Vickers Engineering plc

(Previously Vickers P.L.C.)

(Company registered in London under no. 3543)

Report and Accounts 1998

Report of the directors

The directors have pleasure in submitting their report, together with the accounts of the group for the year ended 31 December 1998.

Group reorganisation

During the year, the Vickers group implemented a reorganisation by way of a scheme of arrangement under section 425 of the Companies Act 1985 (the "Scheme of Arrangement") to facilitate the return of funds to shareholders following the disposal of the business of Rolls-Royce Motor Cars ("R-RMC"). As a result, Vickers P.L.C. was replaced as the holding company for the Vickers group by a new company, Vickers plc, which acquired all the issued ordinary share capital in Vickers P.L.C. (now renamed Vickers Engineering plc) in exchange for the issue of ordinary shares and a cash payment. Under the terms of the Scheme of Arrangement, shareholders received two Vickers plc shares of 25p each plus 240p in cash for every three ordinary shares of 50p each held in Vickers P.L.C. In order to simplify the capital structure of Vickers P.L.C., the 3.5% preferred stock, the 3.5% preference stock and the cumulative preference shares were redeemed and cancelled at the same time as the Scheme of Arrangement.

Holders of options over Vickers P.L.C. ordinary shares were given a choice of exercising their options within a set period or rolling them over into options over shares of the new holding company, Vickers plc.

Activities and results for the year

The group's principal activities include land defence systems and equipment and the manufacture of components for the marine, gas-turbine and automotive industries.

Dividends

An interim dividend of £50.1m was paid to ordinary shareholders on 17 July 1998. Dividends paid to all classes of preference shares and stock in respect of the 1998 financial year amounted to a total of £0.2m.

The directors are not recommending any further dividends for the year.

Post balance sheet events

On 12 January 1999, the company entered into a Memorandum of Intent with GIAT Industries S.A. under which both companies agreed to establish a joint venture company covering the sales and marketing, design, development programme and contract management, procurement and other agreed activities relating to armoured vehicles and sub-systems but excluding GIAT gun and ammunition systems.

On 4 May 1999, the group acquired Ulstein Holding ASA ('Ulstein'), excluding its shipbuilding business, through its newly established subsidiary Vickers Marine A/S for approximately £304m.

The company financed the acquisition using existing cash balances and by drawing on medium-term credit lines, which it specifically arranged to finance the acquisition.

Directors

The directors serving throughout the year were Sir Colin Chandler, David Essex and Andrew John. Chris Woodwark resigned as a director on 31 March 1998 and Baron Buysse was appointed a director on 1 May 1998. Paul Forster was appointed a director on 1 September 1998 and resigned on 30 April 1999. Lord Gillmore, Jeffrey Herbert, Sipko Huismans and Martin Taylor resigned as directors on 15 October 1998. On 1 February 1999, Sir Colin Chandler relinquished his executive responsibilities in relation to the Vickers Group, becoming non-executive chairman of Vickers plc, and resigned as a director of Vickers Engineering plc. Richard McKeown was appointed a director on 4 May 1999.

Baron Buysse retires at the Annual General Meeting in accordance with Article 119 of the Articles of Association and, being eligible, offers himself for re-election. David Essex will retire by rotation and offers himself for re-election in accordance with Article 117 of the Articles of Association.

Details of the interests in the share capital of the holding company of those directors in office at the year end are as follows:

	Prior to group reorganisation			After group reorganisation			
	Number of ordinary shares of Vickers P.L.C. under option at 1 January 1998 or date of appointment if later	Exercised	Exercise price (p)	Granted	Number of ordinary shares of Vickers plc under option at 31 December 1998	Exercise price (p)	Dates exercisable
P M Forster	-			10,000	10,000	168.5	2001-2008

Paul Forster held 1,380 ordinary shares in the ultimate holding company, Vickers plc, at 31 December 1998.

Sir Colin Chandler, Baron Buysse, David Essex and Andrew John were also directors of the ultimate holding company at the end of the year and details of their interests in its share capital are given in the accounts of that company.

It is with great regret that we announce that Lord Gillmore died on 20 March 1999.

Employees

The group recognises the need to ensure effective communication and consultation with employees. Team briefing continues to be the primary medium supplemented in the year by the launch of a group newspaper. Employee involvement in the group's performance is also encouraged by participation in share option schemes.

A range of training and development initiatives is in place and most of the group's UK sites have obtained "Investors in People" accreditation. These initiatives recognise that operational effectiveness requires high quality and well-trained people at all levels of the organisation.

The group has a policy of equal opportunities and non-discrimination. Recruitment and promotion are solely dependent on the suitability of an applicant for the job. This policy also specifically refers to the employment of people with disabilities to whom full and fair consideration is given on application for employment, having regard to their aptitudes and abilities. If an employee becomes disabled, the objective is the continued provision of suitable employment either in the same or an alternative position, training being given if necessary. Disabled employees share in the opportunities for training, career development and promotion.

Market value of properties

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

Donations

During the year, the group made donations totalling £101,000 gross (1997: £165,000 gross) in support of a number of national and local charitable activities in the United Kingdom.

No donations were made to political parties during the financial year (1997: £nil).

Millennium compliance

Management has made it a business priority for all operating units to minimise the impact of millennium date-related issues in respect of the routine operation of the business. The group is focusing on the impact that Year 2000 will have on the business-critical systems and processes, other important systems, suppliers and customers.

A group-wide task force was set up in September 1996 to implement an action programme, involving both internal and external resources. Monthly status reports and detailed quarterly reports covering IT, manufacturing, engineering, product and supply chain status are reviewed formerly by a group millennium task force and reported to the board. Progress is on plan and the group had independent reviews of its status in mid 1998 and January 1999 to ensure best practice is being implemented to reduce risk to an acceptable level.

The Year 2000 direct external costs incurred by the group in 1998 were £0.4m, and expected incremental costs to complete the programme are approximately £1.0m.

Management is taking all reasonable actions to avoid any material interruption to the group's operations associated with the Year 2000 issue. However, given the unique nature and complexity of the problem, it is not possible for any organisation to be certain that there will be no Year 2000 disruption even if its own systems are compliant in all material respects.

Prompt payment

The company has subscribed to the Prompt Payment Code as published by, and available from, the Confederation of British Industry. The main features of the Code are that payment terms are agreed at the outset of a transaction and are adhered to by the parties concerned; that bills will be paid in accordance with the contract; and that the payment terms are not altered without prior agreement.

The amounts of trade creditors shown in the balance sheets at 31 December 1998 represent 48 days of average purchases during the year for the group and 47 days for the company.

Auditors

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

Signed on behalf of the board

Andrew John
Commercial director and secretary

24 June 1999

Statement of directors' responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- prepare the accounts on the going concern basis unless it is inappropriate to assume that the company and group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Report of the auditors to the members of Vickers Engineering plc

We have audited the accounts on pages 7 to 29.

Respective responsibilities of directors and auditors

As described on page 5, the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and the group as at 31 December 1998 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered accountants
Registered auditor
London

24 June 1999

Accounting policies

Basis of preparation

The accounts have been prepared, in accordance with applicable accounting standards, on the historical cost basis of accounting, modified to include the revaluation of certain land and buildings. The accounting policies are consistent with those adopted by the group last year, as modified by the adoption of Financial Reporting Standard ('FRS') 10 *Goodwill and Intangible Assets*. The company has chosen not to adopt this standard retrospectively and therefore there were no adjustments in respect of prior periods.

The company has also adopted the requirements of other new financial reporting standards: FRS 9 *Associates and Joint Ventures* and FRS 11 *Impairment of Fixed Assets*.

The company is exempt from the requirement to prepare a cash flow statement under FRS 1 (revised 1996) as it is a wholly-owned subsidiary undertaking included in consolidated accounts which are publicly available.

Basis of consolidation

The accounts consolidate the accounts for the year to 31 December 1998 of the company, its subsidiary undertakings and its share of the post-acquisition results of associated undertakings.

Undertakings, other than subsidiary undertakings, over which the group exerts significant influence, are treated as associated undertakings.

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

Group reorganisation

During the year, the Vickers group implemented a reorganisation by way of a scheme of arrangement under section 425 of the Companies Act 1985 ('the Act') so as to facilitate the return of funds to shareholders following the disposal of Rolls-Royce Motor Cars. A new holding company, Vickers plc, was introduced and acquired all the issued ordinary share capital of Vickers P.L.C. (now Vickers Engineering plc) in exchange for the issue of ordinary shares and a cash payment. The preference shares and stock were cancelled at the same time as the scheme of arrangement.

Goodwill

Prior to 1 January 1998, goodwill arising on the acquisition of businesses, representing the excess of the purchase price over the fair value of the net assets at the date of acquisition, was deducted from reserves. From 1 January 1998, goodwill is capitalised as a fixed asset and amortised on a straight-line basis over its estimated useful economic life up to a maximum of 20 years.

If a subsidiary, associate or business is subsequently disposed, any goodwill which has not been amortised through the profit and loss account or which was previously written off directly to reserves is taken into account in determining the profit or loss on disposal.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates ruling at the balance sheet date, and the profit and loss accounts of overseas businesses at average rates of the year.

Exchange differences arising on the retranslation of the net investments in overseas businesses, together with differences on associated borrowings in foreign currencies, are transferred directly to reserves. Other exchange differences are included in the profit and loss account.

Turnover

Turnover consists of amounts invoiced to external customers, net of value added taxes, in respect of deliveries made, or work completed, during the year. In the case of long-term contracts, turnover is based on the estimated sales value of the work completed during the year.

Profit

Profit is recognised at the time of sale, except in the case of long-term contracts when it is recognised by reference to the stage of completion of the contract when the outcome of the contract can be assessed with reasonable certainty. Provision is made for any losses on long-term contracts as soon as they are foreseen.

Research and development expenditure

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

Operating leases

Rentals under operating leases are charged to profit as incurred.

Taxation

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

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

Pensions

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

Tangible assets

Depreciation is provided to write off the cost or valuation less the estimated residual value of tangible assets by equal instalments over their useful economic lives as follows:

	per annum
Freehold buildings	2%-4%
Leasehold buildings (or at higher rates based on the life of the lease)	2%-4%
Plant, machinery and vehicles	10%-33%
Office furniture and equipment	10%-20%

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 their 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.

Stocks and work in progress

Long-term work in progress is stated at costs incurred less those transferred to the profit and loss account, after deducting provision for foreseeable losses and payments on account not matched with turnover.

Stocks and other work in progress are valued at the lower of cost and net realisable value. Cost comprises materials and factory labour, including overheads based on normal levels of activity.

Warranty

Provision is made for the estimated future costs in respect of warranties for products and services.

Consolidated profit and loss account

	Notes	Continuing operations	Discontinued operations (Note 1)	Total	Continuing operations	Discontinued operations (Note 1)	Total
For the year ended 31 December		1998	1998	1998	1997	1997	1997
		£m	£m	£m	£m	£m	£m
Turnover	3	692.0	200.5	892.5	674.1	522.8	1,196.9
Operating costs		(698.0)	(206.0)	(904.0)	(624.4)	(499.1)	(1,123.5)
Operating profit - before exceptional items	3	47.6	(5.5)	42.1	52.1	23.7	75.8
- exceptional items	4	(53.6)	-	(53.6)	(2.4)	-	(2.4)
Operating (loss)/profit	3	(6.0)	(5.5)	(11.5)	49.7	23.7	73.4
Profits less losses including provision for losses on disposal of businesses	5	-	162.0	162.0	-	(54.7)	(54.7)
Non-recurring corporate costs	4	(7.0)	-	(7.0)	-	-	-
Profit on ordinary activities before interest	2	(13.0)	156.5	143.5	49.7	(31.0)	18.7
Net interest	6			13.5			0.7
Profit on ordinary activities before taxation				157.0			19.4
Taxation	7			(33.9)			(21.6)
Profit/(loss) on ordinary activities after taxation and shareholders' profit/(loss) for the financial year				123.1			(2.2)
Dividends – equity and non-equity	8			(50.3)			(24.8)
Premium on repayment of preference shares and stock				(0.7)			-
Profit/(loss) transferred to reserves	19			72.1			(27.0)

Balance sheets

At 31 December	Notes	Group 1998 £m	Group 1997 £m	Company 1998 £m	Company 1997 £m
Fixed assets					
Tangible assets	12	**110.7**	338.8	**42.6**	109.1
Investments in subsidiary undertakings	13	**-**	-	**473.5**	479.5
Investment in associated undertaking	13	**8.2**	8.2	**-**	-
		118.9	347.0	**516.1**	588.6
Current assets					
Stocks and work in progress	14	**67.1**	133.3	**19.0**	31.6
Debtors falling due within one year	15	**378.6**	207.3	**381.4**	256.8
Debtors falling due after more than one year	15	**33.5**	33.9	**32.5**	33.4
		412.1	241.2	**413.9**	290.2
Cash and deposits		**344.6**	97.2	**328.4**	62.8
		823.8	471.7	**761.3**	384.6
Creditors: amounts falling due within one year					
Borrowings	16	**(7.7)**	(21.0)	**(11.6)**	(18.8)
Other liabilities	16	**(312.3)**	(376.0)	**(658.8)**	(522.5)
		(320.0)	(397.0)	**(670.4)**	(541.3)
Net current assets/(liabilities)		**503.8**	74.7	**90.9**	(156.7)
Total assets less current liabilities		**622.7**	421.7	**607.0**	431.9
Creditors: amounts falling due after more than one year					
Borrowings	16	**(6.0)**	(38.6)	**(6.0)**	(38.4)
Other liabilities	16	**(8.3)**	(10.3)	**(0.2)**	(0.3)
		(14.3)	(48.9)	**(6.2)**	(38.7)
Provisions for liabilities and charges	17	**(84.8)**	(45.9)	**(57.5)**	(16.0)
		523.6	326.9	**543.3**	377.2
Capital and reserves					
Called up share capital	18	**171.1**	177.5	**171.1**	177.5
Share premium account	19	**65.6**	63.3	**65.6**	63.3
Revaluation reserve	19	**24.9**	37.9	**11.7**	13.3
Other reserves	19	**8.4**	-	**8.4**	-
Profit and loss account	19	**253.5**	48.1	**286.5**	123.1
Equity		**523.5**	318.4	**543.3**	368.8
Non-equity		**-**	8.4	**-**	8.4
Shareholders' funds		**523.5**	326.8	**543.3**	377.2
Minority interests- equity		**0.1**	0.1	**-**	-
		523.6	326.9	**543.3**	377.2

The accounts were approved by the board of directors on 24 June 1999 and were signed on its behalf by:

Andrew John

Consolidated statement of total recognised gains and losses

	1998 £m	1997 £m
Profit/(loss) for the financial year	**123.1**	(2.2)
Currency translation differences on foreign currency net investments	**1.0**	(4.2)
Total recognised gains and losses for the financial year	**124.1**	(6.4)

Note of consolidated historical cost profits and losses

	1998 £m	1997 £m
Reported profit on ordinary activities before taxation	**157.0**	19.4
Realisation of property revaluation gains of previous years	**12.3**	5.9
Difference between historical cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount	**0.7**	0.9
Historical cost profit on ordinary activities before taxation	**170.0**	26.2
Historical cost profit/(loss) for the year retained after taxation, minority interests and dividends	**85.1**	(20.2)

Reconciliation of shareholders' funds

	Ordinary share capital	Preference share capital	Share premium account	Revaluation reserve	Other reserves	Profit and loss account	1998	1997
	£m	£m	£m	£m	£m	£m	£m	£m
Opening shareholders' funds	169.1	8.4	63.3	37.9	-	48.1	**326.8**	308.5
New share capital subscribed	2.0		2.3				**4.3**	2.6
Retained profit/(loss) for the financial period						72.1	**72.1**	(27.0)
Currency translation differences on foreign currency net investments						1.0	**1.0**	(4.2)
Repayment of preference shares and stock		(8.4)			8.4	(8.4)	**(8.4)**	-
Goodwill written off on acquisitions						-	-	(0.4)
Goodwill written back on disposals						127.7	**127.7**	47.3
Reserves reclassified				(1.8)		1.8	-	-
Realisation of revaluation reserve on disposal of businesses				(11.2)		11.2	-	-
Closing shareholders' funds	171.1	-	65.6	24.9	8.4	253.5	**523.5**	326.8

Notes to the accounts

1. Discontinued operations

In 1998, discontinued operations comprise the businesses of Rolls-Royce Motor Cars, Cosworth and Cantieri Riva and, additionally in 1997, the businesses of the Medical Division and Jered Brown Brothers.

2. Segmental information

	Turnover		Profit on ordinary activities before interest: Before exceptional items	Profit on ordinary activities before interest: Exceptional items	Profit on ordinary activities before interest: After exceptional items	Profit on ordinary activities before interest: After exceptional items	Segmental net (liabilities)/assets	
	1998	1997	1998	1998	1998	1997	1998	1997
	£m	£m	£m	£m	£m	£m	£m	£m
Principal activities								
Marine	**199.5**	171.7	**16.9**	**(5.8)**	**11.1**	14.3	**42.5**	38.4
Turbine Components	**143.2**	136.5	**14.0**	**(2.3)**	**11.7**	12.3	**67.8**	59.6
Defence Systems	**344.5**	351.3	**16.2**	**(45.5)**	**(29.3)**	23.5	**(135.4)**	(32.2)
Other activities	**5.2**	15.1	**0.5**	**-**	**0.5**	2.0	**22.0**	31.3
Associated undertaking	**-**	-	**-**	**-**	**-**	-	**8.2**	8.2
Inter-segment sales	**(0.4)**	(0.5)	**-**	**-**	**-**	-		
			47.6	**(53.6)**	**(6.0)**	52.1		
Non-recurring corporate costs			**-**	**(7.0)**	**(7.0)**	(2.4)		
Total continuing operations	**692.0**	674.1	**47.6**	**(60.6)**	**(13.0)**	49.7		
Discontinued operations								
Rolls-Royce Motors Cars	**123.5**	305.3	**(6.1)**	**284.2**	**278.1**	23.2	**-**	157.9
Other	**77.0**	217.7	**0.6**	**(122.2)**	**(121.6)**	(54.2)	**-**	64.8
Inter-segment sales	**-**	(0.2)	**-**	**-**	**-**	-		
Total discontinued operations	**200.5**	522.8	**(5.5)**	**162.0**	**156.5**	(31.0)		
Unallocated net (liabilities)/assets							**(3.5)**	3.6
Taxation							**(37.5)**	(26.9)
Dividends							**-**	(15.4)
Sales to third parties	**892.5**	1,196.9						
Profit on ordinary activities before interest			**42.1**	**101.4**	**143.5**	18.7		
Total segmental net (liabilities)/assets							**(35.9)**	289.3

2. Segmental information (continued)

	Turnover by destination		Turnover by origin		Profit on ordinary activities before interest		Segmental net (liabilities) / assets	
	1998	1997	1998	1997	1998	1997	1998	1997
	£m	£m	£m	£m	£m	£m	£m	£m
Geographical segments								
United Kingdom	**429.6**	441.7	**488.7**	505.8	**(29.0)**	33.6	**(39.2)**	78.5
North America	**80.9**	76.7	**48.6**	49.2	**4.8**	6.0	**13.2**	14.9
Continental Europe	**130.9**	107.3	**172.2**	120.8	**10.8**	9.6	**27.2**	14.8
Asia/Pacific	**47.9**	45.9	**5.5**	11.1	**0.4**	0.5	**0.4**	0.7
Rest of the World	**2.7**	2.5	**-**	0.1	**-**	-	**-**	-
Total continuing operations	**692.0**	674.1	**715.0**	687.0	**(13.0)**	49.7		
Discontinued operations	**200.5**	522.8	**241.5**	609.0	**156.5**	(31.0)	**-**	222.7
Inter-segment sales	**-**	-	**(64.0)**	(99.1)	**-**	-		
Taxation							**(37.5)**	(26.9)
Dividends							**-**	(15.4)
Sales to third parties	**892.5**	1,196.9	**892.5**	1,196.9				
Profit on ordinary activities before interest					**143.5**	18.7		
Total segmental net (liabilities)/assets							**(35.9)**	289.3

The above geographical profit on ordinary activities before interest for continuing operations for 1998 includes exceptional items of £60.6m (1997: £2.4m), of which £57.4m (1997: £2.4m) relates to the United Kingdom, £0.4m (1997: £nil) to North America and £2.8m (1997: £nil) to Continental Europe.

Following the reorganisation of the group, the business segments have been revised to reflect the new operational structure. The principal change has been to separate the Propulsion Technology Division into Marine and Turbine Components. In addition, two small businesses, Vickers Pressings and Specialist Engines, have been transferred from what was previously Automotive to Turbine Components and Defence Systems respectively. Comparative figures for the year ended 31 December 1997 have been restated to reflect these changes.

The segmental analysis of profit on ordinary activities before interest includes an appropriate allocation of recurring central costs.

Reconciliation of total net assets to segmental net (liabilities)/assets	**1998**	1997
	£m	£m
Net assets as shown in the consolidated balance sheet	**523.6**	326.9
Exclude interest-bearing assets and liabilities:		
Cash and deposits	**(344.6)**	(97.2)
Loan to parent undertaking	**(228.6)**	-
Borrowings falling due within one year	**7.7**	21.0
Borrowings falling due after more than one year	**6.0**	38.6
Total segmental net (liabilities)/assets	**(35.9)**	289.3

3. Operating (loss)/profit

For the year ended 31 December	Continuing operations: Before exceptional items 1998 £m	Continuing operations: Exceptional items 1998 £m	Discontinued operations 1998 £m	Total 1998 £m	Continuing operations: Before exceptional items 1997 £m	Continuing operations: Exceptional items 1997 £m	Discontinued operations 1997 £m	Total 1997 £m
Turnover	692.0	-	200.5	892.5	674.1	-	522.8	1,196.9
Cost of sales	(579.2)	(53.6)	(173.2)	(806.0)	(559.7)	-	(404.9)	(964.6)
Gross profit	112.8	(53.6)	27.3	86.5	114.4	-	117.9	232.3
Administrative expenses	(45.4)	-	(31.9)	(77.3)	(45.5)	(2.4)	(91.7)	(139.6)
Distribution costs	(21.4)	-	(2.2)	(23.6)	(18.0)	-	(4.4)	(22.4)
Other operating income	1.6	-	1.3	2.9	1.2	-	1.9	3.1
Operating (loss)/profit	47.6	(53.6)	(5.5)	(11.5)	52.1	(2.4)	23.7	73.4

The 1997 comparatives for cost of sales, administrative expenses and distribution costs have been adjusted for a change in the allocation of distribution costs.

	1998 £m	1997 £m
Operating (loss)/profit is stated after charging:		
Depreciation:		
On owned assets	26.3	37.3
Additional depreciation arising from asset impairments	14.9	-
On leased assets	0.6	0.9
Total depreciation	41.8	38.2
Research and development	7.0	26.1
Fees paid to the auditors and their associates:		
Audit	0.4	0.7
Non-audit:		
UK group companies	2.8	0.8
Non-UK subsidiaries	0.1	0.4
Operating lease charges:		
Hire of plant and machinery	1.3	2.1
Other lease charges	5.4	4.5

The fees paid to the auditors for the audit of the company amounted to £0.1m. The non-audit fees paid in 1998 and 1997 relate principally to work in respect of disposals of businesses.

4. Exceptional items

	1998 £m	1997 £m
Exceptional operating costs		
Reorganisation costs and asset write-downs		
Marine	**(5.8)**	-
Turbine Components	**(2.3)**	-
Defence Systems	**(45.5)**	-
Other	**-**	(2.4)
	(53.6)	(2.4)
Profits less losses including provision for losses on disposal of businesses (note 5)	**162.0**	(54.7)
Non-recurring corporate costs	**(7.0)**	-
Total	**101.4**	(57.1)

Non-recurring corporate costs

A fundamental restructuring of the group has been undertaken with the sale of the medical and automotive businesses. The non-recurring corporate costs relate to the associated relocation and reorganisation of the group's head office function.

5. Disposal of businesses

During 1998 the group disposed of the whole of its interest in the businesses of Rolls-Royce Motor Cars, Cosworth and Cantieri Riva. The profits/(losses) on these disposals were as follows:

	Rolls-Royce Motors Cars £m	Other £m	Total £m
Fixed assets	(165.9)	(59.9)	(225.8)
Current assets	(139.0)	(40.2)	(179.2)
Current liabilities	85.6	35.8	121.4
Provisions	13.3	(1.2)	12.1
Net assets disposed	(206.0)	(65.5)	(271.5)
Discount on acquisition/(goodwill) on disposals written back	32.9	(160.6)	(127.7)
Costs and provisions in relation to disposals	(22.1)	(17.7)	(39.8)
Consideration received	479.4	*121.6*	*601.0*
Profits less losses including provision for losses on disposal of businesses	**284.2**	**(122.2)**	**162.0**

Other above principally comprises Cosworth and Cantieri Riva.

The loss on disposal of businesses in 1997 of £54.7m relates to the disposal of the Medical Division and the business of Jered Brown Brothers.

6. Net interest

	1998 £m	1997 £m
Interest payable and similar charges on bank loans and overdrafts	**(3.2)**	(5.3)
Interest on finance leases	**(0.5)**	(0.6)
Interest payable	**(3.7)**	(5.9)
Interest capitalised	**1.3**	4.4
	(2.4)	(1.5)
Interest receivable	**15.9**	2.2
Net interest	**13.5**	0.7

The interest capitalised relates to Rolls-Royce Motor Cars.

7. Taxation

	1998 £m	1997 £m
United Kingdom taxation:		
Corporation Tax	**(33.0)**	(13.8)
Deferred taxation	**7.2**	(2.4)
Total United Kingdom taxation	**(25.8)**	(16.2)
Overseas taxation:		
Current taxation	**(5.6)**	(5.3)
Deferred taxation	**(2.6)**	(0.2)
Total overseas taxation	**(8.2)**	(5.5)
Prior years	**0.1**	0.1
	(33.9)	(21.6)

The United Kingdom Corporation Tax charge has been computed at 31.0% (1997: 31.5%) and the deferred taxation credit at 30.0% (1997: charge at 31.0%).

The taxation charge of £33.9m for the year ended 31 December 1998 includes the following tax credits and charges in respect of exceptional items:

- a tax credit of £11.7m in relation to the exceptional items of £53.6m included within the operating loss;
- a net tax charge of £28.4m in relation to the profits less losses including provision for losses on disposal of businesses of £162.0m and the non-recurring corporate costs of £7.0m.

In 1997, no tax relief was assumed in respect of the exceptional operating charge of £2.4m and the loss on disposal of businesses of £54.7m.

8. Dividends

	1998 £m	1997 £m
Non-equity - preference paid March and July 1998	**(0.2)**	(0.4)
Equity - ordinary:		
Dividend paid to Vickers plc July 1998	**(50.1)**	-
Interim of 2.7p paid October 1997	**-**	(9.1)
Final of 4.5p paid May 1998	**-**	(15.3)
Total ordinary dividend	**(50.1)**	(24.4)
	(50.3)	(24.8)

9. Profit and loss account of Vickers Engineering plc

In accordance with section 230 of the Companies Act 1985 the profit and loss account of the company is not presented as part of these accounts. The company's profit for the year amounted to £76.7m.

10. Pensions

The group operates a number of pension schemes both in the United Kingdom and overseas. The major UK scheme is the Vickers Group Pension Scheme ("VGPS"). This is a funded defined benefit scheme and the pension cost is assessed in accordance with the advice of qualified actuaries using the projected unit cost method. The assets of the scheme are held in a separate trustee-administered fund. The overseas schemes are not material in the group context.

The net pension charge for the group was £6.1m (1997: £5.0m) of which £2.8m (1997: £2.3m) related to the overseas schemes.

At the date of the last actuarial valuation in March 1998 the market value of VGPS assets was £512.9m. In accordance with the relevant accounting standard, the scheme's actuaries have carried out a valuation for the purpose of assessing the pension cost. This indicates that the actuarial valuations of the assets of the scheme were approximately 111% of the benefits that had accrued to members. On the same basis, the actuarial surplus of the scheme totalled £36.1m. The assumptions that had the most significant effect on the results of the valuation were those relating to the rate of return on investments and the rates of increases in salaries and pensions. It has been assumed that the investment return will be 8% per annum, that salary increases will average 6% per annum and that present and future pensions will increase at the rate of 4% per annum. Differences between the amounts charged in the accounts and the amounts paid to the schemes are shown in Note 15 (£32.7m (1997: £30.1m) as prepayments falling due after more than one year).

11. Directors and employees

(a) Directors' emoluments	1998 £m	1997 £m
The aggregate amounts in respect of the directors are as follows:		
Emoluments	**2.2**	1.8
Pension contributions	**0.7**	0.5
Compensation for loss of office	**0.5**	-
	3.4	2.3
The amounts in respect of the highest paid director are as follows:		
Emoluments	**0.9**	0.6
Pensions contributions	**0.3**	0.2
	1.2	0.8

Emoluments in respect of a former director during the year were £13,688 (1997: £162,641).

(b) Number of employees	1998	1997
The average number of employees during the year was made up as follows:		
Production	**4,105**	4,977
Selling, distribution and administration	**3,027**	5,404
	7,132	10,381

(c) Employment costs	1998 £m	1997 £m
Employee costs, including those of executive directors:		
Wages and salaries	**157.5**	227.5
Social security costs	**16.7**	24.3
Other pension costs	**6.1**	5.0
	180.3	256.8

12. Tangible assets

Group

	Land & buildings £m	Plant, machinery & vehicles £m	Office furniture & equipment £m	Construction in progress £m	Total £m
Gross book value					
At 1 January 1998	137.9	369.0	41.1	4.8	552.8
Exchange adjustment	(0.1)	(0.3)	(0.1)	-	(0.5)
Capital expenditure	0.4	23.5	5.7	12.2	41.8
Transfers	0.4	4.8	0.2	(5.4)	-
Disposals	(1.1)	(7.2)	(2.2)	-	(10.5)
Disposals of businesses	*(50.0)*	*(279.6)*	*(19.9)*	*(2.7)*	*(352.2)*
At 31 December 1998	**87.5**	**110.2**	**24.8**	**8.9**	**231.4**
Depreciation					
At 1 January 1998	25.3	161.8	26.9	-	214.0
Exchange adjustment	(0.1)	(0.2)	-	-	(0.3)
Provided during the year	1.9	21.0	4.0	-	26.9
Additional depreciation arising from asset impairments	10.1	4.8	-	-	14.9
Disposals	-	(6.6)	(1.8)	-	(8.4)
Disposals of businesses	(2.6)	(110.4)	(13.4)	-	(126.4)
At 31 December 1998	**34.6**	**70.4**	**15.7**	**-**	**120.7**
Net book value at					
31 December 1998	**52.9**	**39.8**	**9.1**	**8.9**	**110.7**
31 December 1997	112.6	207.2	14.2	4.8	338.8
Gross book value of non-depreciable assets at 31 December 1998	**26.2**	**-**	**-**	**-**	**26.2**

Land and buildings	Freehold £m	Long leasehold £m
The net book value of land and buildings at the end of the year comprises:		
Cost	13.3	2.4
Valuation as at November 1988	19.2	0.6
Directors' valuation as at November 1992	17.4	-
	49.9	**3.0**

	£m
On an historical cost basis land and buildings would have been included as follows:	
Cost	53.4
Accumulated depreciation	(27.7)
	25.7

12. Tangible assets (continued)

Company

	Land building	Plant, machiner & vehicle	Offic furniture equipment	Constructio in progres	Total
	£m	£m	£m	£m	£m
Gross book value					
At 1 January 1998	59.6	99.8	18.7	3.2	181.3
Capital expenditure	0.2	8.6	2.2	3.0	14.0
Transfers	0.2	2.9	0.2	(3.3)	-
Disposals	-	(3.4)	(2.0)	-	(5.4)
Disposals of businesses	(20.0)	(51.2)	(1.2)	(2.5)	(74.9)
At 31 December 1998	**40.0**	**56.7**	**17.9**	**0.4**	**115.0**
Depreciation					
At 1 January 1998	14.0	46.0	12.2	-	72.2
Provided during the year	1.5	8.9	2.0	-	12.4
Additional depreciation arising from asset impairments	7.4	4.8	-	-	12.2
Disposals	-	(0.6)	(1.5)	-	(2.1)
Disposals of businesses	(1.4)	(20.3)	(0.6)	-	(22.3)
At 31 December 1998	**21.5**	**38.8**	**12.1**	**-**	**72.4**
Net book value at					
31 December 1998	**18.5**	**17.9**	**5.8**	**0.4**	**42.6**
31 December 1997	45.6	53.8	6.5	3.2	109.1
Gross book value of non-depreciable assets at					
31 December 1998	**5.8**	-	-	-	**5.8**
31 December 1997	13.5	-	-	-	13.5

Land and buildings	Freehold £m	Long leasehold £m
The net book value of land and buildings at the end of the year comprises:		
Cost	5.1	1.2
Valuation as at November 1988	11.4	0.6
Directors' valuation as at November 1992	0.2	-
	16.7	1.8

	£m
On an historical cost basis land and buildings would have been included as follows:	
Cost	25.1
Accumulated depreciation	(18.3)
	6.8

13. Investments

Group – associated undertaking

	£m
At 1 January 1998 and at 31 December 1998	8.2

The group owns 50 percent of the associated undertaking which is dormant.

Company – subsidiary undertakings

	Cost £m	Provisions £m	Total £m
At 1 January 1998	499.3	(19.8)	479.5
Additions	63.1	-	63.1
Disposals	(75.5)	6.4	(69.1)
At 31 December 1998	**486.9**	**(13.4)**	**473.5**

In the opinion of the directors, the values of these investments are not less than their net book values.

A list of the principal subsidiary undertakings is given on page 30.

14. Stocks and work in progress

	Group		Company	
	1998	1997	**1998**	1997
	£m	£m	**£m**	£m
Long-term contract work in progress	**149.3**	199.2	**145.8**	191.5
Instalments on account	**(142.3)**	(181.3)	**(139.9)**	(177.7)
	7.0	17.9	**5.9**	13.8
Other work in progress	**35.6**	46.5	**6.7**	7.0
Instalments on account	**(16.4)**	(8.2)	**(0.2)**	(0.3)
	19.2	38.3	**6.5**	6.7
Net work in progress	**26.2**	56.2	**12.4**	20.5
Materials, bought out components and general stores	**36.5**	48.8	**6.6**	8.2
Finished goods	**4.4**	28.3	**-**	2.9
Total stocks and work in progress	**67.1**	133.3	**19.0**	31.6

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

15. Debtors

	Group		Company	
	1998	1997	**1998**	1997
	£m	£m	**£m**	£m
Amounts falling due within one year				
Trade debtors	**111.4**	169.6	**52.5**	82.2
Amounts recoverable on contracts	**-**	17.2	**-**	-
Amounts owed by subsidiary undertakings	**-**	-	**72.5**	169.6
Loan to parent undertaking	**228.6**	-	**228.6**	-
Other debtors	**13.3**	13.8	**4.1**	2.5
Deferred tax (note 17)	**0.5**	-	**7.3**	-
Prepayments and accrued income	**24.8**	6.7	**16.4**	2.5
	378.6	207.3	**381.4**	256.8
Amounts falling due after more than one year				
Advance Corporation Tax recoverable	**-**	1.3	**-**	3.3
Other debtors	**0.8**	2.5	**-**	-
Pension prepayment	**32.7**	30.1	**32.5**	30.1
	33.5	33.9	**32.5**	33.4
Total debtors	**412.1**	241.2	**413.9**	290.2

16. Creditors

	Group 1998 £m	Group 1997 £m	Company 1998 £m	Company 1997 £m
Amounts falling due within one year				
Bank loans and overdrafts	7.7	20.0	11.6	17.8
Obligations under finance leases	-	1.0	-	1.0
Borrowings	7.7	21.0	11.6	18.8
Customer advances	99.4	72.0	79.1	50.8
Trade creditors	81.2	122.0	53.4	62.9
Amounts owed to subsidiary undertakings	-	-	452.6	315.3
Loan from associated undertaking	8.2	8.2	8.2	8.2
Accruals and deferred income	41.1	70.9	8.0	24.4
Taxation on profits	38.0	28.2	16.8	9.9
Other taxation and social security	5.8	6.8	3.9	3.2
Proposed dividends	-	15.4	-	15.4
Other creditors	38.6	52.5	36.8	32.4
Other liabilities	312.3	376.0	658.8	522.5
Total amounts falling due within one year	320.0	397.0	670.4	541.3
Amounts falling due after more than one year				
Bank loans	6.0	24.6	6.0	24.4
Obligations under finance leases	-	14.0	-	14.0
Borrowings	6.0	38.6	6.0	38.4
Other liabilities - other creditors	8.3	10.3	0.2	0.3
Total amounts falling due after more than one year	14.3	48.9	6.2	38.7
Bank loans repayable in:				
One to two years	6.0	3.5	6.0	3.4
Two to five years	-	21.1	-	21.0
	6.0	24.6	6.0	24.4
Obligations under finance leases repayable in:				
One to two years	-	1.0	-	1.0
Two to five years	-	3.4	-	3.4
Over five years	-	9.6	-	9.6
	-	14.0	-	14.0

17. Provisions for liabilities and charges

Group

	Warranty	Disposals	Reorganisation	Other liabilities	Deferred taxation	Total
	£m	£m	£m	£m	£m	£m
At 1 January 1998	30.5	9.5	1.2	4.7	-	45.9
Provided	7.4	39.8	40.7	2.1	(4.6)	85.4
Used	(3.6)	(17.4)	(8.0)	(2.9)	-	(31.9)
Released	*(5.2)*	-	*(0.3)*	*(0.1)*	-	*(5.6)*
Disposals of businesses	(13.2)	-	(0.4)	-	1.5	(12.1)
Advance Corporation Tax utilised	-	-	-	-	2.6	2.6
Deferred tax asset transferred to debtors (note 15)	-	-	-	-	0.5	0.5
At 31 December 1998	**15.9**	**31.9**	**33.2**	**3.8**	**-**	**84.8**

Company

	Warranty	Disposals	Reorganisation	Other liabilities	Deferred taxation	Total
	£m	£m	£m	£m	£m	£m
At 1 January 1998	10.5	1.7	0.3	3.5	-	16.0
Provided	2.3	18.6	37.6	1.7	(7.9)	52.3
Used	(1.2)	(6.9)	(6.1)	(1.0)	-	(15.2)
Released	(2.7)	-	-	(0.1)	-	(2.8)
Disposals of businesses	(0.7)	-	-	-	-	(0.7)
Advance Corporation Tax utilised	-	-	-	-	0.6	0.6
Deferred tax asset transferred to debtors (note 15)	-	-	-	-	7.3	7.3
At 31 December 1998	**8.2**	**13.4**	**31.8**	**4.1**	**-**	**57.5**

	Group		*Company*	
	1998	1997	**1998**	1997
Deferred taxation	**£m**	£m	**£m**	£m
Excess capital allowances over accumulated depreciation	**4.8**	3.3	**3.7**	3.1
Provided against property sales	**2.3**	2.3	**-**	-
Other timing differences - United Kingdom	**(11.1)**	(4.0)	**(11.0)**	(2.5)
- Overseas	**3.5**	1.0	**-**	-
Advance Corporation Tax recoverable	**-**	(2.6)	**-**	(0.6)
Net deferred tax asset (note 15)	**(0.5)**	-	**(7.3)**	-
The potential liability for taxation, which has not been provided in the amounts shown above because payment is unlikely to be required in the foreseeable future, is:				
Excess capital allowances over accumulated depreciation	**2.4**	21.8	**2.0**	3.5
Other timing differences	**(19.8)**	(22.4)	**(13.8)**	(12.5)
Capital gains on revaluation of properties and rolled-over gains	**20.7**	21.9	**19.0**	12.0
	3.3	21.3	**7.2**	3.0

18. Share capital

	Authorised		Issued	
	1998	1997	1998	1997
	£m	£m	£m	£m
Preferred 3.5% stock	-	0.8	-	0.8
3.5% preference stock	-	0.7	-	0.7
Cumulative preference shares and stock (5%)	-	7.0	-	6.9
	-	8.5	-	8.4
Ordinary shares of 50p each	**228.5**	228.5	**171.1**	169.1
Authorised share capital	**228.5**	237.0		
Share capital allotted, called up and fully paid			**171.1**	177.5

The movement in ordinary share capital for the year can be summarised as follows:

	Authorised		Paid up	
	Number	£m	Number	£m
Opening ordinary share capital at 1 January 1998	457,000,000	228.5	338,229,629	169.1
Company share option schemes			1,375,109	0.7
Approved savings-related option schemes			2,614,640	1.3
Closing ordinary share capital at 31 December 1998	457,000,000	228.5	342,219,378	171.1

The aggregate consideration received in respect of the new ordinary share capital subscribed was £4.3m.

The three preference classes were £1 units and were cancelled at the same time as the scheme of arrangement.

19. Reserves

Group

	Goodwill	Revenue reserve	Associated undertaking reserve	Profit and loss account	Share premium account	Revaluation reserve	Other reserves
	£m	£m	£m	£m	£m	£m	£m
At 1 January 1998	(262.0)	301.9	8.2	48.1	63.3	37.9	-
Redemption of preference shares and stock	-	(8.4)	-	(8.4)	-	-	8.4
Currency translation differences on foreign currency net investments	-	1.0	-	1.0	-	-	-
Retained profit for the year	-	72.1	-	72.1	-	-	-
Premium on share issues	-	-	-	-	2.3	-	-
Goodwill written back on disposals	127.7	-	-	127.7	-	-	-
Reserves reclassified	-	1.8	-	1.8	-	(1.8)	-
Realisation of revaluation reserve on disposal of businesses	-	11.2	-	11.2	-	(11.2)	-
At 31 December 1998	**(134.3)**	**379.6**	**8.2**	**253.5**	**65.6**	**24.9**	**8.4**

The goodwill written off to reserves comprises goodwill arising on the purchase of subsidiaries of £106.2m (1997: £266.8m), goodwill arising on the purchase of businesses of £28.1m (1997: £28.1m) and negative goodwill of £nil (1997: £32.9m).

The amount of unrealised exchange losses (net of gains) on net borrowings at 31 December 1998 included in reserves amounted to £0.1m (1997: net gain of £1.6m).

The revaluation reserve is shown net of £2.3m (1997: £2.3m) in respect of deferred tax provided on property revaluations.

Company

	Goodwill	Revenue reserve	Profit and loss account	Share premium	Revaluation reserve	Other reserves
	£m	£m	£m	£m	£m	£m
At 1 January 1998	(144.8)	267.9	123.1	63.3	13.3	-
Repayment of preference shares and stock	-	(8.4)	(8.4)	-	-	8.4
Exchange adjustment	-	(0.3)	(0.3)	-	-	-
Retained profit for the year	-	25.7	25.7	-	-	-
Premium on share issues	-	-	-	2.3	-	-
Goodwill on disposals	144.8	-	144.8	-	-	-
Reserves reclassified	-	1.6	1.6	-	(1.6)	-
At 31 December 1998	**-**	**286.5**	**286.5**	**65.6**	**11.7**	**8.4**

20. Capital commitments

	Group		Company	
	1998	1997	1998	1997
	£m	£m	£m	£m
Outstanding contracts for capital expenditure	**6.2**	7.6	**2.5**	2.9

21. Operating lease commitments

Group

	Property leases		Other operating leases	
	1998	1997	1998	1997
	£m	£m	£m	£m
Annual rentals payable on leases expiring:				
Within one year	**0.2**	0.4	**0.1**	0.3
Between two and five years	**0.1**	0.6	**0.3**	0.7
Beyond five years	**3.4**	2.6	**-**	0.2
	3.7	3.6	**0.4**	1.2

Company

	Property leases		Other operating leases	
	1998	1997	1998	1997
	£m	£m	£m	£m
Annual rentals payable on leases expiring:				
Within one year	**-**	-	**0.1**	0.1
Between two and five years	**-**	0.1	**-**	-
Beyond five years	**2.3**	1.6	**-**	-
	2.3	1.7	**0.1**	0.1

22. Contingent liabilities

Guarantees and contingencies arising in the ordinary course of business are not expected to result in any material financial loss to the group.

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

23. Related party transactions

The company is controlled by Vickers plc and is exempt from disclosing transactions with it and other group undertakings under FRS 8 as it is a wholly-owned subsidiary included in consolidated accounts which are publicly available.

24. Ultimate holding company

The ultimate holding company is Vickers plc, incorporated in Great Britain and registered in England and Wales. The accounts of Vickers plc may be obtained from the Secretary, Vickers House, 2 Bessborough Gardens, London, SW1V 2JE.

Principal divisions and subsidiary undertakings

Marine

- * Kamewa AB, Kristinehamn, Sweden
  - * FF Jet Ltd AB, Kokkola, Finland
- * Kamewa Finland OY, trading as Aquamaster and Rauma, Rauma, Finland
  - * Kamewa Korea Limited, Pusan, South Korea
- * Kamewa Group Inc., New Orleans, USA
- * Kamewa UK Limited, Dartford
- † Michell Bearings, Newcastle-upon-Tyne
- * Brown Brothers & Company Limited, Edinburgh

Turbine Components

- * Ross & Catherall Limited, Killamarsh, Sheffield
- * Ross Catherall Ceramics Limited, Denby, Derby
- * Trucast Limited, Ryde, Isle of Wight
- * Trucast Inc, Newberry, South Carolina, USA
- * Certified Alloy Products Inc., Long Beach, California, USA
- † Vickers Aerospace Components, Shrewsbury
- † Vickers Airmotive, Shrewsbury
- † Vickers Precision Machining, Crewe
- † Vickers Pressings, Newcastle-upon-Tyne

Defence Systems

- † Vickers Defence Systems, Leeds and Newcastle-upon-Tyne
- * Vickers–Armstrongs Limited, trading as Vickers Bridging, Wolverhampton
- † Vickers Specialist Engines, Crewe

Other activities

- * Vickers Properties Limited, Swindon

† Divisions of the company

* The whole of the issued share capital of each of the companies shown is held by the company or by one of its wholly-owned subsidiary undertakings.

Note:

This list includes those operating units which are material to the results of Vickers Engineering plc. All of the companies shown are incorporated and operate principally in the countries indicated.