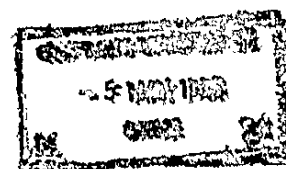
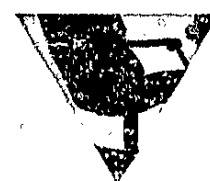


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REPORT AND
ACCOUNTS
1987



Vickers

Vickers is an international company in both sales and manufacturing terms. Each key business is a leader in its specialist field and each commands a significant share of its market. By developing its international competitiveness the Company aims to improve profitability and ensure consistent growth in earnings.

Our strategy embraces both organic development – by product innovation, capital expenditure and worldwide marketing – and selective acquisitions.

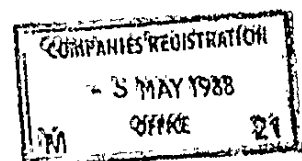
Above all, we look to invest in those businesses which are in markets with potential for long term growth: businesses which enable the Company to sustain prosperity for its shareholders and employees.

With the compliments of
The Secretary

Vickers



VICKERS LIMITED
VICTORIA ROAD
MANCHESTER
ENGLAND

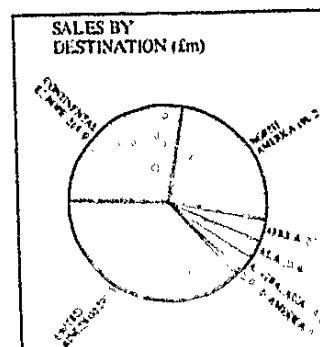
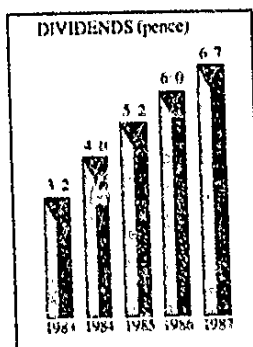
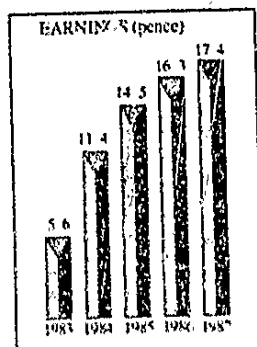


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FINANCIAL HIGHLIGHTS

	1987	1986
SALES	£788.3m	£691.8m
PROFIT BEFORE TAXATION	£62.6m	£54.0m
EARNINGS PER 50p ORDINARY SHARE	17.4p	16.3p
DIVIDENDS PER 50p ORDINARY SHARE	6.7p	6.0p
NET BORROWINGS AS A PERCENTAGE OF SHAREHOLDERS' INTEREST	28%	33%



BOARD OF DIRECTORS

From left to right seated
Ron Taylor, Sir David
Plastow, Bill Foreman
Standing: Tony McCann,
Roger Head



EXECUTIVE DIRECTORS

Sir David Plastow
Chairman & Chief Executive

Age: 55. Vickers Managing Director and Chief Executive since 1980; Chairman and Chief Executive since 1987. Non-Executive Director, Vickers, 1975-1980. Deputy Chairman of Guinness Plc and a Non-Executive Director of Tenneco Inc., Houston, he is a former Non-Executive Director of Legal and General and GKN. He joined Rolls-Royce Motor Car Division in 1958 and became Managing Director Rolls-Royce Motors in 1972.

Ron Taylor, C.A.
Managing Director

Age: 56. Appointed Deputy Managing Director in 1984 and Managing Director in 1987. Joined Vickers in 1958, held senior appointments in Printing Machinery Group prior to formation of Howson-Algraphy Group, where he was appointed Chief Executive in 1972. He is a Non-Executive Director of Hopkinsons Holdings Plc and a member of the CBI Europe Committee.

Bill Foreman, C.A.
Commercial Director

Age: 51. Joined Vickers in 1970 as Group Chief Accountant, having been Chief Accountant to The British Printing Corporation. He was appointed to the Vickers Board in 1973 as Director of Finance, subsequently Chief Executive International Group, becoming Commercial Director in 1982.

Roger Head, F.C.A.
Finance Director

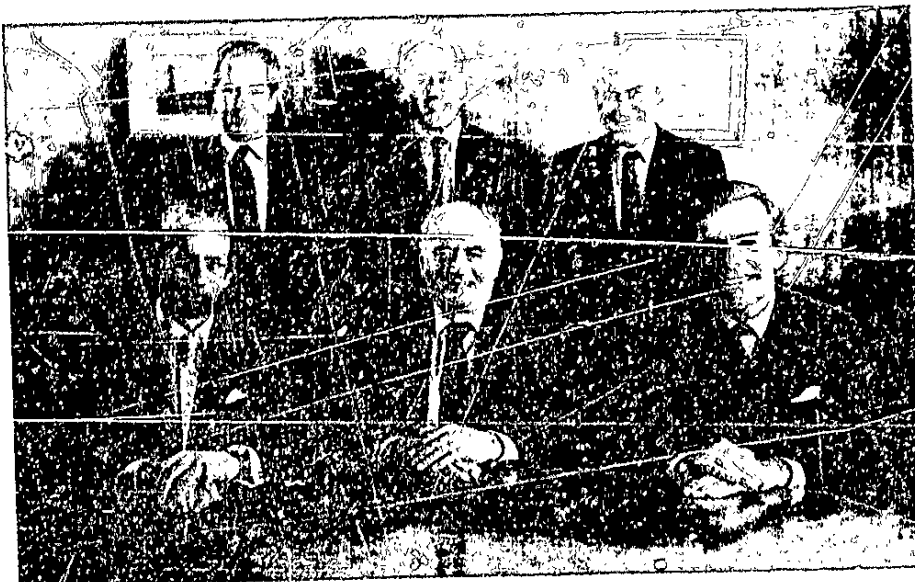
Age: 41. Joined Vickers Engineering Group in 1977. Formerly Financial and Commercial Director, Vickers Design and Projects; subsequently Finance Director, Vickers Engineering Products Group. Became Staff Director, Business Appraisal, Vickers P.L.C. in 1984, appointed Finance Director, April 1987.

Dr Tony McCann
Development Director

Age: 46. Joined Rolls-Royce Motors Holdings in 1977, and became Vickers Director of Planning, 1980. He is President of Vickers America Holdings, Inc. and was appointed to the Vickers Board as Development Director in 1986.

N. Bevins
Secretary

In addition to the Executive Directors, W.D.J. Roscoe, *Director of Public Affairs*, is a member of the Executive Committee.



Seated (left to right) HRH The Duke of Kent, Sir Ian Fraser, Sir Richard Lloyd, and Sir Martin Taylor. Standing: John Raisman, Derek Kingsbury, Sir Ian Fraser.

NON-EXECUTIVE DIRECTORS

Sir Ian Fraser, C.B.E., M.C.
Deputy Chairman

Age: 64. Deputy Chairman of TSB Group, Director Pearson Plc and a former Chairman of Hazard Brothers. He was appointed Deputy Chairman of Vickers in 1980, having been Chairman, Rolls-Royce Motors.

Sir Richard Lloyd, M.

Age: 59. Joint Chairman of Hill Samuel and Co Ltd., and former Chief Executive of Williams and Glyn's Bank. He is a member of the CBI Council and became a Director of Vickers in 1978.

HRH The Duke of Kent, KG, GCMG, GCVO, ADC

Age: 52. Among his business and other public interests, His Royal Highness is Vice Chairman of the British Overseas Trade Board, President of BTEC, and Patron of the British Computer Society and The Institute of Export. He is also Chancellor of Surrey University. The Duke is a Non-Executive Director of BICC Plc and joined the Board of Vickers in 1987.

John Raisman, C.B.E.

Age: 59. Deputy Chairman of British Telecom and former Chairman and Chief Executive of Shell UK. A Director of Vickers since 1981; also a Director of Glaxo and Lloyds Bank Plc. He is Chairman, Investment Board, Electra Candoover Partners and Pro-Chancellor, Aston University.

Derek Kingsbury, C.B.E.

Age: 61. Chairman and Chief Executive of the Fairley Group; a member of the Review Board for Government Contracts and Chairman of the Council, Defence Manufacturers Association. He joined the Vickers Board in 1981. Awarded the C.B.E. in the 1988 New Year Honours.

Martin Taylor

Age: 53. Director of Hanson Plc. He is also a member of the CBI Council and a Board member of The Securities Association. He was appointed to the Vickers Board in 1986.

Sir Ian Fraser chairs the Audit Committee and the Non-Executive Directors' Committee which is responsible for Directors' remuneration and the Share Option Schemes.

CHAIRMAN'S STATEMENT

I am pleased to report that 1987 was a year of continuing progress, with our pre-tax profits up by £8.6m, an increase of 16% and our sales up by £96.5m, an increase of 14%. Our three largest businesses performed very well and recorded particularly worthwhile increases over the previous year, as you will see from the detailed report which follows.

Financing costs rose in 1987 due to our acquisition, for cash in 1986, of KaMeWa, the Swedish propeller company, and of the Royal Ordnance tank factory in Leeds. We also maintained a high level of capital investment during the year in order to improve manufacturing efficiency.

In addition, opportunities arose to present our armoured fighting vehicles to potential customers overseas, which led to additional costs regarded by us as an important sales investment.

As a result, and taking account of the increase in share capital, growth in earnings per share is at a more modest level, compared with the strong progress we have made in recent years.

It is particularly encouraging to report that, although we increased our capital expenditure from £33m to £49m, our gearing fell to 28% compared with 33% last year.

The outstanding achievement of 1987 was at Rolls-Royce Motor Cars, where car sales for the year rose by 7% and profit before interest by 26%. In the United States, in the face of a weakening dollar and the stockmarket uncertainties after October, demand held up well. World-wide sales in the last quarter increased by 9.7% over the last quarter of 1986.

Howson-Algraphy, our lithographic printing plates and supplies Division, produced another year of solid volume and earnings growth. It is pleasing to report continuing progress in the highly competitive North American market. Investment in a further major production line at Leeds has been undertaken during the year and, following commissioning later this year, the additional capacity will further improve quality and remove some of the output constraints which have affected sales volume.

I am pleased to report an improvement in the earnings of our Marine Engineering business under continuing difficult market conditions. This improvement owes much to the inclusion of a full year's trading from

KaMeWa, which produced results in line with our expectations, and has entered 1988 with a sound order book.

Defence Systems experienced a year of good growth in sales and profits and, following the purchase of the Leeds Royal Ordnance tank facility at the end of 1986, a brand new factory was constructed in only forty-eight weeks with tank production programmes being maintained throughout the development. Our modern facilities will increase our competitive position when pursuing future sales opportunities.

The improved performance of our Medical and Scientific Equipment Division was somewhat restrained by a weakening of demand for its products, particularly in North America, following the recent economic uncertainty. Whilst reductions in operating costs minimised the effect of reduced demand on our major U.S. business, Air-Shields, the Medelec subsidiary, Teca, was affected by the downturn in demand.

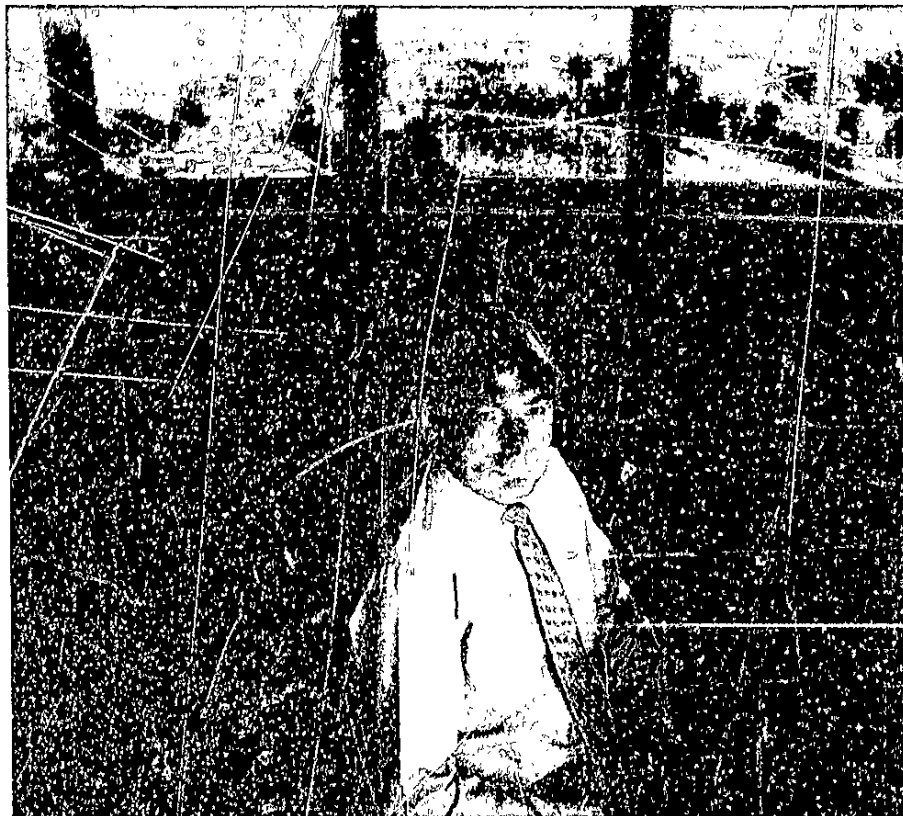
Trading in the French and U.S. furniture markets proved difficult throughout 1987, resulting in reduced earnings performance compared with our internal plans for Comfarto Vickers. Following a strategic review we have decided to seek offers for that Division, as we believe that it is unlikely to achieve the higher returns on investment we are now obtaining from our other major businesses.

DIRECTORS

It gives me great pleasure to record that H.R.H. The Duke of Kent joined our Board on 28 May 1987, and I am sure that his wide international experience will be of particular value in our future deliberations.

As indicated in my report last year, Mr. Tom Neville retired from the post of Finance Director at the 1987 Annual General Meeting, and was succeeded by Mr. Roger Head, who has held a series of senior financial posts since joining our Company in 1977.

Mr. Michael Windsor resigned from



the Board on 31 December 1987, having had a distinguished career since joining Vickers in 1971. We wish him well for the future.

Mr. Ron Taylor was appointed to the office of Managing Director of our Company on 31 December 1987, having previously been Joint Managing Director.

encouraged me with their enthusiasm and commitment to our Company.

PROSPECTS

I remain confident that, despite some international economic uncertainty, our strong portfolio of businesses will provide further opportunities for earnings growth in 1988.

DIVIDEND

The Board is recommending a final gross dividend of 8.5p per 80p Ordinary Share, making a total of 9.2p for the year, compared to 8.4p for 1986. After allowing for the relevant tax credit this represents a total net dividend for the year of 6.7p (1986: 6.0p), an increase of 12% over 1986.

EMPLOYEES

I express my thanks to all those who work for our Company for their efforts during the year. I have enjoyed the opportunity of visiting a large number of our businesses, both in the UK and overseas, and of meeting many employees who have impressed and

David Perkins
22 February 1988

REVIEW OF ACTIVITIES

ROLLS-ROYCE MOTOR CARS



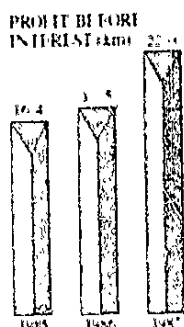
Peter Ward
Chief Executive
Rolls-Royce Motor Cars

Rolls-Royce Motor Cars made significant progress in all areas during 1987. Total sales rose to 2,784 units, an increase of 7% on the previous year. 1,907 Rolls-Royce models were sold, while Bentley sales, helped by the launch of Mulsanne S in the USA, moved ahead by 29% to 877 units. In value terms, sales increased by 6% and profit before interest rose by 26%.

Whilst the United States remained the single largest market for Rolls-Royce Motor Cars and again recorded increased sales, excellent results from carefully targeted marketing efforts in Europe and the Far East enabled the company to reduce its overall dependence on the dollar.

The UK market continued to record steady growth, with 842 motor cars sold, compared with 808 in 1986.

Forward dollar contracts have been entered into, giving the company full cover for 1988 and a significant part of 1989. We also have sizeable cover in respect of the major European currencies into 1989. Our Far East and Middle East sales are in sterling.



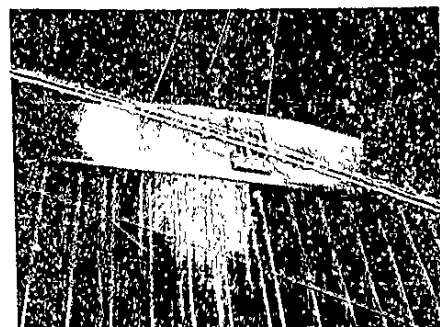
The extensive technical improvements introduced in late 1986 to the Rolls-Royce and Bentley model ranges met with customer approval and were reflected in improved sales figures around the world. Notably, the company's largest ever single order was delivered, a fleet of eight Silver Spirits to the Peninsula Hotel, Hong Kong. Also in the Far East, Japan's deputy Prime Minister took delivery of a Bentley Turbo R.

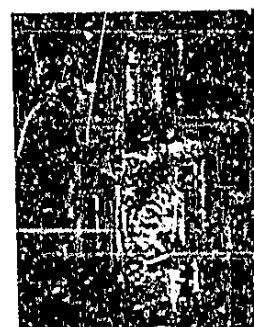
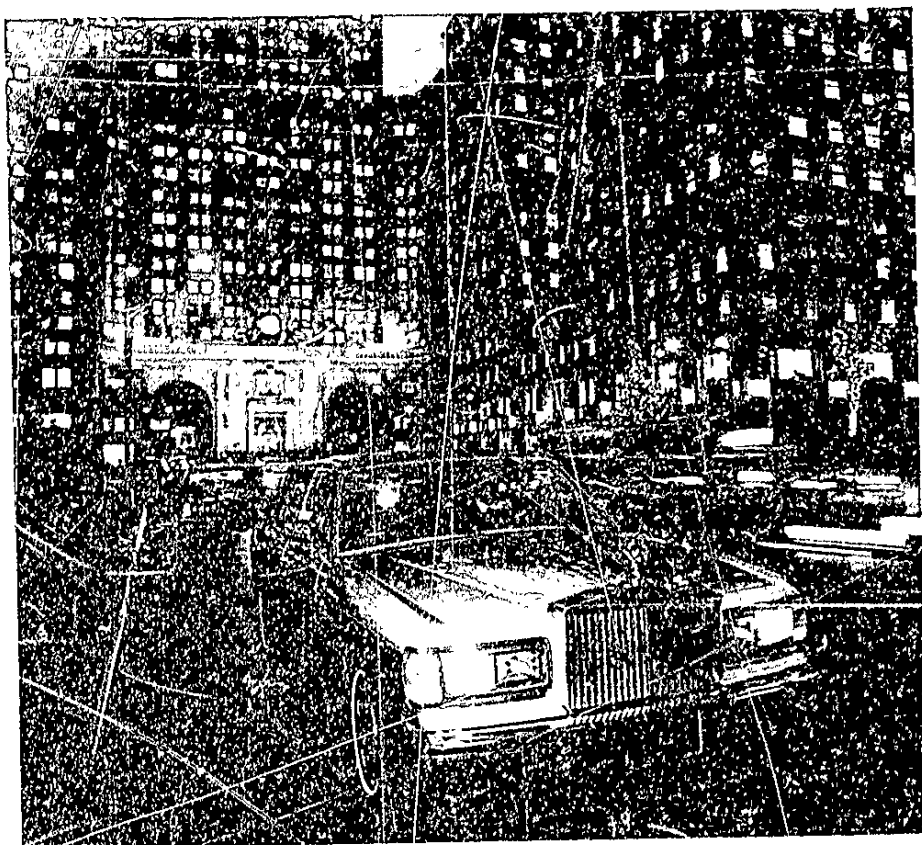
Spending on research and development rose during the year by 11% to £12m, which is equivalent to 6.5% of sales. In addition to this investment, a contract was signed during the year for the supply of a £10 million paint plant, which will come on stream in July 1989.

In October, the Bentley Mulsanne S was launched in the United States and met with immediate acclaim and sales success. The company looks forward confidently to the US launch of the Bentley Turbo R in the Autumn of 1988.

The highlight of the year was a visit by Her Majesty The Queen and HRH Prince Philip to the company's Crewe factory where they were able to see both the traditional skills and the latest technology which go into the making of Rolls-Royce and Bentley motor cars.

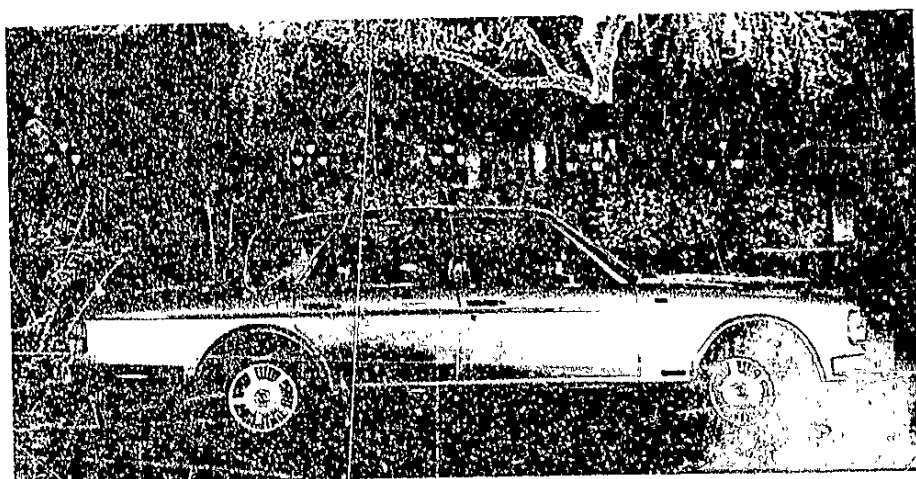
1987 saw Specialist Engines win valuable orders from the Ministry of Defence and Royal Ordnance for





generator modules used in punchtowers
and steering units for the Combat
Engineer's Association

Generators include overhead equipment increased by over 50% as a result of the Royal Navy's successful mine-hunting operations in the Arabian Gulf.



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1. 在 20 世纪 80 年代，中国开始实行改革开放政策，经济迅速发展，人民生活水平显著提高。这一时期，中国在国际事务中逐渐发挥越来越重要的作用，成为世界多极化格局中的一支重要力量。

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REVIEW OF ACTIVITIES

HOWSON-ALGRAPHY PRINTING PLATES



Tony Wright
Chief Executive
Howson-Algraphy

Howson-Algraphy showed satisfactory growth in both sales and profits during 1987. The Division further consolidated its position in the UK and in the major countries of mainland Europe with sales increases significantly ahead of market growth. In the USA Howson-Algraphy products have established an enviable reputation for quality and reliability which has been largely responsible for a 20% sales increase. North America remains the major growth opportunity for Howson-Algraphy over the next five years.

Competition within the presensitised lithographic plate market continues to increase with a number of manufacturers bringing new production capacity on stream during 1987. This has increased the pressure on prices in the face of continuing increases in materials and labour costs.

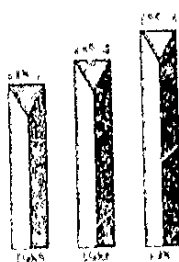
During the year, Howson-Algraphy was successful in maintaining margins through its efficient use of resources and through the benefit obtained by its policy of maintaining direct customer accounts, of which it has a significantly greater number than its competitors.

As part of its plan to extend the range of products sold to the printing industry Howson-Algraphy has been active in securing additional agencies for other graphic art products which can be sold through its existing sales and distribution network. During 1987 the sale of equipment and other factored products increased by over 35%.

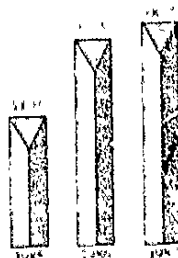
The market for presensitised lithographic plates continues to grow. At towards the end of the year the major Howson-Algraphy plants were operating to the limit of their capacity. However, this situation should be alleviated during the Autumn of 1988 when the fifth production line is commissioned in Leeds. The manufacturing facilities in Holland have also been upgraded.

The main emphasis in product development has been in the introduction

SALES £m

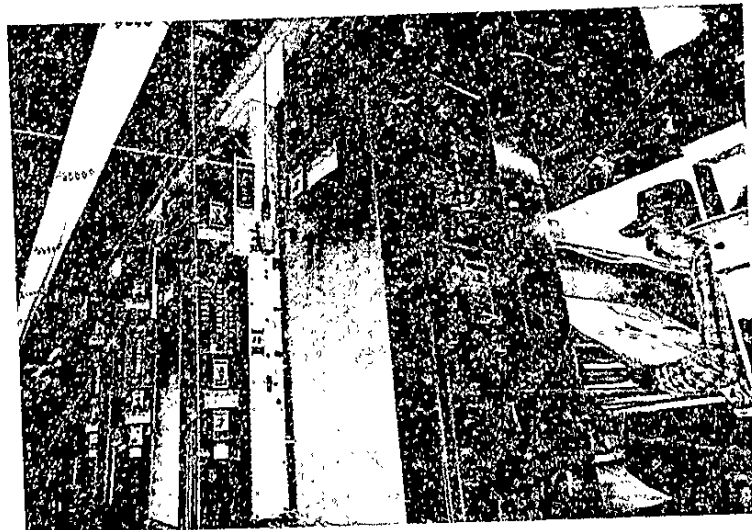


PROFIT BEFORE
INTEREST £m



of the latest available information. Plates for various applications are available in polypropylene. This feature is also incorporated on the Dynon plate and is one of the new features included in the upgrade T Super Spartan plate.

During the year much emphasis has been placed on the Total Quality Management programme. This has involved extensive training at all levels within the Division and the establishment of a number of action teams to ensure a continuing improvement in the quality of products and services.



Far left: Plates are demonstrated in Howson Aigraphys. Above: Howson testing the latest equipment built at their Thetford factory.

Above: Howson Aigraphys plates are used by Washington based printers Howard & Taylor to print a range of high quality magazines including the Smithsonian Institute Magazine.

Left: Howson Aigraphys plates are used in nearly 100 countries throughout the world.

REVIEW OF ACTIVITIES

DEFENCE AND AEROSPACE



Gerald Boxall
Chairman and Chief Executive
Vickers Defence Systems

1987 was a year of continued development and improved overall trading performance for the Division. Results included a full year's contribution from the Leeds factory.

The new factory on the Leeds site was constructed in just 48 weeks with production of Challenger tanks for the British Army continuing on schedule during the construction period. This factory, which is designed to improve efficiency, increase flexibility and reduce operating costs, represents a £14 million investment programme.

Throughout the year the Division continued to invest in design and development programmes, enabling it to offer the widest range of armoured fighting vehicles in the world.

Major marketing initiatives included a demonstration of the latest range of Vickers tanks at Kirkcudbright, in August which was attended by senior military personnel from the UK and overseas. Important overseas demonstrations included a trial in Saudi Arabia.

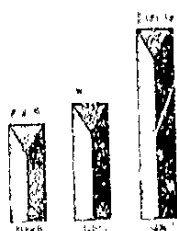
Work has begun on the seventh regiment of Challenger tanks for the British Army with production continuing until 1990 and an order worth more than £15 million has been secured for Challenger training tanks.

In the summer the first Challenger armoured repair and recovery vehicle was rolled out on schedule. The first six production vehicles built by Vickers in 1987 are undergoing extensive trials before a further 26 vehicles are produced.

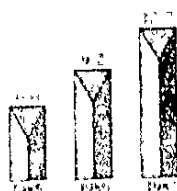
1987 also saw the start of a European collaborative programme to produce a new Multiple Launch Rocket System (MLRS). As a partner in the programme, Vickers is producing more than 300 crew compartments for MLRS which will enter service with the British, French, West German and Italian armies.

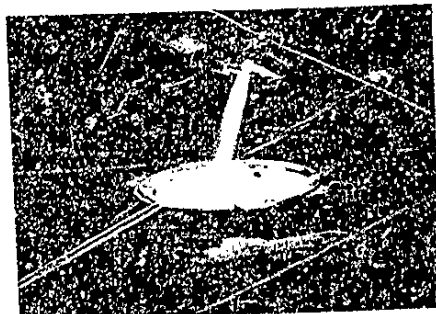
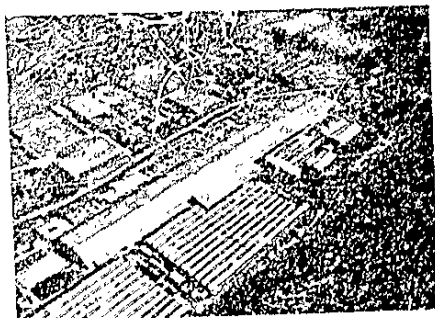
By the end of 1987 more than 90 turrets had been delivered to GKN for the Warrior infantry fighting vehicle which is entering service with the British Army.

SALES £m



PROFIT BEFORE
INTEREST £m





VICKERS PRECISION COMPONENTS
Vickers Precision Components, suppliers of gas turbine engine components to the majority of aero engine manufacturers in both Europe and North America, once again reported much improved performance for the year.

This was achieved mainly as a result of higher volumes at the Shrewsbury fabrication facility, which has an extensive involvement in the new Rolls-Royce Tay engine, and through the greater operating efficiency in cast products at Crews.

Continued investment in technology, plant and equipment, including the most advanced robotic plasma spray facility in Europe, has ensured that the Division maintains its position in the forefront of metal forming technology.

With continued emphasis on export markets, particularly in North America, consolidating the considerable growth over the past three years, the Division ended the year once again with a very satisfactory order book.



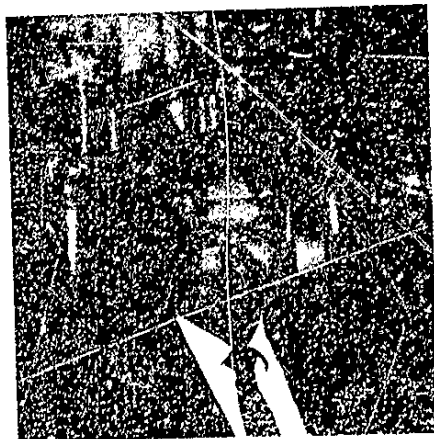
Top left: The Jackson in London, showing the aircraft's unique design and the large, open space for passengers.

Left: A gas turbine engine discharging, with the plasma being controlled by a robotic arm.

Below: A Vickers M40 Main Battle Tank, demonstrating its fire power.

REVIEW OF ACTIVITIES

BUSINESS FURNITURE



Bob Denton
Chief Executive
Comforto Vickers

1987 saw a growth in sales performance, although difficult trading conditions in the USA and some other export markets have inhibited sales in these areas. Owing to adverse currency movement in general, the 1987 profit figure has declined from the 1986 level. International cooperation between the member companies of the Division has, however, continued and remains the foundation for future product launches through development work which is already in progress.

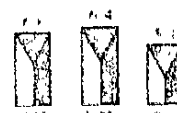
A rationalisation of brand names and product lines undertaken at the start of 1987 in Vickers Roneo, France, led to a disturbance of the market and some loss of sales. Changes in management and sales force organisation, an intensive programme to emphasise the strength of the business to the dealer network, together with new customer service computer systems, had begun to bear fruit in the final months of the year.

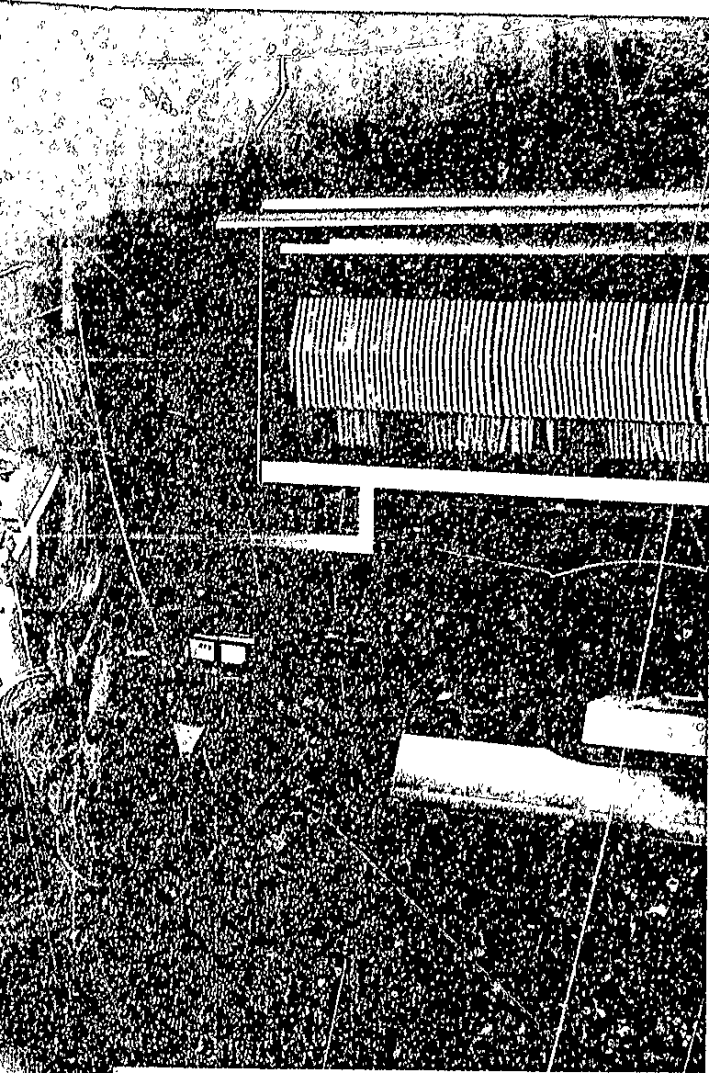
At the beginning of 1988 Vickers P.L.C. announced its intention to divest the Comforto Vickers Division for reasons which are outlined elsewhere in this report.

SALES £m



PROFIT BEFORE
INTEREST £m





Comforto, manufacturers of office seating products, has also undergone organisational changes in its European operations to increase manufacturing efficiency in Switzerland and Germany. Facilities were further improved by a new automatic castor production unit in West Germany and, taken as a whole, Comforto results for the European companies have been encouraging.

An intensive product development programme was undertaken during 1987. This was directed towards a new generation of Comforto products intended to broaden the overall range. Additions to existing products included an extension to the System 25 range.

In the U.S.A., Comforto has experienced a flat market with considerable competition. This, combined with a severe currency impact on component costs from Germany, has significantly reduced profits.

The U.K. returned a sound sales growth and profit performance. A new paint plant in the recently acquired factory at Crayford will provide considerable improvement in the manufacturing facilities.

New products have been introduced in storage, seating and executive deskings and this has added to the traditional storage products and the E-90 range of systems furniture to maintain sales growth in the U.K.

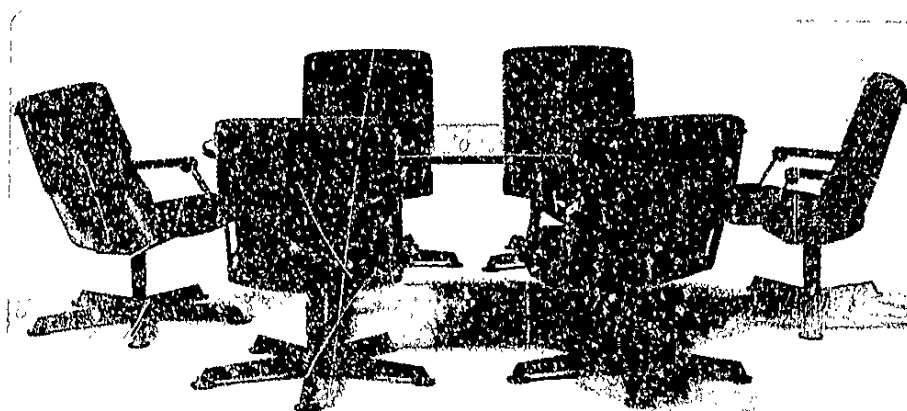


Above left: System 190 - the screen-based range from Vickers Furniture with built-in wire ways to accommodate today's electronic office equipment.

Far left: Stylish executive deskings from the new Magister range.

Above: The new paint plant at the recently acquired Crayford factory is fully automated to ensure the highest standard of product finish.

Left: Comforto's System 25 seating range was designed by Richard Sapper, an industrial designer whose products are featured in New York's Museum of Modern Art.



MARINE ENGINEERING



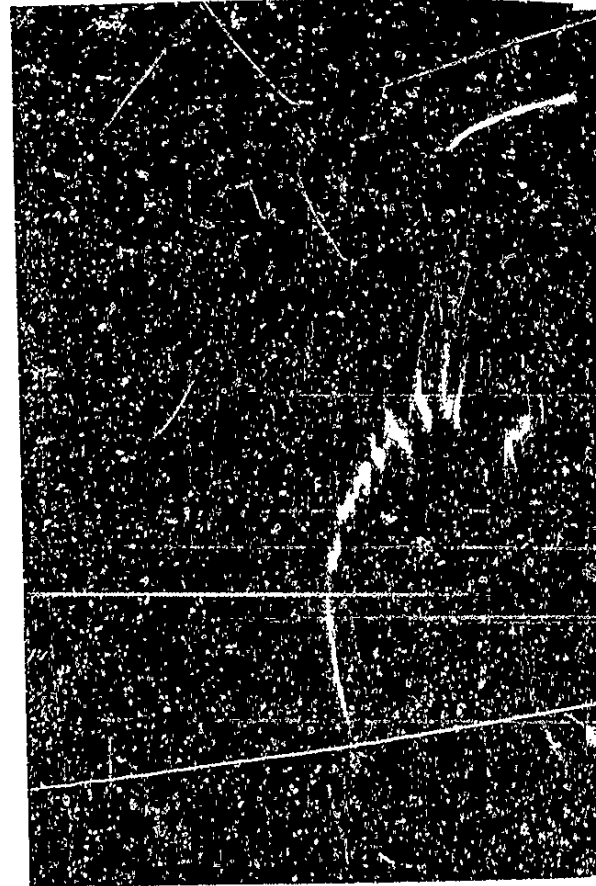
John Crook
Chief Executive
Vickers Marine Engineering Division

1987 was a better year for our Marine Engineering businesses, with improvements in the financial performance of the Division compared to 1986. Turnover improved by 5% and overseas sales accounted for 73% of the total. The recent downward trend in profit was reversed and an improvement of 48% was recorded over the previous year, whilst order intake rose by 22%.

A major contributor to this improvement in sales and profit is accounted for by a full year of trading from KaMeWa, the Swedish controllable pitch propeller company, which was acquired during 1986.

Marine markets worldwide continue to be depressed. However, there are signs of an upturn in demand in the commercial sector which is likely to be satisfied by the shipbuilding capacity in the Far East. In anticipation of this development, the Division is looking to increase its export business through Vickers Japan and the Hong Kong office.

The Division consolidated its share of the naval market, but the oil and gas sector remained in the doldrums, reflecting continued uncertainty in oil prices. However, there are signs of future growth but order intake is slow.



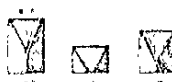
Jered Brown Brothers in Michigan, which manufactures a range of marine equipment for the US Navy, now has a well established Advanced Programs Group based in Washington, which has become a springboard for early involvement in future work for the US Navy. Defence budget constraints are, however, slowing down commitment to specific projects. A senior management reorganisation took place during the year, and the development of Jered Brown Brothers as the Division's marketing and manufacturing base for the US Navy continues.

KaMeWa, Kungälv, Sweden, has been successful in securing a considerable pitch propeller order from the Swedish Navy, and is also working on a successful bid for a new order from the US Navy. The Division is also working on a bid for a new order from the US Navy.

SALES PER



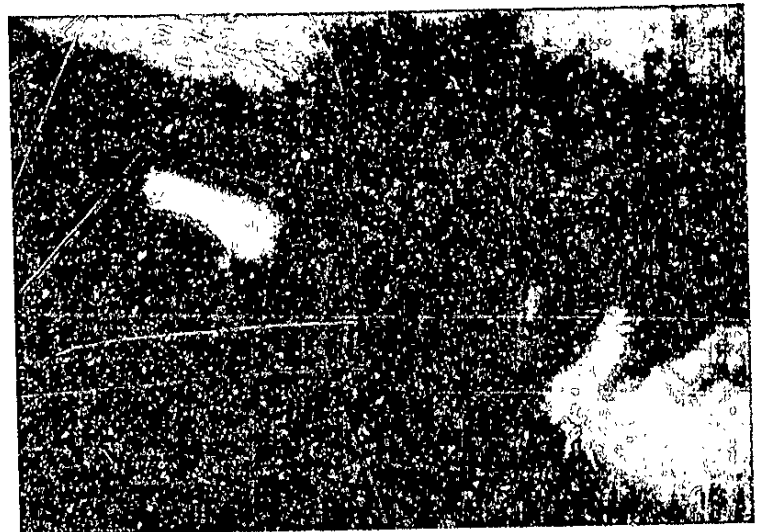
PROFIT BEFORE
INTEREST





with its UK associate, Stone Vickers, increased its coverage of the Far Eastern and US markets. KaMeWa is well placed for future business with the most modern R & D facilities which ensure continuous development of products for the markets of the world.

Michell Bearings of Newcastle upon Tyne, which manufactures white metal, roller and ball bearings for industrial and marine applications, made an impressive breakthrough into the French naval market by supplying equipment for the nuclear missile submarine programme. On the commercial side, which represents around 70% of its business, significant progress has been made in the Japanese market through Vickers Japan. To maintain its market position Michell undertakes continuous product development.



SCIFCO, the Houston company which specialises in mooring systems, was divested through a management buy-out in January 1988 after a difficult year due to a slow down in orders, resulting from the continued low oil price. However, contracts for the US Navy were secured during the year.

Integration of the Haslie crane and Vickers Marine Controls businesses into Brown Brothers caused some disturbance to performance during the year, but there is evidence of improved home and export orders, with significant success being achieved towards the end of 1987 with an order from the Indian Navy.



Above left: The Japanese oil companies have proliferated orders for the first KaMeWa in Sweden.

Top: An oil pump for the first KaMeWa in the United Kingdom, a regulated marine diesel engine.

Above: In a major breakthrough, the first KaMeWa in the French naval market, a nuclear missile submarine, has been ordered.

Left: Michell Bearings, Newcastle upon Tyne, has secured a major contract for the French Navy, a nuclear missile submarine.



REVIEW OF ACTIVITIES

MEDICAL AND SCIENTIFIC EQUIPMENT



Jim Everitt
Chief Executive
Medical and Scientific Equipment Division

Vickers medical businesses now concentrate on two specialist areas, neonatal intensive care and neurodiagnostic equipment, in both of which sectors the Division holds a major share of world markets. 1987 has been largely a year of consolidation of the acquisitions made during the previous two years. Sales growth has been disappointing, limited by lack of demand from the Middle East through the whole year, and by a substantial slow-down in the USA following the disturbance in the American financial market in October. However, the location of a substantial part of the Division's manufacturing capacity within the USA provides considerable protection against further weakness in the US Dollar.

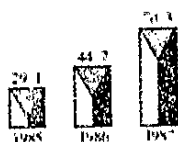
Both the public and private healthcare sectors in North America have reacted to the economic uncertainties by postponing capital equipment purchasing decisions into 1988. This is regarded as a short term effect and demand in the USA is expected to return towards a more normal level during the first half of 1988.

Vickers became the world's leading manufacturer of neonatal intensive care equipment with the acquisition of Air-Shields in the last quarter of 1986. The prime task of integrating Air-Shields with Vickers Medical proceeded satisfactorily. International distributor channels have been combined with minimal disturbance to customer relations; manufacture of the combined product ranges has been rationalised with the closure of Air-Shields' Shannon factory. Research and development programmes have also been restructured to eliminate duplication with the result that resources have been released to new development projects.

A number of new products were successfully launched during the year, including a neonatal warmer designed specifically for the needs of the delivery room, and a sophisticated weighing system, enabling the weight of a premature baby to be continuously monitored without the need for removal from the incubator.

Medelec, in the neurodiagnostic sector, also launched a number of new products, including the Neurostar, a mid-range electromyograph, and three specialist items of equipment for measuring the neurological responses evoked by audible and thermal stimuli.

SALES (£m)



PROFIT BEFORE
INTEREST (£m)





ERIC M. METER, M.D.,
 of the Rochester, N.Y.,
 Hospital, is seen with
 a patient in the hospital
 and the patient's family.

ERIC M. METER, M.D.,
 of the Rochester, N.Y.,
 Hospital, is seen with
 a patient in the hospital
 and the patient's family.

REVIEW OF ACTIVITIES

MEDICAL AND SCIENTIFIC EQUIPMENT CONTINUED

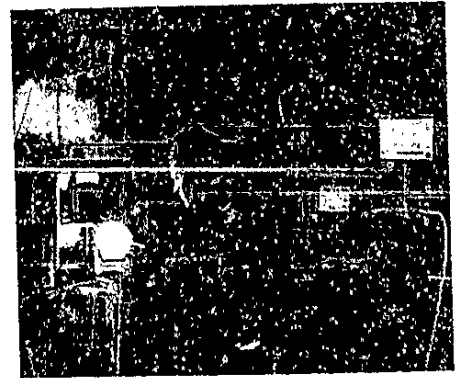
In the US, Medelec's subsidiary, Teca Corporation, suffered substantially from the slow-down in customer spending after the Wall Street share slide in October. However, Medelec's European business produced excellent results for the year.

Vickers Instruments benefited from the signs of recovery in the semi-conductor industry, which led to greater investment in production equipment by the manufacturers of microchips. Sales of Quacstor, the fully automated semi-conductor measurement and inspection system produced at the York factory of Vickers Instruments, were improved and sales overall increased over the previous year.

Vickers Instruments also launched the Nanolab SR Series, a range of fully automated scanning electro- microscopes, which resulted from substantial investment in research and development at the Ottawa plant.

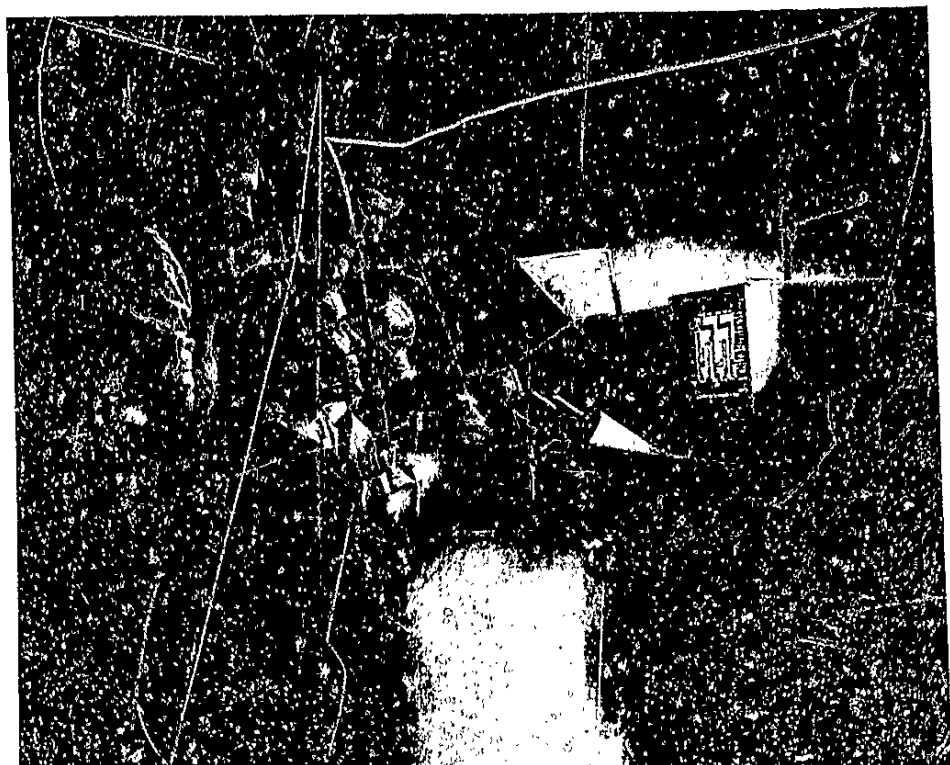
In the United Kingdom, the defence products of Vickers Instruments had a year of steady success and secured a further contract for laser rangefinders, for delivery in 1988.

At the end of the year, Joyce-Loebl, designer and manufacturer of image analysis equipment, was divested through a management buy-out.



Above: Loading a cassette of semiconductor wafers into the robotic handling system of the new Nanolab SR for inspection and measurement

Right: Members of the Quacstor technical team are engaged in a continuous programme of research and development testing of new software



REVIEW OF ACTIVITIES



KTM

Our machine tool manufacturing company was affected by a reduction in order intake in the last six months of the year

Despite the improving trend in output by UK manufacturing industry, this has not led to growth in investment in high technology machine tools during 1987. However, the company has a sizeable market presence with installed systems in Jaguar Cars, Renault and JCB.

OTHER ACTIVITIES

Left: Making a check on a key component for the FM100 Machining Centre manufactured by KTM at its Brighton Works.

Below: The four colour version of the Civilox system, developed by Crabtree Vickers, Leeds, helps reduce printing costs and improve printing quality.

CRABTREE VICKERS

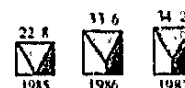
Crabtree Vickers, the Leeds based manufacturer of printing machinery, reported an improvement in trading performance and return on capital employed for its fourth year in succession.

Productivity also continued to improve during the year and several important orders were gained. In particular, the new Civilox inking system continued to gain acceptance worldwide and the first fully converted Civilox plant

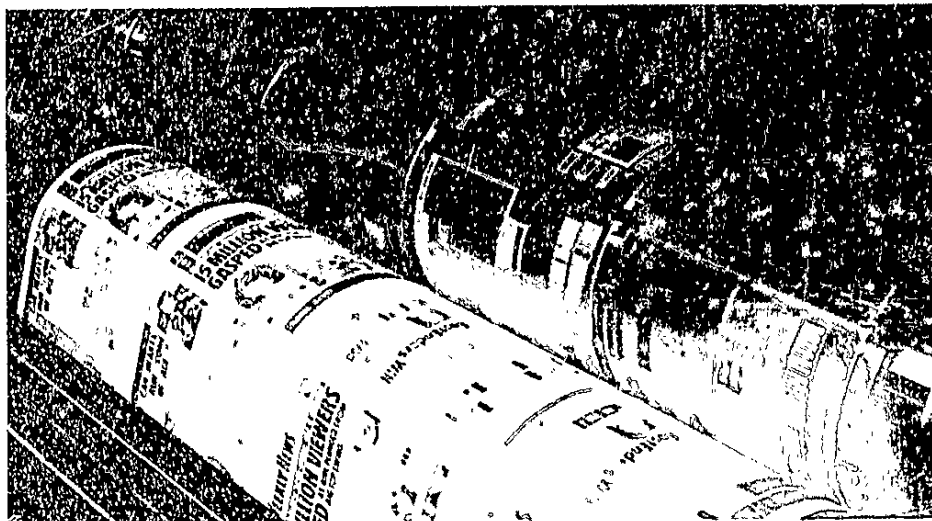
in North America was completed during the year. This event, coupled with the increasing involvement by Crabtree in Civilox-related refurbishments and reconfigurations in printing plants, has led to growing opportunities for this product.

With orders up by 50%, prospects are good for further gains in 1988 and Crabtree Vickers remains optimistic about its future. Accordingly, investment in both product and market support and development is being stepped up in 1988.

SALES (£m)



PROFIT BEFORE INTEREST (£m)



PRINCIPAL
DIVISIONS,
SUBSIDIARY AND
RELATED
COMPANIES

ROLLS-ROYCE MOTOR CARS

Rolls-Royce Motor Cars Limited, Crewe.
Mulliner Park Ward Division, London.
Rolls-Royce Motor Cars Incorporated, Lyndhurst, New Jersey, U.S.A.
Rolls-Royce Motor Cars International S.A., Lausanne, Switzerland.

HOWSON-ALGRAPHY PRINTING PLATES

Howson-Algraphy Limited, Leeds.
Howson-Algraphy Europe B.V., Soest, Holland.
Howson-Algraphy Incorporated, Carlstadt, New Jersey, U.S.A.
Howson-Algraphy S.A., (30%), Barcelona, Spain.

DEFENCE AND AEROSPACE

Vickers Defence Systems, Leeds and Newcastle upon Tyne.
Vickers Precision Components, Crewe and Shrewsbury.

BUSINESS FURNITURE

Comforto Vickers Division.
Comforto Incorporated, Lincolnton, North Carolina, U.S.A.
Comforto Systemes, S.A., Porrentruy, Switzerland.
Comforto-H. W. Schmidt G.m.b.H., Ahlen, Federal Republic of Germany.
Vickers Furniture, Dartford and Crayford.
Vickers Roneo S.A., (99.55%), Paris, Bressuire and Noyon, France.

MARINE ENGINEERING

Brown Brothers & Company Limited, Edinburgh.
Jered Brown Brothers Inc., Birmingham, Michigan, U.S.A.
KaMeWa A.B., Kristinehamn, Sweden.
Michell Bearings, Newcastle upon Tyne.
Stone Vickers Limited, Greenwich.

MEDICAL AND SCIENTIFIC EQUIPMENT

Air-Shields, Inc., Hatboro, Pennsylvania, U.S.A.
Medelec Limited, Woking.
Études et Constructions Electro-Mécaniques et Médicales, S.A., Ozoir-la-Ferrière, France.
Medico-Electronic, N.V., Antwerp, Belgium.
Teca Corporation, New York, U.S.A.
Vickers Instruments, York.
Vickers Instruments (Canada) Inc., Ottawa, Canada.
Vickers Instruments Incorporated, Malden, Massachusetts, U.S.A.
Vickers Medical, Basingstoke.

OTHER ACTIVITIES

Crabtree Vickers, Leeds.
KTM Limited, Brighton.
Vickers America, Inc., Lyndhurst, New Jersey, U.S.A.
Vickers Properties Limited, London.

RELATED COMPANY

Brown & Root Vickers Limited (30%), London.

Note: Except where otherwise stated the companies above are wholly-owned, being incorporated and operating in the countries indicated. There are excluded from the above list certain operating units which, in the opinion of the Directors, do not materially affect the results of Vickers P.L.C.

FIVE YEAR
REVIEW

PROFIT AND LOSS ACCOUNT	1987	1986	1985	1984	1983
	£m	£m	£m	£m	£m
Sales	788.3	691.8	611.2	528.8	655.2
Operating profit	69.5	59.9	50.3	41.4	31.8
Related companies—Australia	—	—	0.8	(2.6)	0.3
—Other	1.4	—	0.7	0.4	0.2
Profit before interest	70.9	59.9	51.8	39.2	32.3
Net interest payable less investment income	(8.3)	(5.9)	(6.7)	(8.4)	(12.8)
Profit before taxation	62.6	54.0	45.1	30.8	19.5
Taxation—Group companies	(16.7)	(14.7)	(11.2)	(5.4)	(5.5)
— Related companies	(0.6)	—	(0.2)	1.0	(0.1)
Profit after taxation	45.3	39.3	33.7	26.4	13.9
Minority interests	(0.5)	(0.3)	—	0.2	(0.7)
Profit before extraordinary items	44.8	39.0	33.7	26.6	13.2
Extraordinary items—Group companies	(2.5)	(8.3)	0.9	(6.7)	(9.3)
—Related companies	—	0.4	7.6	(3.5)	—
Shareholders' profit	42.3	31.1	42.2	16.4	3.9
Dividends	(17.5)	(15.2)	(12.4)	(9.6)	(7.7)
Retained profit (deficit)	24.8	15.9	29.8	6.8	(3.8)
 BALANCE SHEET					
Fixed assets	194.8	177.8	149.5	184.7	183.4
Net current assets	119.9	132.5	137.1	125.0	110.2
Amounts falling due after more than one year	(59.0)	(58.9)	(70.5)	(71.5)	(61.5)
Provisions for liabilities and charges	(29.0)	(37.5)	(25.8)	(29.3)	(19.5)
	226.7	213.9	190.3	208.9	212.6
Shareholders' interest	222.4	208.9	189.7	208.1	201.0
Minority interests	4.3	5.0	0.6	0.8	11.6
	226.7	213.9	190.3	208.9	212.6
 EMPLOYEES					
Average number of employees	16,731	15,871	15,801	15,403	22,205
Total wages and salaries (£m)	207.4	186.5	160.0	141.2	190.1
 EARNINGS PER SHARE					
Earnings per 50p Ordinary Share	17.4p	16.3p	14.5p	11.4p	5.6p

Interest incurred during the construction period on major fixed asset additions has been capitalised with effect from 1 January 1987. Comparative figures for prior years have not been restated.

Assets held under finance leases have been included as fixed assets with effect from 1 January 1984. Comparative figures for 1983 have not been restated.

REPORT OF THE DIRECTORS

The Directors present the 121st Annual Report together with the Consolidated Profit and Loss Account for the year ended 31 December 1987, Consolidated and Company Balance Sheets at that date and the Auditors' Report thereon. The information required under the Companies Act 1985, and by The Stock Exchange, has been incorporated in this Report, in the Review of Activities on pages 6 to 19 and in the accompanying Accounts.

DIVIDENDS

The profit attributable to members of the Company amounts to
Dividends already paid or accrued are as follows:

	£m	£m
Preference	(6.4)	42.3
Ordinary - interim of 2.7p per 50p Ordinary Share (equivalent with associated tax credit, to 3.7p gross)	(6.9)	(7.3)
		35.0
Ordinary - the Directors propose a final dividend of 4.0p per 50p Ordinary Share (equivalent, with associated tax credit, to 5.5p gross)		(10.2)
Leaving a surplus of		24.8

PRINCIPAL DEVELOPMENTS

As recorded in last year's Report of the Directors, Vickers Design and Projects was merged with the Project Engineering Management Division of Brown & Root (U.K.) Limited on 19 February 1987, to form a new company, Brown & Root Vickers Limited, in which Brown & Root (U.K.) Limited has a 70% shareholding and the Company a 30% shareholding.

On 31 March 1987, Vickers Properties Limited sold its freehold interest in the property known as Unit A, of the South Marston Industrial Estate, to The Post Office, for a cash consideration of £2,750,000.

During November 1987, the Company completed the sale of its 19% shareholding in Rolls-Royce and Associates Limited, to the other shareholders in that company, for a cash consideration of £1,396,500.

On 23 December 1987, the business assets and undertaking of the Company's Joyce-Loebl Division were sold to Joyce-Loebl Limited, a company established by members of the management of the Division, for a maximum consideration of £1,878,000.

On 7 January 1988, the Company announced its decision to offer for sale its Comforto Vickers Division.

The whole of the issued share capital of SOFEC, Inc. was sold on 19 January 1988 to SOFEC Holdings Inc., a company formed by members of the company's management, for a cash consideration of U.S.\$2,200,000.

DIRECTORATE

Mr. R.B. Head and H.R.H. The Duke of Kent were appointed members of the Board of Directors of the Company on 23 April 1987 and 28 May 1987 respectively. In accordance with the Articles of Association, they will vacate office at the forthcoming Annual General Meeting and seek re-election.

Mr. T. Neville relinquished his Directorship on his retirement on 23 April 1987.

On 31 December 1987, Mr. W.M. Windsor relinquished his office of Joint Managing Director, and his seat on the Board of Directors of the Company, and Mr. R.O. Taylor was appointed to the office of Managing Director.

The Directors retiring by rotation are Sir Ian Fraser, Mr. R.O. Taylor and Sir Richard Lloyd, Bt. who, being eligible, offer themselves for re-election. Mr. Taylor has a service contract with an unexpired period of three years.

Interests in the issued share capital of the Company beneficially held by members of the Board of Directors, or their families, and in the Company's Share Option Schemes, at the beginning and at the end of 1987, are set out in Note 10 to the Accounts on page 32.

DIRECTORS' REMUNERATION

Apart from the Chairman, the Deputy Chairman and those Directors holding executive office, the remuneration of the Directors is limited by the relevant Article of Association to a total of £50,000 per annum.

That limit was fixed in 1977 and, at the forthcoming Annual General Meeting, the Directors will be seeking members' approval for such sum to be increased to a maximum of £75,000 per annum, to be divided amongst them as they may by Resolution determine.

SHARE OPTION SCHEMES

Consequent upon the passing of the various Resolutions at the Annual General Meeting held on 23 April 1987, and in accordance with the provisions of the Rules of the Company's Share Option Schemes, the Auditors, Peat Marwick McLintock, certified adjustments to existing share option entitlements and option prices.

Details of options granted during the year, and of options which were outstanding at 31 December 1987, are set out in Note 18 to the Accounts on page 39.

Proposals to amend both the Approved Share Option Scheme and the Savings-Related Share Option Scheme will be considered at the forthcoming Annual General Meeting. The Finance Act 1987 permits the Schemes to be modified to deal with the effect of certain changes in control of the Company. In these circumstances, an option holder is allowed to release existing option rights in exchange for the grant of new options over shares in the acquiring company, or in another eligible company, equivalent to and on the same terms as the old options. The Board considers that it is desirable to amend the rules of both the Approved Share Option Scheme and the Savings-Related Share Option Scheme to enable these arrangements to be implemented.

Certain changes are also proposed to the rules of the Approved Share Option Scheme to bring it into line with current practice, enabling option holders who leave the employment of the Group in certain circumstances to exercise their options within 3½ years from the date of grant, if this is later than six months from their departure, thereby avoiding an income tax charge on exercise. It is also proposed that retiring option holders should be permitted to exercise their options within twelve months from retirement, rather than six months at present.

Additionally, it is proposed to change the limit on grants to individual participants to enable replacement options to be granted for any which have been exercised. The non-executive Committee of the Board will however observe, in relation to the grant of any such replacement options, the policy that they will only be granted on the basis of individual performance and potential for future contribution to the Company, and then only if the Committee is satisfied that the underlying performance of the Company has sufficiently improved over the two to three years preceding the re-grant. The total of options granted within the four years from the amendment will not exceed 2.5% of the issued Ordinary share capital of the Company. Any balance within the overall 5% limit, which your Board continues to regard as entirely appropriate and adequate, will remain available for the unexpired term of the Scheme.

The amendments to effect these changes are set out in draft amended rules, copies of which are available for inspection at the offices of Lovell, White & King, 21 Holborn Viaduct, London, EC1A 2DY during normal business hours in any weekday until the Annual General Meeting, and will be available for inspection at the Meeting. They are subject to the approval of the Inland Revenue and the Board is advised that they comply with institutional guidelines.

SHARE CAPITAL OF THE COMPANY

All of the Resolutions submitted to the Annual General Meeting held on 23 April 1987 were duly passed.

Certain of such Resolutions:

- i) converted the then existing issued Ordinary Stock Units into £1 Ordinary Shares, which were each immediately sub-divided into two Ordinary Shares of 50p each;
- ii) increased the authorised share capital of the Company from £139,000,000 to £191,000,000 by the creation of 104,000,000 new Ordinary Shares of 50p each;
- iii) capitalised the sum of £25,432,095.50 standing to the credit of Share Premium Account and authorised the Directors to apply such sum, on behalf of the Ordinary Shareholders, in paying up, in full, 50,864,191 unissued Ordinary Shares of 50p each, for allotment and distribution, credited as fully paid up, to and amongst them in the proportion of one new Ordinary Share of 50p for every four shares registered in their names as at 24 April 1987. The capitalisation issue was duly effected and the new Ordinary Shares were admitted to the Official List, dealings therein commencing on 11 May 1987. It transpired that, due to a technical irregularity, it was necessary to issue, in total, 50,909,236 new Ordinary Shares which necessitated the capitalisation of the sum of £25,454,618; and
- iv) authorised the Directors, in accordance with Section 80 of the Companies Act 1985, to allot relevant securities during the period ending upon the conclusion of the next following Annual General Meeting (or 1 July 1988, whichever should be the 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 £42,450,000 nominal of Ordinary share capital which, after allowing for the £12,164,269 nominal Ordinary share capital reserved for the various Share Option Schemes, would represent approximately one-third of the current issued Ordinary capital. Renewal of the disapplication of the statutory pre-emption rights would continue to allow the Directors to issue Ordinary Shares, in accordance with recommended institutional investor guidelines, by way of a rights issue and, in addition, a limited amount of Ordinary share capital (viz £6,350,000 in nominal amount) for cash, otherwise than by way of a rights issue.

It should be stressed that your Directors have no present intention of issuing such unissued shares and no issue will be made which will effectively alter the control of the Company. Nevertheless, your Directors believe that it is in the best interests of the Company that they possess such powers so that advantage can be taken if any suitable opportunities to develop the Company's interests become available.

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

EMPLOYEES

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of employees becoming disabled, every effort is made, including appropriate training, to ensure that their employment with the Company continues. It is the policy of the Company to further, as far as possible, the training, career development and promotion of disabled employees. The Company's equal opportunities and non-discrimination policy statement includes those objectives.

EMPLOYEE INVOLVEMENT

- i) The Company's now well established communications monthly team briefing and consultative arrangements have been maintained.
- ii) The qualifying period for employees to participate in the Savings-Related Share Option Scheme was reduced from two to one year's employment. The Scheme continues to be well supported.

- iii) Employees and their representatives were involved during the year in a review of pension benefits and in the planning for communications to employees concerning the pension legislation changes coming into force in 1988. Employees are represented on the Pension Schemes' Boards of Trustees.
- iv) A notable event was the celebration of the 60th anniversary of the Company's golf competition which was instituted in 1927 and is open to all employees. Over five hundred entrants competed in 1987.

FIXED ASSETS

The Directors are of the opinion that the overall value of the properties on an existing use basis is not materially different from that shown in the Accounts.

RESEARCH AND DEVELOPMENT

It remains the objective of the Company, and of its subsidiaries, to continue to invest significantly in the development of the Group's various products and processes. Your Board considers that this is essential if the Group is to remain competitive and, to that end, ensures that regular monitoring of activities within the sphere of research and development is undertaken during the annual planning cycle. The investment by the Group during 1987, net of contributions from customers and government grants, amounted to £24,400,000 compared to £22,600,000 in 1986.

AUDITORS

The Auditors, Peat Marwick McLintock, have intimated that they are willing to continue in office and, in accordance with the requirements of the Companies Act 1985, a Resolution concerning their re-appointment will be proposed at the forthcoming Annual General Meeting.

DONATIONS

Donations made in the United Kingdom for charitable purposes during the year amounted to £170,346 gross.

Political contributions were made to the Conservative Party (£30,000), the Liberal Party (£5,000) and the Social Democratic Party (£5,000).

LARGE SHAREHOLDINGS

There are no large holdings of the Company's Ordinary Shares which require disclosure in accordance with the requirements of Section 198 of the Companies Act 1985.

Details of such holdings in the Company's Preference Stocks are as follows:

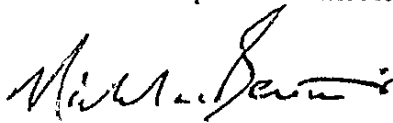
Stock		%
Preferred 5%	Co-operative Insurance Society Limited	15.03
Preferred 5%	Guardian Royal Exchange Assurance plc	5.50
5% Preference	Co-operative Insurance Society Limited	11.61
Cumulative Preference	Guardian Royal Exchange Assurance plc	22.88
Cumulative Preference	Phoenix Assurance plc	12.98
Cumulative Preference	The Prudential Assurance Company Limited	8.65
Cumulative Preference	Norwich Union Fire Insurance Society Limited	7.28
Cumulative Preference	Co-operative Insurance Society Limited	8.57

INCOME AND CORPORATION TAXES ACT 1970

The close company provisions of the Income and Corporation Taxes Act 1970 do not apply to the Company.

Signed on behalf of the Board,
Nicholas Bevins
Secretary

22 February 1988



**CONSOLIDATED
PROFIT AND LOSS
ACCOUNT**

For the year ended 31 December

	Notes	1987 £m	1986 £m
SALES	2	788.3	691.8
OPERATING PROFIT	3	69.5	59.9
Share of profits of related companies		1.4	—
PROFIT BEFORE INTEREST		70.9	59.9
Net interest payable less investment income	4	(8.3)	(5.9)
PROFIT BEFORE TAXATION		62.6	54.0
Taxation	5	(17.3)	(14.7)
PROFIT AFTER TAXATION		45.3	39.3
Minority interests		(0.5)	(0.3)
PROFIT BEFORE EXTRAORDINARY ITEMS		44.8	39.0
Extraordinary items—Group companies	6	(2.5)	(8.3)
—Related companies	6	—	0.4
SHAREHOLDERS' PROFIT		42.3	31.1
Dividends	7	(17.5)	(15.2)
RETAINED PROFIT	8	24.8	15.9
EARNINGS PER 50p ORDINARY SHARE	9	17.4p	16.3p

ANALYSES OF SALES AND PROFIT

PRINCIPAL ACTIVITIES

	Sales		Profit	
	1987	1986	1987	1986
	£m	£m	£m	£m
Rolls-Royce Motor Cars	186.2	175.1	22.0	17.5
Howson-Algraphy Printing Plates	155.3	135.4	18.7	17.5
Defence and Aerospace	136.9	82.8	12.7	9.2
Business Furniture	109.8	106.2	5.1	6.4
Marine Engineering	87.4	83.3	3.4	2.3
Medical and Scientific Equipment	70.3	44.7	6.0	4.7
Other activities	34.2	33.6	1.6	1.6

CONTINUING ACTIVITIES

	780.1	661.1	69.5	59.2
Discontinued activities	8.2	30.7	—	0.7

TOTAL SALES

788.3	691.8
-------	-------

OPERATING PROFIT

69.5	59.9
------	------

Related companies

1.4	—
-----	---

PROFIT BEFORE INTEREST

70.9	59.9
------	------

Net interest payable less investment income

(8.3)	(5.9)
-------	-------

PROFIT BEFORE TAXATION

62.6	54.0
------	------

BALANCE SHEETS

At 31 December	Notes	Group		Company	
		1987 £m	1986 £m	1987 £m	1986 £m
FIXED ASSETS					
Tangible assets	11	186.6	171.9	81.9	66.5
Investments—Group companies	12	—	—	119.4	119.9
—Other investments	13	8.2	5.9	6.0	4.1
		<u>194.8</u>	<u>177.8</u>	<u>207.3</u>	<u>190.5</u>
CURRENT ASSETS					
Stocks and work in progress	14	154.1	172.1	35.3	44.2
Debtors	15	159.9	166.5	204.7	138.5
Cash and bank balances		27.0	38.2	2.3	12.4
		<u>341.0</u>	<u>376.8</u>	<u>242.3</u>	<u>195.1</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR					
Borrowings	16	(34.5)	(50.8)	(13.0)	(23.2)
Other liabilities	16	(186.6)	(193.5)	(197.5)	(118.3)
		<u>119.9</u>	<u>132.5</u>	<u>31.8</u>	<u>53.6</u>
NET CURRENT ASSETS					
		119.9	132.5	31.8	53.6
TOTAL ASSETS LESS CURRENT LIABILITIES					
		314.7	310.3	239.1	244.1
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR					
Borrowings	16	(55.0)	(56.0)	(45.8)	(42.6)
Other liabilities	16	(4.0)	(2.9)	(4.2)	(1.3)
		<u>(59.0)</u>	<u>(58.9)</u>	<u>(50.0)</u>	<u>(43.9)</u>
PROVISIONS FOR LIABILITIES AND CHARGES					
	17	(29.0)	(37.5)	(7.7)	(16.0)
		<u>226.7</u>	<u>213.9</u>	<u>181.4</u>	<u>184.2</u>
CAPITAL AND RESERVES					
Called up share capital	18	135.8	110.1	135.8	110.1
Share premium account	19	21.6	47.0	21.6	47.0
Revaluation reserve	19	12.5	10.6	5.2	8.2
Profit and loss account	19	52.5	41.2	18.8	18.9
		<u>222.4</u>	<u>208.9</u>	<u>181.4</u>	<u>184.2</u>
SHAREHOLDERS' INTEREST					
MINORITY INTERESTS		4.3	5.0	—	—
		<u>226.7</u>	<u>213.9</u>	<u>181.4</u>	<u>184.2</u>

22 February 1988

David Plastow
David Plastow
R. O. Taylor
R. O. Taylor

} Directors

ACCOUNTING POLICIES

1 BASIS OF CONSOLIDATION

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

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

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

2 OVERSEAS CURRENCIES

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

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

3 SALES

Sales consist 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.

4 EXTRAORDINARY ITEMS

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

5 RESEARCH AND DEVELOPMENT EXPENDITURE

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

6 TANGIBLE ASSETS

With the exception of land and properties held for investment on which no depreciation is charged, freehold buildings and leasehold land and buildings are depreciated over their remaining useful lives or periods of lease, whichever are shorter.

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

Other plant and equipment is depreciated, mainly in equal annual instalments, so as to write off the cost of such assets over their estimated useful lives.

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

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

7 TAXATION

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

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

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

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

8 STOCKS AND WORK IN PROGRESS

Stocks and work in progress are valued at the lower of cost and net realisable value except in the case of work in progress in respect of certain long term contracts which is stated at cost, together with a proportion of profit appropriate to the stage of completion of each contract. Full provision has been made for anticipated losses. Cost comprises materials and factory labour, including overheads thereon based on normal levels of activity.

9 PENSION FUNDING

Contributions to pension funds, including those related to past service, are made in accordance with the recommendations of independent actuaries, and are charged against profits as payments are made.

CHANGE IN ACCOUNTING POLICY

During the year the Group adopted the policy of capitalising interest incurred during the construction period on major fixed asset additions. The effect of the change in 1987 is to increase profit before tax and capital employed by £7.8 m. Comparative financial data for 1986 has not been restated as the effect in that year was immaterial.

2 SALES BY DESTINATION	1987	1986
	£m	£m
United Kingdom	205.3	232.7
Continental Europe	215.9	187.2
North America	198.2	177.3
Africa	27.6	41.9
Asia	24.4	29.3
Australasia	23.2	19.7
South America	3.7	3.7
	<u>788.3</u>	<u>691.8</u>
3 OPERATING PROFIT	1987	1986
	£m	£m
Sales	788.3	691.8
Cost of sales	(542.9)	(468.7)
Gross profit	<u>245.4</u>	<u>223.1</u>
Administrative expenses	(155.2)	(143.7)
Distribution costs	(24.3)	(22.0)
Other operating income	<u>3.6</u>	<u>2.5</u>
Operating profit	<u>69.5</u>	<u>59.9</u>
After charging:		
Depreciation	23.3	20.4
Auditors' remuneration	1.0	0.9
Operating lease charges:		
Hire of plant and machinery	1.1	0.9
Other lease charges	3.3	2.2
Research and development	<u>24.4</u>	<u>22.6</u>
After crediting:		
Rental income, less outgoings, from properties	0.4	0.7
Profit on disposal of fixed assets	<u>3.3</u>	<u>3.0</u>

4 NET INTEREST PAYABLE LESS INVESTMENT INCOME	1987 £m	1986 £m
Interest payable and similar charges:		
Borrowings totally repayable within one year	(5.6)	(4.0)
Borrowings totally repayable between one and five years	(5.1)	(1.2)
All other borrowings	(0.7)	(3.0)
	<u>(11.4)</u>	<u>(8.2)</u>
Interest capitalised	0.8	—
Interest receivable	2.1	2.1
Investment income	0.2	0.2
	<u>(8.3)</u>	<u>(5.9)</u>

Interest payable on finance leases included above amounted to £0.6m (1986: £0.7m).

5 TAXATION	1987 £m	1986 £m
United Kingdom taxation:		
Corporation Tax	9.2	7.9
Deferred taxation	0.1	(0.2)
Advance Corporation Tax written off	—	0.1
Overseas taxation:		
Current taxation	8.1	8.4
Deferred taxation	—	(1.1)
Prior years	(0.7)	(0.4)
Related companies	0.6	—
	<u>17.3</u>	<u>14.7</u>

The United Kingdom Corporation Tax charge computed at 35% (1986: 36.25%) has been reduced by £2.2m (1986: £7.0m) due to utilisation of Advance Corporation Tax previously written off and losses brought forward.

6 EXTRAORDINARY ITEMS

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

	1987 £m	1986 £m
Group companies		
Profits on disposal of businesses	1.4	0.1
Losses on disposal and closure of businesses	(5.1)	(5.4)
Relocation costs	(0.2)	(3.5)
	<u>(3.9)</u>	<u>(8.8)</u>
Taxation	0.6	0.5
Taxation adjustment in respect of prior years	0.8	—
	<u>(2.5)</u>	<u>(8.3)</u>
Related companies	—	0.4

7 DIVIDENDS	1987	1986
	£m	£m
Preference, paid April and October	0.4	0.4
Ordinary:		
Interim of 2.7p (3.7p gross) paid November 1987	6.9	5.6
Proposed final of 4.0p (5.5p gross), payable May 1988	10.2	9.2
	<u>17.5</u>	<u>15.2</u>

8 RETAINED PROFIT	1987	1986
	£m	£m
The Company	(3.1)	(4.7)
Group companies	<u>27.1</u>	<u>20.2</u>
	24.0	15.5
Related companies	<u>0.8</u>	<u>0.4</u>
	<u>24.8</u>	<u>15.9</u>

9 EARNINGS PER SHARE

The calculation of earnings per 50p Ordinary Share is based on the profit after taxation and before extraordinary items of £44.8m (1986: £39.0m) less the preference dividends of £0.4m (1986: £0.4m) and the average number of Ordinary Shares ranking for dividend of 254,664,862 (1986: 237,063,773).

10 DIRECTORS AND EMPLOYEES

(a) Directors' Interests

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

	At 31 December 1987			At 1 January 1987		
	Option Schemes			Option Schemes		
	50p Ordinary Shares	Executive	Savings Related	£1 Ordinary Stock	Executive	Savings Related
Sir David Plastow	13,737	250,000	8,112	5,375	75,000	3,245
Sir Ian Fraser	33,592	—	—	13,996	—	—
Mr. R. O. Taylor	1,875	200,000	8,112	750	62,500	3,245
Mr. W. M. Windsor	1,562	200,000	8,112	625	62,500	3,245
Mr. C. W. Foreman	41,562	162,500	8,112	625	50,000	3,245
Mr. R. B. Head	1,250	131,375	8,112	—	18,750	3,245
H.R.H. The Duke of Kent	1,000	—	—	—	—	—
Mr. D. J. Kingsbury	1,562	—	—	625	—	—
Sir Richard Lloyd, Bt.	1,250	—	—	500	—	—
Dr. A. D. McCann	50,000	162,500	8,112	20,000	50,000	3,245
Mr. J. M. Raisman	1,562	—	—	625	—	—
Mr. M. G. Taylor	1,250	—	—	500	—	—

In addition, at the end of the year under review, Sir David Plastow held 250,000 options under the 1973 Share Option Scheme. During the year, Mr. R. O. Taylor and Mr. C. W. Foreman exercised 105,000 options and 75,000 options respectively at a subscription price of 53.2p, and Mr W. M. Windsor exercised 25,000 options at 133p. Information in respect of the subscription prices and exercise dates under the Share Option Schemes is set out in Note 18.

There have been no changes in the above-mentioned holdings since the end of 1987. None of the Directors has or has had material interests, direct or indirect, in any contract of significance entered into by the Company.

(b) Directors' Emoluments	1987	1986
	£	£
Emoluments of Directors		
Fees	45,833	46,000
Other emoluments	738,403	776,255
Pensions and pension contributions	193,518	172,879
Emoluments of the Chairman (and highest paid Director in 1987)	216,322	50,000
Emoluments of the highest paid Director		209,722

(c) Banding

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

Emoluments £	Other Directors		Employees	
	1987	1986	1987	1986
5,001 to 10,000	5	4		
15,001 to 20,000	—	1		
25,001 to 30,000	1	—		
30,001 to 35,000	1	—	23	26
35,001 to 40,000	—	—	16	25
40,001 to 45,000	—	—	14	10
45,001 to 50,000	—	—	14	11
50,001 to 55,000	—	—	8	6
55,001 to 60,000	—	—	3	2
60,001 to 65,000	—	—	6	2
65,001 to 70,000	1	—	3	1
70,001 to 75,000	—	—	1	1
75,001 to 80,000	—	—	1	1
80,001 to 85,000	1	1	—	1
90,001 to 95,000	1	—	2	1
95,001 to 100,000	—	1	—	—
100,001 to 105,000	—	1	—	1
105,001 to 110,000	2	—	—	—
110,001 to 115,000	—	—	1	—
115,001 to 120,000	—	2	—	—

(d) Number of Employees

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

Production	6,433	6,238
Selling, distribution and administration	10,298	9,633
	<u>16,731</u>	<u>15,871</u>

(e) Employment costs

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

	£m	£m
Wages and salaries	207.4	186.5
Social security costs	26.0	22.6
Other pension costs	4.0	6.2
	<u>237.4</u>	<u>215.3</u>

II TANGIBLE ASSETS

	Land and buildings	Plant and machinery	Motor vehicles	Office furniture and equipment	Tooling	Total
	£m	£m	£m	£m	£m	£m
(a) Group						
Gross book value						
At 1 January 1987	91.2	116.5	12.2	23.9	36.5	280.3
Exchange adjustment	(2.9)	(3.9)	(0.2)	(1.2)	(0.5)	(8.7)
Capital expenditure	19.0	18.0	3.3	5.6	3.4	49.3
Revaluation written back on disposals	(1.2)	—	—	—	—	(1.2)
Disposals	(3.5)	(6.1)	(2.7)	(0.9)	(5.5)	(18.7)
Disposals of businesses	(0.1)	(0.1)	(0.6)	(1.6)	—	(2.4)
At 31 December 1987	102.5	124.4	12.0	25.8	33.9	298.6
Depreciation						
At 1 January 1987	12.8	54.9	5.9	11.4	23.4	108.4
Exchange adjustment	(0.6)	(2.2)	(0.1)	(0.7)	(0.3)	(3.9)
Provided during the year	2.1	12.2	2.5	3.6	2.9	23.3
Disposals	(2.0)	(4.5)	(1.8)	(0.7)	(5.5)	(14.5)
Disposals of businesses	—	—	(0.3)	(1.0)	—	(1.3)
At 31 December 1987	12.3	60.4	6.2	12.6	20.5	112.0
Net book value at 31 December 1987						
Owned assets	90.2	55.0	5.2	11.5	13.4	175.3
Leased assets	—	9.0	0.6	1.7	—	11.3
Total	90.2	64.0	5.8	13.2	13.4	186.6
Net book value at 31 December 1986	78.4	61.6	6.3	12.5	13.1	171.9

Capital expenditure and Net book value include interest capitalised of £0.8m (1986: Nil).

(b) Company

Gross book value						
At 1 January 1987	36.3	48.3	5.9	9.4	2.9	102.8
Capital expenditure	11.9	11.0	1.6	0.9	1.5	26.9
Disposals	(1.5)	(3.6)	(2.2)	(1.7)	(0.1)	(9.1)
At 31 December 1987	46.7	55.7	5.3	8.6	4.3	120.6
Depreciation						
At 1 January 1987	5.3	22.1	2.8	4.9	1.2	36.3
Provided during the year	0.6	5.1	1.2	1.3	0.8	9.0
Disposals	(1.3)	(2.8)	(1.3)	(1.1)	(0.1)	(6.6)
At 31 December 1987	4.6	24.4	2.7	5.1	1.9	38.7
Net book value at 31 December 1987	42.1	31.3	2.6	3.5	2.4	81.9
Net book value at 31 December 1986	31.0	26.2	3.1	4.5	1.7	66.5

(c) Land and Buildings

Land and buildings at valuation or cost at end of year comprise:

	Group			Company		
	Freehold	Long leasehold	Short leasehold	Freehold	Long leasehold	Short leasehold
	£m	£m	£m	£m	£m	£m
Cost	62.0	1.8	1.3	31.8	0.4	0.6
Valuation 1973/79	32.6	4.3	0.1	10.1	3.7	0.1
Valuation 1982/84	0.4	—	—	—	—	—
	<u>95.0</u>	<u>6.1</u>	<u>1.4</u>	<u>41.9</u>	<u>4.1</u>	<u>0.7</u>

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

	Group	Company
	£m	£m
Cost	90.0	41.5
Accumulated depreciation	(10.2)	(3.1)
Net book value at 31 December 1987	<u>79.8</u>	<u>38.4</u>

Land and buildings includes investment properties with a net book value of £12.0m (1986: £8.6m).

(d) Analysis of Depreciation Charge

	1987	1986
	£m	£m
Depreciation on owned assets	19.6	17.3
Depreciation on leased assets	3.7	3.1
Depreciation provided during the year	<u>23.3</u>	<u>20.4</u>

12 INVESTMENTS—GROUP COMPANIES

	Cost	Provisions	Net
	£m	£m	£m
At 1 January 1987	141.5	(21.6)	119.9
Provided	—	(0.5)	(0.5)
At 31 December 1987	<u>141.5</u>	<u>(22.1)</u>	<u>119.4</u>

A list of principal subsidiary companies is given on page 20.

13 OTHER INVESTMENTS

	Group			Company		
	Related Companies	Other Investments	Total	Related Companies	Other Investments	Total
	£m	£m	£m	£m	£m	£m
At 1 January 1987	1.1	4.8	5.9	—	4.1	4.1
Acquisitions	1.9	—	1.9	1.9	—	1.9
Share of retained profits for the year	0.8	—	0.8	—	—	—
Disposals	(0.3)	(0.1)	(0.4)	—	—	—
At 31 December 1987	<u>3.5</u>	<u>4.7</u>	<u>8.2</u>	<u>1.9</u>	<u>4.1</u>	<u>6.0</u>

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

NOTES TO THE
ACCOUNTS
CONTINUED

14 STOCKS AND WORK IN PROGRESS

	Group		Company	
	1987	1986	1987	1986
	£m	£m	£m	£m
Long term contract work in progress	68.4	85.8	46.5	53.1
Instalments on account	(59.1)	(79.4)	(38.7)	(49.0)
	9.3	6.4	7.8	4.1
Other work in progress	64.4	78.7	9.0	11.9
Instalments on account	(6.0)	(7.4)	(1.0)	(1.8)
	58.4	71.3	8.0	10.1
Net work in progress	67.7	77.7	15.8	14.2
Materials, bought out components and general stores	30.0	42.8	9.5	20.5
Finished goods	56.4	51.6	10.0	9.5
Total stocks and work in progress	154.1	172.1	35.3	44.2
Profit included in long term contract work in progress (constituting a departure from the statutory requirement for the valuation of stocks to enable the accounts to give a true and fair view)	1.2	1.9	1.2	0.4

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

15 DEBTORS

	Group		Company	
	1987	1986	1987	1986
	£m	£m	£m	£m
Amounts falling due within one year:				
Trade debtors	143.3	150.2	55.4	48.0
Amounts owed by Group companies	—	—	144.8	85.5
Other debtors	7.9	7.8	1.7	1.7
Prepayments and accrued income	5.4	5.5	1.9	2.2
	156.6	163.5	203.8	137.4
Amounts falling due after more than one year:				
Trade debtors	1.8	1.6	0.3	0.3
Other debtors	1.5	1.4	0.6	0.8
	159.9	166.5	204.7	138.5

During 1987 an amount of £20,000 was outstanding in respect of a relocation loan made to Mr. R. B. Head prior to his appointment as a Director. The loan bears interest at the rate of 2½% per annum and is repayable in full by 13 April 1993. At the year end £68,240 was outstanding in respect of three other relocation loans made to officers of the Company.

16 CREDITORS	Group		Company	
	1987 £m	1986 £m	1987 £m	1986 £m
Amounts falling due within one year:				
Loans and overdrafts	30.0	47.0	11.3	20.6
Obligations under finance leases	4.5	3.8	1.7	2.6
Borrowings	34.5	50.8	13.0	23.2
Instalments in advance of contract expenditure	17.3	18.1	15.8	14.4
Trade creditors	71.9	74.8	32.5	26.6
Amounts owed to Group companies	—	—	111.6	40.3
Accruals and deferred income	38.7	31.4	11.4	7.7
Taxation on profits	13.8	15.2	7.6	6.7
Other taxation and social security	7.9	7.6	2.1	2.2
Proposed dividend	10.4	9.4	10.4	9.4
Other creditors	26.6	37.0	6.1	11.0
Other liabilities	186.6	193.5	197.5	118.3
Amounts falling due after more than one year:				
Borrowings under medium term committed facilities	51.8	49.3	43.0	38.4
Obligations under finance leases	3.2	6.7	2.8	4.2
Borrowings	55.0	56.0	45.8	42.6
Borrowings repayable in:				
One to two years	14.0	7.2	14.0	5.0
Two to five years	35.1	28.6	31.7	24.2
Over five years 1993-2006	5.9	20.2	0.1	13.4
	55.0	56.0	45.8	42.6
Not wholly repayable within five years	7.3	49.8	0.4	41.8
Amounts owed to Group companies	—	—	0.4	1.3
Other creditors	4.0	2.9	3.8	—
Other liabilities	4.0	2.9	4.2	1.3

Borrowings of Group companies are secured by way of charges on fixed assets, to the extent of £1.1m (1986: £6.5m). The Company's borrowings are unsecured.

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

NOTES TO THE
ACCOUNTS
CONTINUED

17 PROVISIONS FOR LIABILITIES AND CHARGES

	Warranty £m	Dilapida- tions £m	Reorgan- isation £m	Other liabilities £m	Deferred taxation £m	Total £m
Group						
At 1 January 1987	16.1	0.8	10.3	9.2	1.1	37.5
Exchange adjustment	(0.8)	—	—	(0.5)	0.2	(1.1)
Provided	8.2	—	1.7	3.5	0.1	13.5
Used	(8.9)	(0.2)	(7.3)	(3.2)	—	(19.6)
Disposals	(0.5)	—	—	—	—	(0.5)
Release to revaluation reserve	—	—	—	—	(0.8)	(0.8)
At 31 December 1987	14.1	0.6	4.7	9.0	0.6	29.0
Company						
At 1 January 1987	2.9	0.4	7.8	4.9	—	16.0
Provided	0.7	—	0.8	0.2	—	1.7
Used	(1.4)	(0.1)	(6.0)	(2.0)	—	(9.5)
Disposals	(0.5)	—	—	—	—	(0.5)
At 31 December 1987	1.7	0.3	2.6	3.1	—	7.7

	Group		Company	
	1987	1986	1987	1986
	£m	£m	£m	£m
Deferred taxation				
Excess capital allowances over accumulated depreciation	2.2	1.8	—	—
Advance Corporation Tax	(1.8)	(1.5)	—	—
Provided against property sales	0.7	1.0	—	—
Other provisions – overseas	(0.5)	(0.2)	—	—
	0.6	1.1	—	—

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

Excess capital allowances over accumulated depreciation	22.4	20.3	11.5	9.2
Other timing differences	(5.5)	(6.3)	(1.8)	(4.5)
Losses available for set-off	(1.8)	(0.6)	(1.3)	(0.3)
Capital gains on revaluation of properties and rolled over gains	9.2	7.8	7.3	6.3
	24.3	21.2	15.7	10.7
Advance Corporation Tax	(19.7)	(10.4)	(12.1)	(3.6)
	5.2	10.8	3.6	7.1

Following changes in United Kingdom tax law in 1987, Advance Corporation Tax can now be offset against Capital Gains.

There are United Kingdom tax losses carried forward of £22.6m (1986: £24.6m), including those shown above, which are available to be set off against future taxable profits in the Divisions in which the losses occurred.

Advance Corporation Tax not yet utilised, amounting to £43.0m (1986: £44.8m), including that shown above, has been written off in the year in which it has arisen and is available for the reduction of liabilities to Corporation Tax in future years.

18 SHARE CAPITAL	Group and Company			
	Authorised		Issued	
	1987	1986	1987	1986
	£m	£m	£m	£m
Preferred 5% Stock (now 3.5% plus tax credit)	0.8	0.8	0.8	0.8
5% Preference Stock (now 3.5% plus tax credit)	0.7	0.7	0.7	0.7
Cumulative Preference Shares and Stock (now 5% plus tax credit)	7.0	7.0	6.9	6.9
	8.5	8.5	8.4	8.4
Ordinary Shares of 50p each (1986: £1 Stock units)	182.5	130.5	127.4	101.7
Authorised share capital	191.0	139.0		
Share capital, allotted, called up and fully paid			135.8	110.1

The three Preference classes are of £1 units.

During the year ended 31 December 1987:-

(a) 50,000,000 Ordinary Shares of 50p each were issued as a result of the capitalisation of profits.

(b) 519,800 Shares were issued on the exercise of options under the Company's Share Option Schemes and

(c) the following options were granted:-

on 19 March to 35 participants over 336,500 Shares at a subscription price of 193.6p under the terms of the Approved Share Option Scheme;

on 20 October to 13 participants over 337,000 Shares at a subscription price of 173p under the terms of the Approved Share Option Scheme;

on 10 April to 191 participants over 23,418 Shares at a subscription price of 170.4p under the terms of the Savings-Related Share Option Scheme; and

on 29 October to 420 participants over 433,959 Shares at a subscription price of 200.7p under the terms of the Savings-Related Share Option Scheme.

At 31 December 1987 options had been granted and were still outstanding in respect of Ordinary Shares under the following Schemes:

	Number of Shares	Range of Subscription Prices	Exercise Period
Share Option Scheme	1,151,151	55.2p - 53.6p	1985 - 1990
Approved Share Option Scheme	2,512,125	104.0p - 143.4p	1983 - 1997
Savings-Related Share Option Scheme	3,340,047	20.1p - 210.7p	1980 - 1992

NOTES TO THE
ACCOUNTS
CONTINUED

19 RESERVES	Share premium £m	Revaluation reserve £m	Profit and Loss Account £m	Related Companies' Reserves £m
Group				
At 1 January 1987	47.0	10.6	31.6	9.6
Exchange adjustment	—	(0.1)	(6.5)	—
Retained profit for the year	—	—	24.0	0.8
Capitalisation issue	(25.5)	—	—	—
Premium on share issues	0.1	—	—	—
Adjustments to goodwill	—	—	(4.6)	—
Reserves reclassified	—	2.4	(3.4)	1.0
Release from deferred taxation	—	0.8	—	—
Realisation of revaluation on disposals	—	(1.2)	—	—
At 31 December 1987	21.6	12.5	41.1	11.4

The balance on the revaluation reserve at 31 December 1987 includes £4.6m (1986: £3.7m) in respect of investment properties.

The amount of unrealised gains (net of losses) on net borrowings at 31 December 1987 included in reserves amounted to £2.8m.

	Share premium £m	Revaluation reserve £m	Profit and Loss Account £m
Company			
At 1 January 1987	47.0	8.2	18.9
Retained (deficit) for the year	—	—	(3.1)
Capitalisation issue	(25.5)	—	—
Premium on share issues	0.1	—	—
Reserves reclassified	—	(3.0)	3.0
At 31 December 1987	21.6	5.2	18.8

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

As permitted by section 228(7) of the Companies Act 1985, the Profit and Loss Account of the Company is not presented as part of these Accounts. The profit before extraordinary items of the Company amounted to £17.3m (1986: £21.4m).

21 CAPITAL COMMITMENTS	Group		Company	
	1987 £m	1986 £m	1987 £m	1986 £m
Outstanding contracts for capital expenditure	8.9	4.6	1.7	2.0
Further capital expenditure authorised	16.4	23.4	1.9	15.8
	25.3	28.0	3.6	17.8

22 OPERATING LEASE COMMITMENTS

	Property Leases £m	Other Operating Leases £m
Annual rentals payable on leases expiring:		
Within one year	0.7	1.2
Between two and five years	3.1	1.9
Beyond five years	3.8	—
	<u>7.6</u>	<u>3.1</u>

23 CONTINGENT LIABILITIES

Guarantees and contingencies arising in the ordinary course of business are not expected to result in any material financial loss to the Group. The Company has guaranteed indebtedness of subsidiaries totalling £1.9m (1986: £2.9m).

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

24 PENSIONS

In the United Kingdom the Group operates pension schemes which are administered by trustees and their funds are independent of the Group's finances. Actuarial valuations of the schemes were carried out as at April 1986 and, at that date, showed surpluses in the funds. These surpluses were sufficient to enable the Company and the Trustees to grant improvements in pension benefits to contributors, pensioners and deferred pensioners, and to reduce the contributions required by the Group until the next valuations in April 1989. The Group contributions are shown in Note 10.

**SOURCE AND
APPLICATION OF
FUNDS**

	1987		1986	
	£m	£m	£m	£m
SOURCE OF FUNDS				
Profit after interest	62.6		54.0	
Extraordinary items - Group - before taxation	(3.9)		(8.8)	
	<u>58.7</u>		<u>45.2</u>	
Items not involving the movement of funds				
Depreciation	23.3		20.4	
Income from related companies	(1.4)		—	
Minority interests	—		4.1	
Currency variations	(2.8)		(1.2)	
	<u>77.8</u>		<u>68.5</u>	
Total generated from operations				
Funds from other sources				
Shares issued	0.3		34.6	
Disposal of fixed assets	5.4		6.3	
Disposal of investments	—		0.5	
	<u>—</u>	<u>83.5</u>	<u>—</u>	<u>109.9</u>
APPLICATION OF FUNDS				
Dividends paid	(16.5)		(13.4)	
Tax paid	(16.4)		(16.3)	
Purchase of fixed assets	(49.3)		(50.7)	
Provisions	(8.0)		12.9	
Other investments	(1.8)		(2.6)	
Adjustments to goodwill	(4.6)		(31.9)	
	<u>(96.6)</u>		<u>(102.0)</u>	
Movement in working capital				
Stocks and work in progress	18.0		(42.9)	
Debtors	6.6		(35.9)	
Creditors	(5.4)		34.5	
	<u>—</u>	<u>(77.4)</u>	<u>—</u>	<u>(146.3)</u>
		<u>6.1</u>		<u>(36.4)</u>
MOVEMENT IN NET BORROWINGS				
Net borrowings at 1 January 1987		68.6		32.2
Increase/(decrease) in long term loans	2.5		(7.3)	
(Decrease) in finance lease obligations	(2.8)		(3.0)	
Increase/(decrease) in short term borrowings net of cash at bank	(5.8)		46.7	
	<u>—</u>	<u>(6.1)</u>	<u>—</u>	<u>36.4</u>
Net borrowings at 31 December 1987		<u>62.5</u>		<u>68.6</u>

**REPORT OF THE
AUDITORS****TO THE MEMBERS OF VICKERS P.L.C.**

We have audited the Accounts on pages 26 to 42 in accordance with approved Auditing Standards.

In our opinion the Accounts give a true and fair view of the state of affairs of the Company and of the Group at 31 December 1987 and of the profit and sources and application of funds of the Group for the year to that date and have been prepared in accordance with the Companies Act 1985.

Peat Marwick McIntock
Peat Marwick McIntock
Chartered Accountants

London
22 February 1988

ANNUAL
GENERAL
MEETING

NOTICE IS HEREBY GIVEN that the one hundred and twenty-first Annual General Meeting of the members of Vickers P.L.C. will be held at the Conference Hall, Millbank Tower, Millbank, London, SW1P 4RA, on Thursday, 28 April 1988, at 12 noon, and that the business to be brought before the meeting will be:

To approve the Accounts for the year ended 31 December 1987 together with the Reports of the Directors and Auditors thereon;

To declare a final dividend of 4.0p per Ordinary Share of 50 pence equivalent, with associated tax credit, to 5.5p gross on the Ordinary Shares in respect of the year 1987, payable on 6 May 1988.

To re-elect as Directors H.R.H. The Duke of Kent and Mr. R. B. Head who, having been appointed members of the Board of Directors since the last Annual General Meeting, retire under the terms of the Articles of Association.

To re-elect as Directors Sir Ian Fraser, Mr. T. O. Taylor and Sir Richard Lloyd, Bt. who retire by rotation under the terms of the Articles of Association.

To re-appoint Peat Marwick McLintock as Auditors of the Company and to resolve that their remuneration be agreed by the Directors.

As Special Business, to consider and, if thought fit, to pass the following Resolutions which will be proposed as to Resolutions 1 and 2 as Ordinary Resolutions and as to Resolution 3 as a Special Resolution:

1. To resolve that, pursuant to the provisions of Article 75 of the Articles of Association of the Company, the Directors shall be entitled to remuneration of up to a total amount of £75,000 per annum for their services as Directors, such sum to be divided amongst them as they may by Resolution determine.
2. To resolve that:-
 - (a) the Rules of the Company's Savings-Related Share Option Scheme be and they are hereby modified by incorporating the modifications underlined in the printed document signed for the purposes of identification by the Chairman of the Meeting;
 - (b) the Rules of the Company's Approved Share Option Scheme be and they are hereby modified by incorporating the modifications underlined in the printed document signed for the purposes of identification by the Chairman of this Meeting; and
 - (c) the modifications to the Schemes set out above shall take effect on such date as may be agreed between the Company and the Inland Revenue and in respect of all rights obtained under the Schemes before the date on which each takes effect.
3. To resolve that:-
 - (a) the Directors be generally and unconditionally authorised pursuant to and in accordance with Section 80 of the Companies Act 1985 to exercise for the period ending upon the conclusion of the next Annual General Meeting (or 1 July 1989, whichever shall be the earlier) all the powers of the Company to allot and to make offers or agreements to allot relevant securities up to an aggregate nominal amount of £42,450,000 provided that equity securities allotted or offered or agreed to be allotted wholly for cash otherwise than in connection with a rights issue shall not exceed the aggregate nominal amount of £6,350,000;

- By order of the Board,
Nicholas Bevins
Secretary
21 March 1988

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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. Proxies must be lodged not later than 12 noon on 26 April 1988.

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 15 minutes prior to the Meeting and during the continuance thereof.

TRANSFER OFFICE
The Royal Bank of Scotland plc,
P.O. Box 27,
34 Fettes Row,
Edinburgh, EH3 6UT
and
29 Gresham Street,
London, EC2V 7HN

SHAREHOLDERS' DIARY

1987	1 OCTOBER Interim dividend for 1987 paid on: Preferred 5% Stock 5% Preference Stock Cumulative Preference Stock	6 NOVEMBER Interim dividend for 1987 of 2.7p paid per 50p Ordinary Share
1988	22 FEBRUARY Final dividend recommendation for 1987 announced on Ordinary Shares, together with results for year ended 31 December 1987	28 APRIL 121st Annual General Meeting to be held at the Conference Hall, Millbank Tower, at 12 noon
	21 MARCH Report and Accounts posted to Shareholders	6 MAY Final dividend on Ordinary Shares, if approved, to be paid to Shareholders on the Register at 14 April 1988
	31 MARCH Final dividend for 1987 paid on: Preferred 5% Stock 5% Preference Stock Cumulative Preference Stock	SEPTEMBER Results for the six months ending 30 June 1988 to be announced

ANALYSES OF ORDINARY SHAREHOLDERS

31 December 1987

CATEGORY	Number	%	Holding	%
Individuals	28,847	91.9	35,019,840	13.7
Banks and nine companies	1,719	5.5	129,337,517	50.7
Investment companies	68	0.2	8,055,536	3.2
Insurance companies	172	0.6	28,940,524	11.4
Other companies	451	1.4	33,621,256	13.2
Pension funds	44	0.1	13,491,606	5.3
Universities, schools and other corporate bodies	79	0.3	6,485,014	2.5
	<u>31,380</u>	<u>100</u>	<u>254,951,293</u>	<u>100</u>

SIZE OF SHAREHOLDING

1-500	14,558	46.4	3,618,609	1.4
501-1,000	5,946	18.9	4,485,798	1.8
1,001-1,500	3,099	9.9	3,864,574	1.5
1,501-2,500	3,614	11.5	7,238,753	2.8
2,501-12,500	3,377	10.7	16,112,559	6.3
12,501-60,000	367	1.2	9,942,616	3.9
60,001-125,000	148	0.5	13,462,749	5.3
125,001-250,000	89	0.3	16,979,980	6.7
Over 250,000	182	0.6	179,245,655	70.3
	<u>31,380</u>	<u>100</u>	<u>254,951,293</u>	<u>100</u>

FORM OF PROXY

I/We, being a member of Vickers P.L.C., hereby appoint Sir David Plastow, whom failing Sir Ian Fraser (being respectively Chairman and Deputy Chairman of the Company), whom failing the Chairman of the Meeting

*
as my/our proxy to vote for me/us on my/our behalf in the manner indicated † at the Annual General Meeting of the Company to be held on Thursday, 28 April 1988, and at any adjournment thereof.

Signature.....Date.....
Please insert name and address in block capitals

	For	Against
To approve the Accounts	<input type="checkbox"/>	<input type="checkbox"/>
To declare a final dividend on the Ordinary Shares	<input type="checkbox"/>	<input type="checkbox"/>
To re-elect H.R.H. The Duke of Kent as a Director	<input type="checkbox"/>	<input type="checkbox"/>
To re-elect Mr. R. B. Head as a Director	<input type="checkbox"/>	<input type="checkbox"/>
To re-elect Sir Ian Fraser as a Director	<input type="checkbox"/>	<input type="checkbox"/>
To re-elect Mr. R. O. Taylor as a Director	<input type="checkbox"/>	<input type="checkbox"/>
To re-elect Sir Richard Lloyd, Bt. as a Director	<input type="checkbox"/>	<input type="checkbox"/>
To re-appoint Peat Marwick McLintock as Auditors and to authorise the Directors to agree their remuneration	<input type="checkbox"/>	<input type="checkbox"/>

SPECIAL BUSINESS

- | | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|--------------------------|
| 1. To increase the remuneration payable to the Directors for their services as Directors | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. To amend the Rules of the Company's Savings-Related and Approved Share Option Schemes | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. To authorise the Directors to allot relevant securities under Section 80 of the Companies Act 1985 and to disapply Section 89(1) of that Act | <input type="checkbox"/> | <input type="checkbox"/> |

To be effective, this form of proxy should be deposited, duly completed and signed, at the Company's Transfer Office, The Royal Bank of Scotland plc, P.O. Box 27, 34 Fettes Row, Edinburgh, EH3 6UT, not later than 12 noon on Tuesday, 26 April 1988.

If the appointor be a corporation, the proxy must be either under its Common Seal or under the hand of an officer or attorney so authorised.

In the case of joint holders the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the Register of Members in respect of the joint holding.

* If you wish to appoint a proxy other than the above named, please delete the above names and insert the name of your proxy. A proxy need not be a member of the Company.

† Please insert a "✓" in the appropriate box alongside each resolution, otherwise your proxy will vote or abstain as he thinks fit. Details of the resolutions are set out in the Notice of the Meeting.