debtors falling due within one year | 16 | 225.4 | 154.1 | 227.6 | 208.9 |
| Cash and deposits | | 120.6 | 114.5 | 85.4 | 81.3 |
| | | 536.1 | 428.3 | 380.7 | 336.3 |
| **Creditors: amounts falling due within one year** | | | | | |
| Borrowings | 17 | (31.9) | (61.6) | (23.9) | (54.0) |
| Other liabilities | 17 | (342.4) | (237.3) | (516.8) | (458.1) |
| | | (374.3) | [illegible] | (540.7) | (512.1) |
| **Net current assets/(liabilities)** | | 161.8 | 129.4 | (160.0) | (175.8) |
| **Total assets less current liabilities** | | 397.9 | 367.8 | 396.9 | 380.0 |
| **Creditors: amounts falling due after more than one year** | | | | | |
| Borrowings | 17 | (37.3) | (34.3) | (35.3) | (32.4) |
| Other liabilities | 17 | (19.1) | (17.2) | (1.6) | (2.3) |
| | | (56.4) | (51.5) | (36.9) | (34.7) |
| **Provisions for liabilities and charges** | 18 | (46.7) | (36.5) | (20.4) | (12.6) |
| | | 294.8 | 279.8 | 339.6 | 332.7 |
| **Capital and reserves** | | | | | |
| Called up share capital | 19 | 173.2 | 172.7 | 173.2 | 172.7 |
| Share premium account | 20 | 55.5 | 54.3 | 55.5 | 54.3 |
| Revaluation reserve | 20 | 40.6 | 53.1 | 15.0 | 15.5 |
| Profit and Loss Account | 20 | 17.3 | (0.6) | 95.9 | 90.2 |
| Equity | | 286.2 | 271.1 | 331.2 | 324.3 |
| Non-equity | | 8.4 | 8.4 | 8.4 | 8.4 |
| Shareholders' funds | | 294.6 | 279.5 | 339.6 | 332.7 |
| Minority interests – Equity | | 0.2 | 0.3 | – | – |
| | | 294.8 | 279.8 | 339.6 | 332.7 |

The Accounts on pages 36 to 57 were approved by the Board of Directors on 28 February 1995 and were signed on its behalf by:

R. E. B. Lloyd

R. B. Head

R. B. Head

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# CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

| | 1994 £m | 1993 £m |
|---|---|---|
| Profit for the financial year | 32.6 | 25.6 |
| Currency translation differences on foreign currency net investments | (0.6) | (2.5) |
| | 32.0 | 23.1 |

# NOTE OF CONSOLIDATED HISTORICAL COST PROFITS AND LOSSES

| | 1994 £m | 1993 £m |
|---|---|---|
| Reported profit on ordinary activities before taxation | 44.8 | 32.3 |
| Realisation of property revaluation gains of previous years | 1.0 | 0.3 |
| Difference between historical cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount | 1.0 | 0.8 |
| Historical cost profit on ordinary activities before taxation | 46.8 | 33.4 |
| Historical cost profit for the year retained after taxation, minority interests and dividends | 10.5 | 16.4 |

# RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

| | Group | | Company | |
|---|---|---|---|---|
| | 1994 £m | 1993 £m | 1994 £m | 1993 £m |
| Total recognised gains and losses for the year | 32.0 | 23.1 | 21.3 | 25.5 |
| Dividends | (16.1) | (10.3) | (16.1) | (10.3) |
| New share capital subscribed, net of expenses | 1.7 | 60.3 | 1.7 | 60.3 |
| Goodwill written off | (4.5) | – | – | – |
| Goodwill on disposal written back | 1.8 | – | – | – |
| Purchase of minority interest | 0.2 | – | – | – |
| Increase in Shareholders' funds | 15.1 | 73.1 | 6.9 | 75.5 |
| Opening Shareholders' funds | 279.5 | 206.4 | 332.7 | 257.2 |
| Closing Shareholders' funds | 294.6 | 279.5 | 339.6 | 332.7 |

# CASHFLOW STATEMENT

| For the year ended 31 December | Note | £m | 1994 £m | £m | 1993 £m |
|---|---|---|---|---|---|
| Net cash inflow from operating activities | 23 | | 75.9 | | 84.9 |
| **Returns on investments and servicing of finance** | | | | | |
| Interest received | | 6.7 | | 5.0 | |
| Interest paid | | (5.9) | | (8.7) | |
| Dividends paid | | (11.9) | | (7.1) | |
| Net cash outflow from returns on investments and servicing of finance | | | (11.1) | | (10.8) |
| **Taxation** | | | | | |
| U.K. Corporation Tax paid | | (5.4) | | – | |
| Overseas tax paid | | (3.2) | | (3.7) | |
| Tax paid | | | (8.6) | | (3.7) |
| **Investing activities** | | | | | |
| Purchase of tangible fixed assets | | (24.5) | | (20.7) | |
| Purchase of subsidiary undertakings | | (2.7) | | – | |
| Purchase of minority interest | | (0.2) | | – | |
| Sale of tangible fixed assets | | 1.5 | | 2.7 | |
| Withdrawal from businesses | | 0.2 | | – | |
| Sale of investment in Associated Undertaking | | – | | 5.8 | |
| Net cash outflow from investing activities | | | (25.7) | | (12.2) |
| **Net cash inflow before financing** | | | 30.5 | | 58.2 |
| **Financing** | | | | | |
| Issue of Ordinary share capital | | 1.7 | | 60.3 | |
| Repayment of loan notes | | (0.3) | | (4.1) | |
| Net increase in non–cash deposits | | (30.1) | | (36.2) | |
| Net increase/(decrease) in secured loans | | 0.2 | | (0.2) | |
| Net increase/(decrease) in unsecured loans | | 5.1 | | (33.3) | |
| Net cash outflow from financing | | | (23.4) | | (13.5) |
| Net increase in cash and cash equivalents | | | 7.1 | | 44.7 |

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# NOTES TO THE ACCOUNTS

## 1 ACQUISITIONS AND DISPOSALS

(a) In August 1994 KaMeWa AB purchased the shares of FF Jet OY, a Finnish marine propulsion group; in December 1994 Vickers P.L.C. purchased shares in Engstrom MIE Limited, a UK medical equipment company; and in May 1994 Air-Shields Vickers Inc purchased the trading assets of Watchchild, a US software business, since renamed Air-Shields Information Systems (ASIS).

| | Book value £m | Fair value adjustments £m | Aquisition provisions £m | Fair value £m | Analysis of Fair Value: FF Jet £m | MIE £m | ASIS £m |
|---|---|---|---|---|---|---|---|
| Fixed assets | 1.9 | (0.7) | – | 1.2 | 0.8 | 0.3 | 0.1 |
| Current assets | 4.7 | (0.3) | – | 4.4 | 0.8 | 3.6 | – |
| Current liabilities | (4.6) | (0.1) | (0.6) | (5.3) | (2.0) | (3.3) | – |
| Net assets acquired | 2.0 | (1.1) | (0.6) | 0.3 | (0.4) | 0.6 | 0.1 |
| Goodwill | | | | 4.5 | 1.5 | 1.3 | 1.7 |
| | | | | 4.8 | 1.1 | 1.9 | 1.8 |
| **Satisfied by:** | | | | | | | |
| Consideration: paid | | | | 2.7 | 1.7 | – | 1.0 |
| deferred | | | | 1.3 | – | 0.5 | 0.8 |
| Cash and cash equivalents acquired | | | | 0.8 | (0.6) | 1.4 | – |
| | | | | 4.8 | 1.1 | 1.9 | 1.8 |

The contribution to Group profit in the year was £0.6m which comprised gross profit of £1.2m less administrative expenses of £0.6m.

(b) In October 1994 Vickers International Limited disposed of its interest in nbn Medezin Elektronik GmbH, for consideration of £0.5m of which £0.3m was deferred. Book value of the assets sold was £0.3m and the loss on disposal was £0.6m. Goodwill on acquisition, previously written off direct to reserves, amounted to £1.8m and has been added to the loss giving a total loss on disposal of £2.4m.

## 2 SEGMENTAL INFORMATION

| | Turnover 1994 £m | Turnover 1993 £m | Operating profit before restructuring costs 1994 £m | Operating profit before restructuring costs 1993 £m | Net assets 1994 £m | Net assets 1993 £m |
|---|---|---|---|---|---|---|
| **Principal activities** | | | | | | |
| Automotive | 287.0 | 238.9 | 21.0 | 10.5 | 79.1 | 126.3 |
| Defence | 126.1 | 144.9 | 12.7 | 10.3 | 1.4 | (28.5) |
| Propulsion Technology | 145.2 | 136.5 | 9.3 | 9.0 | 54.5 | 50.1 |
| Medical | 118.8 | 129.8 | 6.0 | 9.7 | 63.2 | 70.1 |
| Other activities | 50.9 | 40.2 | 3.5 | (2.9) | 51.5 | 49.5 |
| Associated undertakings | – | – | – | – | 8.7 | 8.7 |
| | 728.0 | 690.3 | 52.5 | 36.6 | 258.4 | 276.2 |
| Inter-segment sales | (0.8) | (0.7) | | | | |
| Unallocated net assets | | | | | 14.8 | 7.3 |
| Taxation | | | | | (19.7) | (16.4) |
| Dividends | | | | | (10.1) | (5.9) |
| **Sales to third parties** | 727.2 | 689.6 | | | | |
| **Operating profit before restructuring costs** | | | 52.5 | 36.6 | | |
| **Total net assets** | | | | | 243.4 | 261.2 |

continued

| | Turnover by destination 1994 £m | Turnover by destination 1993 £m | Turnover by origin 1994 £m | Turnover by origin 1993 £m | Operating profit before restructuring costs 1994 £m | Operating profit before restructuring costs 1993 £m | Net assets 1994 £m | Net assets 1993 £m |
|---|---|---|---|---|---|---|---|---|
| **Geographical segment** | | | | | | | | |
| United Kingdom | 245.9 | 240.8 | 518.7 | 481.9 | 48.3 | 37.6 | 172.0 | 182.3 |
| North America | 166.2 | 156.1 | 166.9 | 159.6 | 4.3 | (1.2) | 59.2 | 56.7 |
| Continental Europe | 152.9 | 136.5 | 128.3 | 133.5 | 0.3 | 0.4 | 41.0 | 43.6 |
| Asia/Pacific | 118.7 | 88.8 | 2.8 | 2.5 | (0.5) | (0.1) | 0.9 | 0.9 |
| Rest of the World | 43.5 | 67.4 | – | 0.1 | 0.1 | (0.1) | 0.1 | – |
| | 727.2 | 689.6 | 816.7 | 777.6 | 52.5 | 36.6 | 273.2 | 283.5 |
| Inter-segment sales | | | (89.5) | (88.0) | | | | |
| Taxation | | | | | | | (19.7) | (16.4) |
| Dividends | | | | | | | (10.1) | (5.9) |
| **Sales to third parties** | 727.2 | 689.6 | 727.2 | 689.6 | | | | |
| **Operating profit before restructuring costs** | | | | | 52.5 | 36.6 | | |
| **Total net assets** | | | | | | | 243.4 | 261.2 |

**Analysis of Turnover and Profit originating in Continental Europe**

| | Turnover 1994 £m | Turnover 1993 £m | Operating profit before restructuring costs 1994 £m | Operating profit before restructuring costs 1993 £m |
|---|---|---|---|---|
| Sweden | 54.5 | 44.8 | 2.5 | 1.7 |
| Switzerland | 24.6 | 36.2 | – | – |
| Denmark | 17.4 | 16.6 | – | 0.1 |
| Italy | 11.7 | 13.3 | (2.0) | (3.3) |
| Germany | 4.6 | 6.3 | (0.9) | – |
| Other countries | 20.1 | 20.5 | 0.7 | 1.9 |
| | 132.9 | 137.7 | 0.3 | 0.4 |
| Intra-segment sales | (4.6) | (4.2) | | |
| | 128.3 | 133.5 | | |
| Inter-segment sales | (9.3) | (9.9) | | |
| | 119.0 | 123.6 | 0.3 | 0.4 |

# NOTES TO THE ACCOUNTS

**Reconciliation of total net assets:**

| | 1994 £m | 1993 £m |
|---|---|---|
| Net assets as shown in the Consolidated Balance Sheet | 294.8 | 279.8 |
| Exclude interest-bearing assets and liabilities: | | |
| Cash and deposits | (120.6) | (114.5) |
| Borrowings falling due within one year | 31.9 | 61.6 |
| Borrowings falling due after more than one year | 37.3 | 34.3 |
| | 243.4 | 261.2 |

**1994: Restructuring costs**

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

**1993: Restructuring costs**

| | Automotive £m | Propulsion Technology £m | Medical £m | Other Activities £m | Total £m |
|---|---|---|---|---|---|
| United Kingdom | (0.4) | (0.5) | – | 0.5 | (0.4) |
| Continental Europe | – | – | (0.8) | – | (0.8) |
| | (0.4) | (0.5) | (0.8) | 0.5 | (1.2) |

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

**3 Operating profit**

| | 1994 £m | 1994 £m | 1993 £m | 1993 £m |
|---|---|---|---|---|
| Turnover | | 727.2 | | 689.6 |
| Cost of sales – ongoing | (545.7) | | (526.2) | |
| – restructuring | (0.3) | | (0.2) | |
| | | (546.0) | | (526.4) |
| Gross profit | | 181.2 | | 163.2 |
| Administrative expenses – ongoing | (125.7) | | (123.7) | |
| – restructuring | (6.4) | | (1.0) | |
| | | (132.1) | | (124.7) |
| Distribution costs – ongoing | (4.4) | | (4.3) | |
| – restructuring | – | | – | |
| | | (4.4) | | (4.3) |
| Other operating income | | 1.1 | | 1.2 |
| Operating profit | | 45.8 | | 35.4 |

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continued

| | 1994 £m | 1993 £m |
|---|---|---|
| **Operating profit is after charging:** | | |
| Research and development | 21.1 | 27.8 |
| Depreciation: | | |
| Depreciation on owned assets | 26.1 | 24.0 |
| Depreciation on leased assets | 0.3 | 0.4 |
| Auditors' remuneration: | | |
| Audit fees | 0.9 | 0.9 |
| Non-audit fees | 0.2 | 0.5 |
| Operating lease charges: | | |
| Hire of plant and machinery | 2.1 | 2.5 |
| Other lease charges | 2.3 | 2.5 |
| **After crediting:** | | |
| Rental income, less outgoings, from properties | 0.2 | 0.1 |
| Profit on disposal of fixed assets | 0.3 | – |

## 4 Net interest receivable/(payable) and other similar items

| | 1994 £m | 1993 £m |
|---|---|---|
| Interest payable and similar charges: | | |
| Borrowings totally repayable within one year | (3.0) | (5.8) |
| Borrowings totally repayable between one and five years | (2.1) | (2.2) |
| All other borrowings | (0.6) | (0.5) |
| | (6.5) | (8.5) |
| Interest capitalised | 0.2 | 0.1 |
| Interest receivable | 7.7 | 5.3 |
| | 1.4 | (3.1) |

## 5. Taxation

| | 1994 £m | 1993 £m |
|---|---|---|
| United Kingdom taxation: | | |
| Corporation Tax | (8.5) | (5.8) |
| Deferred taxation | (1.6) | (0.9) |
| Overseas taxation: | | |
| Current taxation | (2.9) | (2.6) |
| Deferred taxation | – | 0.3 |
| Prior years | 0.9 | 2.4 |
| | (12.1) | (6.6) |

The United Kingdom tax charge computed at 33% has been reduced by £13.2m (1993: £4.9m) due to utilisation of Advance Corporation Tax written off and losses brought forward.

**6 Dividends**

| | 1994 £m | 1993 £m |
|---|---|---|
| Preference, paid March and September | (0.4) | (0.4) |
| Ordinary: | | |
| Interim of 1.75p, paid October 1994 | ([illegible]) | (4.1) |
| Proposed final of 3.0p, payable May 1995 | (9.[illegible]) | (5.8) |
| | (16.1) | (10.3) |

**7 Earnings per share**

| | 1994 £m | 1993 £m |
|---|---|---|
| Shareholders' profit | 32.6 | 25.6 |
| Preference dividends | (0.4) | (0.4) |
| Profit for FRS 3 EPS calculation | 32.2 | 25.2 |
| Adjust for the after-tax effect of the loss on disposal of subsidiary | 2.4 | – |
| Profit for normalised EPS calculation | 34.6 | 25.2 |
| Average number of 50p Ordinary Shares | 329,282,043 | 315,876,570 |

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

**8 Directors and employees**

**(a) Directors' interests**

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

| | At 31 December 1994 | | At 1 January 1994 (or later date of appointment) | |
|---|---|---|---|---|
| | Ordinary Shares | Options | Ordinary Shares | Options |
| Sir Richard Lloyd, Bt. | 12,499 | – | 12,499 | – |
| Sir Colin Chandler | 12,500 | 688,239 | 12,500 | 688,239 |
| Mr. R.B. Head | 14,062 | 342,[illegible] | 14,062 | 342,442 |
| Mr. J.W. Herbert | 1,250 | – | 1,250 | – |
| Mr. S. Huismans | 2,000 | – | 2,000 | – |
| Mr. A. L. John | 1,080 | 73,429 | 1,080 | 68,621 |
| H.R.H. The Duke of Kent | 12,500 | – | 12,500 | – |
| Mr. M.G. Taylor | 6,250 | – | 6,250 | – |
| Mr. P.T. Ward | 10,317 | 358,933 | 1,521 | 358,642 |

On 8 August 1994, Mr P.T. Ward exercised an option under the Rules of the Vickers Group Approved Savings-Related Share Option Scheme over 3,796 Ordinary Shares at a subscription price of 161.2p. The mid-market price of the Company's shares on that date was 195p. No other Director exercised options during the year and none of their options lapsed. There have been no changes in the holdings shown in the table above since the end of the 1994 financial year.

Mr C.J.S. Woodwark, who became a Director on 1 January 1995, has beneficial interests in 1,000 Ordinary Shares. These shares were purchased on 12 January 1995 in order to comply with the directors' qualification shares requirement set out in the Company's Articles of Association. He was granted 80,000 Executive Share Options in 1993 at an option price of 154p; 40,000 Executive Share Options in 1994 at an option price of 181p; and 180,000 phantom options in 1994 at an option price of 174p.

The mid-market price of the Company's Ordinary Shares at the close of business on 30 December 1994 was 173p. The highest mid-market price during the year was 204p and the lowest mid-market price was 163p.

continued

**The Executive Directors' interests in share options are detailed below:**

| | Executive Options | | | | SAYE Options | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Number | Option Price (p) | Date Granted | Date Exercisable | Number | Option Price (p) | Date Granted | Date Exercisable | Total |
| Sir Colin | 364,197 | 202.77 | 1990 | 1993–2000 | 6,124 | 183.7 | 1991 | 1996 | |
| Chandler | 104,056 | 222.96 | 1991 | 1994–2001 | 5,750 | 120.0 | 1993 | 1999 | |
| | 208,112 | 86.49 | 1992 | 1995–2002 | | | | | |
| | | | | | | | | | 688,239 |
| Mr R. B. Head | 9,755 | 182.59 | 1986 | 1989–1996 | 1,948 | 184.8 | 1990 | 1995 | |
| | 49,426 | 186.05 | 1987 | 1990–1997 | 5,020 | 149.4 | 1991 | 1996 | |
| | 38,500 | 166.26 | 1987 | 1990–1997 | 5,750 | 120.0 | 1993 | 1999 | |
| | 19,250 | 166.26 | 1988 | 1991–1998 | | | | | |
| | 35,379 | 171.06 | 1988 | 1991–1998 | | | | | |
| | 104,056 | 202.77 | 1990 | 1993–2000 | | | | | |
| | 31,216 | 177.79 | 1990 | 1993–2000 | | | | | |
| | 26,014 | 160.49 | 1991 | 1994–2001 | | | | | |
| | 16,128 | 86.49 | 1992 | 1995–2002 | | | | | |
| | | | | | | | | | 342,442 |
| Mr A. L. John | 62,433 | 86.49 | 1992 | 1995–2002 | 6,188 | 121.2 | 1992 | 1997 | |
| | | | | | 4,808 | 143.5 | 1994 | 1999 | |
| | | | | | | | | | 73,429 |
| Mr P. T. Ward | 9,755 | 182.59 | 1986 | 1989–1996 | 1,948 | 184.8 | 1990 | 1995 | |
| | 81,294 | 186.05 | 1987 | 1990–1997 | 643 | 167.9 | 1990 | 1995 | |
| | 69,197 | 171.06 | 1988 | 1991–1998 | 5,750 | 120.0 | 1993 | 1999 | |
| | 40,061 | 202.77 | 1990 | 1993–2000 | 4,087 | 143.5 | 1994 | 1999 | |
| | 20,811 | 177.79 | 1990 | 1993–2000 | | | | | |
| | 26,014 | 222.96 | 1991 | 1994–2001 | | | | | |
| | 99,373 | 86.49 | 1992 | 1995–2002 | | | | | |
| | | | | | | | | | 358,933 |

**In addition, the Executive Directors are interested in the following phantom options:**

| | Number | Option Price (p) | Date Granted | Date Exercisable | Total |
|---|---|---|---|---|---|
| Sir Colin Chandler | 156,084 | 157.61 | 1992 | 1995–2002 (1) | |
| | 280,000 | 174.00 | 1994 | 1997–2004 (2) | |
| | | | | | 436,084 |
| Mr R. B. Head | 104,056 | 157.61 | 1992 | 1995–2002 (1) | |
| | 139,955 | 86.49 | 1992 | 1995–2002 | |
| | 77,564 | 174.00 | 1994 | 1997–2004 (2) | |
| | | | | | 321,575 |
| Mr A. L. John | 185,000 | 174.00 | 1994 | 1997–2004 (2) | 185,000 |
| Mr P. T. Ward | 104,056 | 157.61 | 1992 | 1995–2002 (1) | |
| | 177,000 | 174.00 | 1994 | 1997–2004 (2) | |
| | | | | | 281,056 |

(See Notes (1) and (2) overleaf)

# NOTES TO THE ACCOUNTS

Notes

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

(2) For this grant of phantom options, the Remuneration Committee has imposed the objective performance target that they can only be exercised if, over any consecutive period of three years, the Company's percentage growth in annualised earnings per share shall have been at least equivalent to the percentage increase, if any, in the retail prices index plus 10%. The Committee has also expressed the desire that participants should apply a proportion of the net proceeds towards retention of shares in the Company. In addition, it is the Committee's intention to replace these options with options under the Vickers Group 1994 Approved Share Option Scheme after the announcement of results on 1 March 1995. This replacement will only take place if, at the prospective date of grant of any Approved Option, the market value of the Company's shares does not exceed the phantom option price of 174p by 5% or more.

**(b) Directors' emoluments**

Directors' emoluments in the financial year were as follows:

| | 1994 £ | 1993 £ |
|---|---|---|
| Fees | 42,017 | 39,000 |
| Salaries and benefits | 1,048,614 | 1,036,114 |
| Bonuses | 450,842 | 398,299 |
| Pensions and pension contributions | 331,067 | 353,604 |
| Payment to a retiring director | 463,455 | – |
| **Total** | **2,335,995** | **1,827,017** |

The payment to a retiring Director comprises an amount the Company has contracted to pay in respect of a Director who is relinquishing his membership of the Board when he leaves the Company's service later in 1995. The Company's best estimate of the amount that will be ultimately payable is £423,000 by way of contribution for pension enhancement and £40,455 in respect of benefits otherwise than in cash.

Excluding Company pension contributions, the emoluments of the Chairman and Chief Executive, the highest paid Director, during the financial year were as follows:

| | Salary and benefits £000 | Bonus £000 | Total 1994 £000 | Salary and benefits £000 | Bonus £000 | Total 1993 £000 |
|---|---|---|---|---|---|---|
| Sir Richard Lloyd | 100 | – | 100 | 86 | – | 86 |
| Sir Colin Chandler | 345 | 153 | 498 | 335 | 153 | 488 |

During 1994 the Board of Directors, on the recommendation of the Remuneration Committee, resolved to establish unfunded retirement benefits for the Chief Executive of the Company, in order to provide a pension in respect of his eligible earnings in excess of the cap (now £76,800) imposed by the Finance Act 1989. The Company has provided a sum of £908,000 as at 31 December 1994, for all his accrued service liabilities. This provision enables the Company to ensure that the Chief Executive is not put at a disadvantage relative to other Executive Directors, each of whom is a member of several funded pension schemes. During the year, pension contributions of £30,540 (1993: £30,000) were paid by the Company to the Vickers' Retirement Scheme for the Chief Executive's funded pension in respect of his eligible earnings up to the cap referred to above.

continued

Excluding Company pension contributions, the emoluments of the Directors fell within the following bands:

| | 1994 | 1993 | | 1994 | 1993 |
|---|---|---|---|---|---|
| £1 – £5,000 | 1 | – | £270,001 – £275,000 | – | 1 |
| £10,001 – £15,000 | 3 | 3 | £280,001 – £285,000 | 1 | – |
| £85,001 – £90,000 | – | 1 | £320,001 – £325,000 | 1 | – |
| £100,001 – £105,000 | 1 | – | £335,001 – £340,000 | – | 1 |
| £125,001 – £130,000 | 1 | – | £485,001 – £490,000 | – | 1 |
| £165,001 – £170,000 | 1 | – | £495,001 – £500,000 | 1 | – |
| £250,001 – £255,000 | – | 1 | | | |

**(c) Number of employees**

| | 1994 | 1993 |
|---|---|---|
| The average number of employees during the year was made up as follows: | | |
| Production | 3,974 | 3,930 |
| Selling, distribution and administration | 5,144 | 5,476 |
| | 9,118 | 9,406 |

**(d) Employment costs**

| | 1994 £m | 1993 £m |
|---|---|---|
| Employee costs, including those of Executive Directors: | | |
| Wages and salaries | 179.9 | 174.2 |
| Social security costs | 20.0 | 20.6 |
| Other pension costs | 3.7 | 3.3 |
| | 203.6 | 198.1 |

**9 Pensions**

The Group operates a number of pension schemes both in the United Kingdom and overseas. The major schemes are the two main schemes established in the United Kingdom, the Vickers Group Pension Scheme ("VGPS") and the Rolls-Royce Motors Pension Fund ("RRMPF") covering approximately 3,200 employees and 2,800 employees respectively. Both are defined benefit schemes, and the pension costs relating to these Schemes are assessed in accordance with the advice of qualified actuaries using the Projected Unit Cost Method. The assets of the Schemes are held in separate trustee administered funds. None of the overseas schemes is material in a Group context.

The net pension charge for the Group was £3.7m (1993: £3.3m) of which £1.3m (1993: £1.3m) related to the overseas schemes.

At the date of the last actuarial valuation (April 1992) the market value of VGPS and RRMPF assets was £427m. In accordance with the relevant Accounting Standard, the schemes' actuaries have carried out valuations of these schemes for the purpose of assessing the pension costs. This indicates that the actuarial valuations of the assets of both schemes were 125% of the funds that had accrued to members. On the same basis, the actuarial surpluses of these schemes totalled £104.9m. On the advice of the respective actuaries, Group funding of these Schemes will remain suspended until the next actuarial valuations (April 1995). The assumptions which have the most significant effect on the results of the valuations are those relating to the rate of return on investments and the rates of increases in salaries and pensions. It has been assumed that the investment return would be 9% per annum, that salary increases would average 7% per annum and that present and future pensions would increase at the rate of 5% per annum. Differences between the amounts charged in the Accounts and the amounts transferred to the Schemes are shown in Note 16 (£19.0m (1993: £18.0m) in Prepayments falling due after more than one year) and in Note 17 (£6.0m (1993: £6.0m) in Other creditors falling due after more than one year).

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# NOTES TO THE ACCOUNTS

**10 Tangible assets**

| (a) Group | Land & buildings £m | Plant, machinery & vehicles £m | Office furniture & equipment £m | Tooling £m | Construction in progress £m | Total £m |
|---|---|---|---|---|---|---|
| Gross book value | | | | | | |
| At 1 January 1994 | 151.2 | 136.3 | 35.6 | 60.4 | 0.9 | 384.4 |
| Exchange adjustment | (0.3) | (0.5) | (0.3) | (0.1) | – | (1.2) |
| Capital expenditure | 1.2 | 11.2 | 4.0 | 5.1 | 4.1 | 25.6 |
| Acquisitions | 0.6 | 0.6 | – | – | – | 1.2 |
| Transfers | 0.3 | 1.5 | (0.6) | (0.2) | (1.0) | – |
| Disposals | (3.7) | (8.9) | (1.6) | (0.2) | (0.1) | (14.5) |
| Disposal of subsidiary | – | – | (0.1) | – | – | (0.1) |
| **At 31 December 1994** | 149.3 | 140.2 | 37.0 | 65.0 | 3.9 | 395.4 |
| Depreciation | | | | | | |
| At 1 January 1994 | 18.5 | 82.0 | 25.2 | 29.1 | – | 154.8 |
| Exchange adjustment | (0.1) | (0.3) | (0.2) | (0.1) | – | (0.7) |
| Provided during the year | 3.5 | 14.6 | 3.7 | 4.6 | – | 26.4 |
| Disposals | (2.6) | (8.0) | (1.5) | (0.2) | – | (12.3) |
| Disposal of subsidiary | – | – | (0.1) | – | – | (0.1) |
| **At 31 December 1994** | 19.3 | 88.3 | 27.1 | 33.4 | – | 168.1 |
| **Net book value at** | | | | | | |
| **31 December 1994** | 130.0 | 51.9 | 9.9 | 31.6 | 3.9 | 227.3 |
| 31 December 1993 | 132.7 | 54.3 | 10.4 | 31.3 | 0.9 | 229.6 |
| **Non-depreciable assets at** | | | | | | |
| **31 December 1994** | 40.8 | 2.4 | – | – | 1.4 | 44.6 |
| **Leased assets at** | | | | | | |
| **31 December 1994** | – | 0.3 | 0.1 | – | – | 0.4 |

Net book value includes capitalised interest of £3.4m (1993: £3.6m).

| (b) Company | Land & buildings £m | Plant, machinery & vehicles £m | Office furniture & equipment £m | Tooling £m | Construction in progress £m | Total £m |
|---|---|---|---|---|---|---|
| Gross book value | | | | | | |
| At 1 January 1994 | 51.1 | 45.4 | 11.8 | 2.9 | – | 111.2 |
| Capital expenditure | – | 4.4 | 1.1 | 0.7 | 3.7 | 9.9 |
| Transfers to subsidiaries | – | (0.1) | – | – | – | (0.1) |
| Disposals | – | (2.5) | (0.8) | – | – | (3.3) |
| **At 31 December 1994** | 51.1 | 47.2 | 12.1 | 3.6 | 3.7 | 117.7 |
| Depreciation | | | | | | |
| At 1 January 1994 | 7.6 | 22.6 | 8.5 | [illegible] | – | 39.5 |
| Provided during the year | 1.5 | 5.5 | 1.4 | 0.6 | – | 9.0 |
| Transfers to subsidiaries | – | (0.1) | – | – | – | (0.1) |
| Disposals | – | (2.1) | (0.8) | – | – | (2.9) |
| **At 31 December 1994** | 9.1 | 25.9 | 9.1 | 1.4 | – | 45.5 |
| **Net book value at** | | | | | | |
| **31 December 1994** | 42.0 | 21.3 | 3.0 | 2.2 | 3.7 | 72.2 |
| 31 December 1993 | 43.5 | 22.8 | 3.3 | 2.1 | – | 71.7 |
| **Non-depreciable assets at** | | | | | | |
| **31 December 1994** | 10.5 | – | – | – | 1.2 | 11.7 |

Leased assets of £0.1m (1993 £0.3m) are included in the net book value of plant, machinery and vehicles.

continued

| (c) Land and buildings | Group Freehold £m | Group Long leasehold £m | Group Short leasehold £m | Company Freehold £m | Company Long leasehold £m |
|---|---|---|---|---|---|
| The gross book value of land and buildings at the end of the year comprises: | | | | | |
| Cost | 43.6 | 5.4 | 0.5 | 23.2 | 1.5 |
| Valuation as at November 1988 | 62.3 | 1.8 | - | 14.7 | - |
| Directors' valuation as at November 1992 | 34.0 | 1.7 | - | 10.0 | 1.7 |
| | 139.9 | 8.9 | 0.5 | 47.9 | 3.2 |

| | Group £m | Company £m |
|---|---|---|
| On an historical cost basis land and buildings would have been included as follows: | | |
| Cost | 97.7 | 36.9 |
| Accumulated depreciation | (19.8) | (9.9) |
| **Net book value at 31 December 1994** | 77.9 | 27.0 |

**11 Capital commitments**

| | Group 1994 £m | Group 1993 £m | Company 1994 £m | Company 1993 £m |
|---|---|---|---|---|
| Outstanding contracts for capital expenditure | 14.3 | 8.7 | 11.9 | 2.4 |
| Further capital expenditure authorised | 3.3 | 1.1 | 0.9 | 0.1 |
| | 17.6 | 9.8 | 12.8 | 2.5 |

**12 Operating lease commitments**

| | Property leases 1994 £m | Property leases 1993 £m | Other operating leases 1994 £m | Other operating leases 1993 £m |
|---|---|---|---|---|
| Annual rentals payable on leases expiring: | | | | |
| Within one year | 0.3 | 1.2 | 0.8 | 0.9 |
| Between two and five years | 0.9 | 1.8 | 0.6 | 1.5 |
| Beyond five years | 1.5 | 2.1 | 0.7 | - |
| | 2.7 | 5.1 | 2.1 | 2.4 |

Company operating lease commitments are not material.

**13 Investments – subsidiary undertakings**

| | Cost £m | Provisions £m | Net £m |
|---|---|---|---|
| At 1 January 1994 | 501.7 | (17.6) | 484.1 |
| Acquisitions | 0.5 | - | 0.5 |
| ***At 31 December 1994*** | 502.2 | (17.6) | 484.6 |

A list of principal subsidiary undertakings is given on page 59.

# NOTES TO THE ACCOUNTS

## 14 Other investments

| | Associated undertakings £m | Other investments £m | Total £m |
|---|---|---|---|
| At 1 January 1994 | 8.7 | 0.1 | 8.8 |
| **At 31 December 1994** | 8.7 | 0.1 | 8.8 |

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

## 15 Stocks and work in progress

| | Group 1994 £m | Group 1993 £m | Company 1994 £m | Company 1993 £m |
|---|---|---|---|---|
| Long-term contract work in progress | 257.5 | 95.8 | 236.4 | 95.8 |
| Instalments on account | (224.6) | (81.5) | (203.5) | (81.5) |
| | 32.9 | 14.3 | 32.9 | 14.3 |
| Other work in progress | 41.3 | 40.5 | 8.5 | 9.0 |
| Instalments on account | (3.5) | (3.9) | (0.4) | (0.2) |
| | 37.8 | 36.6 | 8.1 | 8.8 |
| Net work in progress | 70.7 | 50.9 | 41.0 | 23.1 |
| Materials, bought out components and general stores | 44.7 | 37.5 | 5.0 | 4.6 |
| Finished goods | 51.6 | 51.9 | 0.1 | 0.1 |
| **Total stocks and work in progress** | 167.0 | 140.3 | 46.1 | 27.8 |

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

## 16 Debtors

| | Group 1994 £m | Group 1993 £m | Company 1994 £m | Company 1993 £m |
|---|---|---|---|---|
| **Amounts falling due within one year** | | | | |
| Trade debtors | 194.9 | 134.3 | 102.6 | 40.3 |
| Amounts recoverable on contracts | 11.6 | 5.9 | – | – |
| Amounts owed by subsidiary undertakings | – | – | 116.4 | 165.9 |
| Other debtors | 13.0 | 4.8 | 5.8 | 0.9 |
| Prepayments and accrued income | 5.9 | 9.1 | 2.8 | 1.8 |
| | 225.4 | 154.1 | 227.6 | 208.9 |
| **Amounts falling due after more than one year** | | | | |
| Trade debtors | 1.0 | 1.0 | – | – |
| Advance Corporation Tax recoverable | 2.5 | – | 2.5 | – |
| Other debtors | 0.6 | 0.4 | 0.1 | 0.3 |
| Prepayments | 19.0 | 18.0 | 19.0 | 18.0 |
| | 23.1 | 19.4 | 21.6 | 18.3 |
| **Total debtors** | 248.5 | 173.5 | 249.2 | 227.2 |

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

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continued

## 17 Creditors

| | Group 1994 £m | Group 1993 £m | Company 1994 £m | Company 1993 £m |
|---|---|---|---|---|
| **Amounts falling due within one year** | | | | |
| Loans and overdrafts | 31.8 | 61.5 | 23.9 | 54.0 |
| Obligations under finance leases | 0.1 | 0.1 | – | – |
| **Borrowings** | 31.9 | 61.6 | 23.9 | 54.0 |
| Instalments in advance of contract expenditure – received | 71.4 | 74.1 | 28.3 | 65.3 |
| – receivable | 42.3 | 3.4 | 42.3 | 3.4 |
| Trade creditors | 107.3 | 57.1 | 56.5 | 21.4 |
| Amounts owed to subsidiary undertakings | – | – | 325.8 | 318.5 |
| Loans from associated undertaking | 8.2 | 8.2 | 8.2 | 8.2 |
| Accruals and deferred income | 56.5 | 46.5 | 17.6 | 15.6 |
| Taxation on profits | 17.5 | 13.4 | 6.7 | 5.3 |
| Other taxation and social security | 4.5 | 5.4 | 2.5 | 2.1 |
| Proposed dividends | 10.1 | 5.9 | 10.1 | 5.9 |
| Other creditors | 24.6 | 23.3 | 18.8 | 12.4 |
| **Other liabilities** | 342.4 | 237.3 | 516.8 | 458.1 |
| **Total amounts falling due within one year** | 374.3 | 298.9 | 540.7 | 512.1 |
| **Amounts falling due after more than one year** | | | | |
| Loans and borrowings | 37.2 | 34.1 | 35.3 | 32.4 |
| Obligations under finance leases | 0.1 | 0.2 | – | – |
| **Borrowings** | 37.3 | 34.3 | 35.3 | 32.4 |
| Trade creditors | 0.9 | 0.5 | – | – |
| Taxation on profits (due 1996) | 0.9 | 0.6 | – | 0.6 |
| Other creditors | 17.3 | 16.1 | 1.6 | 1.7 |
| **Other liabilities** | 19.1 | 17.2 | 1.6 | 2.3 |
| **Total amounts falling due after more than one year** | 56.4 | 51.5 | 36.9 | 34.7 |
| Borrowings repayable in: | | | | |
| One to two years | 0.3 | 0.3 | – | – |
| Two to five years | 35.8 | 33.0 | 35.3 | 32.4 |
| Over five years 2000 – 2011 | 1.2 | 1.0 | – | – |
| | 37.3 | 34.3 | 35.3 | 32.4 |
| Not wholly repayable within five years | 1.7 | 1.7 | – | – |

Borrowings of Group companies are secured, by way of charges on fixed assets, to the extent of £1.9m (1993: £1.8m). The Company's borrowings are unsecured.

# NOTES TO THE ACCOUNTS

## 18 Provisions for liabilities and charges

| (a) Group | Warranty £m | Acquisitions £m | Reorganisation £m | Other liabilities £m | Deferred taxation £m | Total £m |
|---|---|---|---|---|---|---|
| At 1 January 1994 | 22.6 | 0.6 | 3.3 | 6.7 | 3.3 | 36.5 |
| Exchange adjustment | – | – | – | 0.1 | – | 0.1 |
| Provided | 14.5 | – | 3.5 | 4.2 | 1.6 | 23.8 |
| Aquisitions | – | – | 0.6 | 0.1 | – | 0.7 |
| Used | (8.4) | (0.4) | (1.6) | (2.9) | – | (13.3) |
| Released | (0.6) | – | – | (0.5) | – | (1.1) |
| **At 31 December 1994** | 28.1 | 0.2 | 5.8 | 7.7 | 4.9 | 46.7 |

| (b) Company | Warranty £m | Acquisitions £m | Reorganisation £m | Other liabilities £m | Deferred taxation £m | Total £m |
|---|---|---|---|---|---|---|
| At 1 January 1994 | 8.2 | 0.2 | 0.5 | 3.4 | 0.3 | 12.6 |
| Provided | 6.0 | – | 3.0 | 1.4 | – | 10.4 |
| Used | (0.4) | – | (0.4) | (0.8) | – | (1.6) |
| Released | (0.6) | – | – | (0.1) | (0.3) | (1.0) |
| **At 31 December 1994** | 13.2 | 0.2 | 3.1 | 3.9 | – | 20.4 |

| (c) Deferred taxation | Group 1994 £m | Group 1993 £m | Company 1994 £m | Company 1993 £m |
|---|---|---|---|---|
| Excess capital allowances over accumulated depreciation | 0.2 | 1.2 | – | 0.8 |
| Provided against property sales | 3.6 | 3.8 | – | – |
| Advance Corporation Tax | – | (2.8) | – | (0.5) |
| Other timing differences –overseas | 1.1 | 1.1 | – | – |
| | 4.9 | 3.3 | – | 0.3 |

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

| | Group 1994 £m | Group 1993 £m | Company 1994 £m | Company 1993 £m |
|---|---|---|---|---|
| Excess capital allowances over accumulated depreciation | 16.1 | 17.8 | 5.3 | 6.5 |
| Other timing differences | (15.3) | (12.4) | (8.5) | (4.0) |
| Capital gains on revaluation of properties and rolled-over gains | 22.8 | 9.6 | 13.3 | 4.1 |
| | 23.6 | 15.0 | 10.1 | 6.6 |
| *Advance Corporation Tax* | – | (4.9) | – | (4.0) |
| | 23.6 | 10.1 | 10.1 | 2.6 |

continued

## 19 Share capital

| | Authorised 1994 £m | Authorised 1993 £m | Group and Company Issued 1994 £m | Group and Company Issued 1993 £m |
|---|---|---|---|---|
| Preferred 5% Stock (now 3.5% plus tax credit) | 0.8 | 0.8 | 0.8 | 0.8 |
| 5% Preference Stock (now 3.5% plus tax credit) | 0.7 | 0.7 | 0.7 | 0.7 |
| Cumulative Preference Shares and Stock (now 5% plus tax credit) | 7.0 | 7.0 | 6.9 | 6.9 |
| | 8.5 | 8.5 | 8.4 | 8.4 |
| Ordinary Shares of 50p each | 228.5 | 228.5 | 164.8 | 164.3 |
| Authorised share capital | 237.0 | 237.0 | | |
| Share capital, allotted, called up and fully paid | | | 173.2 | 172.7 |

The three Preference classes are of £1 units.

The number of Ordinary Shares in issue at 31 December 1994 was 329,721,418 (1993: 328,651,508).

During the year ended 31 December 1994:

(a) 1,069,910 Shares, with a nominal value of £534,955, were issued for a total consideration of £1,754,955 on the exercise of options under the Company's Share Option Schemes; and

(b) the following options were granted:

- on 24 March to 24 participants over 510,000 Shares at a subscription price of 181p under the terms of the 1984 Approved Share Option Scheme; and
- on 27 April to 457 participants over 613,788 Shares at a subscription price of 143.5p under the terms of the 1984 Savings-Related Share Option Scheme.

| | Number of Shares | Range of Subscription Prices | Exercisable |
|---|---|---|---|
| Approved Share Option Scheme | 5,790,306 | 81.69p – 222.96p | 1995 – 2004 |
| Savings-Related Share Option Scheme | 8,477,696 | 69.5p – 184.8p | 1995 – 1999 |

# NOTES TO THE ACCOUNTS

## 20 Reserves

| Group | Share premium £m | Revaluation reserve £m | Profit and Loss Account £m | Associated undertakings' reserves £m |
|---|---|---|---|---|
| At 1 January 1994 | 54.3 | 53.1 | (8.8) | 8.2 |
| Exchange adjustment | – | (0.1) | (0.5) | – |
| Retained profit for the year | – | – | 16.5 | – |
| Purchase of minority interest | – | – | 0.2 | – |
| Premium on share issues | 1.2 | – | – | – |
| Goodwill on acquisitions | – | – | (4.5) | – |
| Goodwill on disposal written back | – | – | 1.8 | – |
| Reserves reclassified | – | (1.3) | 1.3 | – |
| Deferred taxation transfers | – | (2.1) | 2.1 | – |
| Realisation of revaluation on disposals | – | (1.0) | 1.0 | – |
| **At 31 December 1994** | 55.5 | 48.6 | 9.1 | 8.2 |

The amount of unrealised exchange gains (net of losses) on net borrowings at 31 December 1994 included in reserves amounted to £0.5m (1993: £0.1m). The cumulative net amount of goodwill arising on acquisitions written off to reserves is approximately £254m (1993: approximately £250m).

| Company | Share premium £m | Revaluation reserve £m | Profit and Loss Account £m |
|---|---|---|---|
| At 1 January 1994 | 54.3 | 15.5 | 90.2 |
| Retained profit for the year | – | – | 5.2 |
| Premium on share issues | 1.2 | – | – |
| Reserves reclassified | – | (0.5) | 0.5 |
| **At 31 December 1994** | 55.5 | 15.0 | 95.9 |

## 21 Profit and Loss Account of Vickers P.L.C.

In accordance with Section 230 of the Companies Act 1985 the Profit and Loss Account of the Company is not presented as part of these Accounts. The shareholders' profit of the Company amounted to £21.3m (1993: £25.5m).

## 22 Contingent liabilities

Guarantees and contingencies arising in the ordinary course of business are not expected to result in any material financial loss to the Group. The Company has guaranteed indebtedness of subsidiary undertakings totalling £7.8m (1993: £6.6m).

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

continued

### 23 Cashflow

| | 1994 £m | 1993 £m |
|---|---|---|
| **(a) Reconciliation of operating profit before restructuring costs to net cash inflow from operating activities** | | |
| Operating profit before restructuring costs | 52.5 | 36.6 |
| Depreciation charges | 26.4 | 24.4 |
| (Increase)/Decrease in stocks | (24.0) | 9.9 |
| Increase in debtors | (70.9) | (18.5) |
| Increase in creditors | 90.5 | 39.4 |
| Increase in provisions | 3.1 | 0.4 |
| Net cash inflow before reorganisation costs | 77.6 | 92.2 |
| Net cash outflow in respect of reorganisation costs | (1.7) | (7.3) |
| Net cash inflow from operating activities | 75.9 | 84.9 |

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

| | Cash and cash equivalents £m | Other £m | Total £m |
|---|---|---|---|
| Cash and deposits | 47.8 | 72.8 | 120.6 |
| Creditors: amounts falling due within one year | | | |
| Loans and overdrafts | (11.8) | (20.0) | (31.8) |
| Finance leases | – | (0.1) | (0.1) |
| Creditors: amounts falling due after one year | | | |
| Loans | – | (37.2) | (37.2) |
| Finance leases | – | (0.1) | (0.1) |
| **Total at 31 December 1994** | 36.0 | 15.4 | 51.4 |
| Total at 31 December 1993 | 29.2 | (10.6) | 18.6 |

**(c) Analysis of changes in cash and cash equivalents**

| | £m |
|---|---|
| **Balance at 1 January 1994** | 29.2 |
| Increase in cash and cash equivalents before adjustment for foreign exchange rate changes | 7.1 |
| Effect of foreign exchange rate changes | (0.3) |
| **Balance at 31 December 1994** | 36.0 |

**(d) Analysis of changes in financing**

| | Share capital and premium £m | Other financing £m |
|---|---|---|
| **Balance at 1 January 1994** | 227.0 | 10.6 |
| Cash inflows/(outflows) from financing | 1.7 | (25.1) |
| Effect of foreign exchange rate changes | – | (0.9) |
| **Balance at 31 December 1994** | 228.7 | (15.4) |

# FIVE YEAR REVIEW

| | 1994 £m | 1993 £m | 1992 £m | 1991 £m | 1990 £m |
|---|---|---|---|---|---|
| **Profit and loss account** | | | | | |
| Turnover | 727.2 | 689.6 | 718.5 | 652.2 | 778.1 |
| Operating profit/(loss) | 45.8 | 35.4 | (27.5) | (25.1) | 68.5 |
| Associated undertakings | – | – | – | 3.3 | 4.2 |
| Profit/(Loss) on sale/termination | | | | | |
| of operations – Continuing operations | (2.4) | – | (2.5) | (1.0) | 0.5 |
| – Discontinued operations | – | – | 0.5 | – | (0.7) |
| Profit/(Loss) before interest | 43.4 | 35.4 | (29.5) | (22.8) | 72.5 |
| Net interest receivable/(payable) and | | | | | |
| other similar items | 1.4 | (3.1) | (7.1) | 1.1 | 16.6 |
| Profit/(Loss) before taxation | 44.8 | 32.3 | (36.6) | (21.7) | 89.1 |
| Taxation | (12.1) | (6.6) | 4.0 | 10.0 | (26.2) |
| Profit/(Loss) after taxation | 32.7 | 25.7 | (32.6) | (11.7) | 62.9 |
| Minority interests | (0.1) | (0.1) | (0.2) | (0.1) | – |
| Profit/(Loss) for the financial year | 32.6 | 25.6 | (32.8) | (11.8) | 62.9 |
| Dividends | (16.1) | (10.3) | (4.3) | (16.2) | (26.3) |
| Retained profit/(loss) | 16.5 | 15.3 | (37.1) | (28.0) | 36.6 |
| **Balance sheet** | | | | | |
| Fixed assets | 236.1 | 238.4 | 247.6 | 271.7 | 271.0 |
| Net current assets | 161.8 | 129.4 | 56.9 | 81.9 | 122.8 |
| Amounts falling due after more than one year | (56.4) | (51.5) | (55.2) | (55.4) | (72.4) |
| Provisions for liabilities and charges | (46.7) | (36.5) | (42.7) | (53.7) | (49.8) |
| | 294.8 | 279.8 | 206.6 | 244.5 | 271.6 |
| Shareholders' funds | 294.6 | 279.5 | 206.4 | 243.7 | 271.5 |
| Minority interests | 0.2 | 0.3 | 0.2 | 0.8 | 0.1 |
| | 294.8 | 279.8 | 206.6 | 244.5 | 271.6 |
| **Employees** | | | | | |
| Average number of employees | 9,118 | 9,406 | 10,422 | 12,011 | 12,613 |
| Total wages and salaries (£m) | 179.9 | 174.2 | 184.9 | 204.5 | 211.8 |
| **Earnings per share** | | | | | |
| Earnings/(Loss) per 50p Ordinary Share: | | | | | |
| FRS 3 basis | 9.8p | 8.0 p | (12.1)p | (4.5)p | 23.0p |
| Normalised earnings basis | 10.5p | 8.0 p | (7.3)p | (9.0)p | 23.1p |

## VICKERS PLC

### COMPANY PROFIT AND LOSS ACCOUNT
### FOR THE YEAR ENDED 31ST DECEMBER 1994

| | 1994 | 1993 |
|---|---|---|
| | £m | £m |
| Turnover | 231.3 | 249.4 |
| Cost of sales | (189.3) | (209.8) |
| Gross profit | 42.0 | 39.6 |
| Administrative expenses | (24.6) | (21.8) |
| Distribution costs | (0.5) | (0.5) |
| Other operating income | 1.0 | 2.2 |
| Operating profit before exceptional items | 17.9 | 19.5 |
| Exceptional items | (15.2) | (6.2) |
| Profit on ordinary activities before interest | 2.7 | 13.3 |
| Net interest receivable and investment income | 21.2 | 16.1 |
| Profit on ordinary activities before taxation | 23.9 | 29.4 |
| Taxation | (2.6) | (3.9) |
| Shareholders profit for the financial year | 21.3 | 25.5 |
| Dividends | (16.1) | (10.3) |
| Retained profit | 5.2 | 15.2 |

This Profit and Loss Account was approved by The Board of Directors on 28th February 1995 and was signed on its behalf by:

R.E.B.Lloyd R E B Lloyd

R.B.Head R. B. Head

# PRINCIPAL DIVISIONS AND SUBSIDIARY UNDERTAKINGS

**Automotive**

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

Cosworth Engineering, Northampton
Cosworth Castings, Worcester
*Cosworth Engineering Inc., Torrance, California, U.S.A.

Cantieri Riva S.p.A., Lake Iseo, Italy

**Defence**

Vickers Defence Systems, Leeds and Newcastle upon Tyne

**Propulsion Technology**

*Certified Alloy Products Incorporated, Long Beach, California, U.S.A.
*KaMeWa A.B., Kristinehamn, Sweden
*FF Jet Limited AB, Kokkola, Finland
Michell Bearings, Newcastle upon Tyne
*Ross & Catherall Limited, Killamarsh, Sheffield
*Ross Catherall Ceramics Limited, Denby, Derby
Stone Vickers Limited, Erith
*Trucast Limited, Ryde, Isle of Wight
Vickers Aerospace Components, Shrewsbury
Vickers Airmotive, Shrewsbury
Vickers Precision Machining, Crewe

**Medical**

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

**Other activities**

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

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

**Note:**
There are excluded from this list certain operating units which, in the opinion of the Directors, do not materially affect the results of Vickers P.L.C. All of the companies shown are incorporated, and operate principally, in the countries indicated. A full list of subsidiary undertakings will be included with the Company's Annual Return.

# NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the next Annual General Meeting of Vickers P.L.C. will be held at the Conference Hall, Millbank Tower, Millbank, London SW1P 4RA on Thursday, 27 April 1995 at 12 noon for the following purposes:

1 To receive and adopt the Report of the Directors and the audited Accounts for the financial year ended 31 December 1994.

2 To declare a final dividend of 3.00p per Ordinary Share in respect of the financial year ended 31 December 1994, payable on 5 May 1995.

3 To re-elect Mr. R. B. Hoad a Director of the Company.

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

5 To elect Mr. A. L. John a Director of the Company.

6 To elect Mr. C. J. S. Woodwark a Director of the Company.

7 To re-appoint KPMG as Auditors of the Company and to resolve that their remuneration be determined by the Directors.

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

**As an Ordinary Resolution:**

8 To resolve that in substitution for any existing authority and for the purposes of Section 80 of the Companies Act 1985 ("Section 80"), the Directors be and are generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities, within the meaning of Section 80, up to an aggregate nominal amount of £53,300,000, at any time or times, provided that such authority shall expire at the earlier of the conclusion of the next Annual General Meeting of the Company or 1 July 1996. The Company may make any offer or agreement before the expiry of this authority which would or might require the relevant securities to be allotted after this authority has expired and the Directors may allot relevant securities pursuant to such offer or agreement.

**As a Special Resolution:**

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

(a) be limited:

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

(ii) to the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to a maximum nominal amount of £8,200,000;

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continued

(b) expire at the earlier of the conclusion of the next Annual General Meeting of the Company or 1 July 1996 except to the extent that the same is renewed or extended prior to or at such meeting; and

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

By order of the Board,

*Nicholas Bevins*
Secretary
28 March 1995

Nicholas Bevins

**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 25 April 1995.

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

# SHAREHOLDERS' INFORMATION

## Shareholders' diary

**1994**

**30 September**
Interim dividend for 1994 paid on:
Preferred 5% Stock
5% Preference Stock
Cumulative Preference Stock

**19 October**
Interim dividend for 1994 of 1.75p paid per 50p Ordinary Share

**1995**

**1 March**
Final dividend recommendation for 1994 announced on Ordinary Shares, together with results for year ended 31 December 1994

**31 March**
Final dividend for 1994 paid on:
Preferred 5% Stock
5% Preference Stock
Cumulative Preference Stock

**31 March**
Report and Accounts posted to Shareholders

**27 April**
Annual General Meeting to be held at the Conference Hall, Millbank Tower, at 12 noon

**5 May**
Final dividend on Ordinary Shares, if approved, to be paid to Shareholders on the Register at 6 April 1995

**September**
Results for the six months ending 30 June 1995 to be announced

## Low cost share dealing

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

## Analyses of Ordinary Shareholders

| 31 December 1994 | Number | % | Holding | % |
|---|---|---|---|---|
| Individuals | 19,000 | 91.66 | 21,796,972 | 6.61 |
| Banks and nominee companies | 1,415 | 6.83 | 242,171,550 | 73.45 |
| Investment companies | 24 | 0.12 | 1,379,463 | 0.42 |
| Insurance companies | 48 | 0.23 | 23,204,339 | 7.04 |
| Other companies | 195 | 0.94 | 19,158,673 | 5.81 |
| Pension funds | 7 | 0.03 | 16,227,472 | 4.92 |
| Universities, schools and other corporate bodies | 40 | 0.19 | 5,782,949 | 1.75 |
| | 20,729 | 100 | 329,721,418 | 100 |

## Size of shareholding

| | | | | |
|---|---|---|---|---|
| 1 -500 | 10,048 | 48.47 | 2,366,713 | 0.72 |
| 501 -1,000 | 3,939 | 19.00 | 2,921,590 | 0.89 |
| 1,001 -1,500 | 1,924 | 9.28 | 2,397,686 | 0.73 |
| 1,501 -2,500 | 2,153 | 10.39 | 4,222,492 | 1.28 |
| 2,501 -12,500 | 2,008 | 9.69 | 9,592,700 | 2.91 |
| 12,501 -60,000 | 297 | 1.43 | 8,815,897 | 2.67 |
| 60,001 -125,000 | 90 | 0.44 | 8,347,094 | 2.53 |
| 125,001 -250,000 | 93 | 0.45 | 16,734,276 | 5.08 |
| Over 250,000 | 177 | 0.85 | 274,332,970 | 83.19 |
| | 20,729 | 100 | 329,721,418 | 100 |