

1003142

OFFERING CIRCULAR

22nd July, 1991



ROLLS-ROYCE plc ✓

*(Incorporated with limited liability in England and Wales
under the Companies Acts 1948-1967. Registered number 1003142) ✓*

£150,000,000

11⁵/₈ per cent. Notes 1998

Issue price 101.465 per cent.



S.G. Warburg Securities

Goldman Sachs International Limited

NatWest Capital Markets Limited

Barclays de Zoete Wedd Limited

Baring Brothers & Co., Limited

This document contains particulars given in compliance with the listing rules made by the International Stock Exchange of the United Kingdom and the Republic of Ireland Limited (the "London Stock Exchange") for the purpose of giving information with regard to Rolls-Royce plc ("Rolls-Royce" or the "Company") and its subsidiaries (together the "Group") and the £150,000,000 11% per cent. Notes 1998 (the "Notes"). The Company accepts responsibility for the information contained in this document. To the best of the knowledge and belief of the Company (which has taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Copies of this document, which comprises listing particulars in respect of the Notes required by the listing rules made under Part IV of the Financial Services Act 1986, have been delivered to the Registrar of Companies in England and Wales for registration in accordance with Section 149 of that Act. Application has been made to the Council of the London Stock Exchange for the Notes to be admitted to the Official List.

No person is authorised to give any information or to make any representation not contained herein and any information or representation not contained herein must not be relied upon as having been authorised by the Company or by the Managers (as defined under "Subscription and sale" below). Neither the delivery of this document nor any subscription, sale or purchase made in connection herewith shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Company or the Group since the date hereof.

This document does not constitute an offer of, or an invitation by or on behalf of the Company or the Managers to subscribe for or purchase, any of the Notes. The distribution of this document and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by the Company and the Managers to inform themselves about, and to observe, any such restrictions. A further description of certain restrictions on the offering and sale of the Notes and on the distribution of this document is given under "Subscription and sale" below.

The Notes will be initially represented by a temporary global Note in bearer form, without interest coupons, which will be deposited on or about 30th July, 1991 with a common depositary for Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System and CEDEL S.A. The temporary global Note will be exchangeable for definitive Notes in bearer form, with interest coupons attached, on or about 9th September, 1991 upon certification as to non-U.S. beneficial ownership as provided in the temporary global Note.

The Notes have not been, and will not be, registered under the United States Securities Act of 1933 and are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to U.S. persons.

In connection with this issue, S.G. Warburg Securities may over-allot or effect transactions which stabilise or maintain the market price of the Notes at a level which might not otherwise prevail. Such stabilising, if commenced, may be discontinued at any time.

All references herein to "pounds", "sterling", "£", "pence" or "p" are to the lawful currency of the United Kingdom.

TABLE OF CONTENTS

Terms and conditions of the Notes	3
Use of proceeds	13
Capitalisation of Rolls-Royce plc	14
Rolls-Royce plc	15
Business	15
Current developments	15
Directors	16
Summary consolidated financial information	17
United Kingdom taxation	18
Subscription and sale	20
General information	21

TERMS AND CONDITIONS OF THE NOTES

The following terms and conditions will be endorsed on the Notes.

The issue of the £150,000,000 11% per cent. Notes 1998 (the "Notes", which expression shall in these Conditions, unless the context otherwise requires, include any other Notes issued pursuant to Condition 13 and forming a single series therewith) of Rolls-Royce plc ("Rolls-Royce" or the "Company") was authorised by a resolution of the board of directors of the Company passed on 25th April, 1991 and by resolutions of a duly constituted committee of its board of directors passed on 9th and 22nd July, 1991. The Notes are constituted by a first supplemental trust deed (the "First Supplemental Trust Deed") dated 30th July, 1991 and made between the Company and The Chase Manhattan Bank, N.A. (the "Trustee", which expression shall include its successor or successors as trustee under the First Supplemental Trust Deed), supplemental to a trust deed (the "Principal Deed") dated 1st July, 1988 and made between the same parties. The Principal Deed and the First Supplemental Trust Deed are hereinafter together referred to as the "Trust Deed". The Trustee acts as trustee for the holders for the time being of the Notes (the "Noteholders"). The Noteholders and the holders (the "Couponholders") for the time being of the coupons (the "Coupons") appertaining to the Notes are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed. Copies of the Trust Deed and of the paying agency agreement (the "Paying Agency Agreement") pursuant to which the paying agents (the "Paying Agents") referred to below are appointed are available for inspection at the principal London office for the time being of the Trustee, being at the date hereof at Woolgate House, Coleman Street, London EC2P 2HD, and at the specified office(s) of each of the Paying Agents.

1. STATUS, FORM, DENOMINATION AND TITLE

The Notes and the Coupons constitute direct, unconditional and (subject to the provisions of Condition 2) unsecured obligations of the Company and rank (subject as aforesaid and to certain statutory exceptions) *pari passu* and rateably without any preference or priority among themselves and equally with all other present and future unsecured and unsubordinated obligations of the Company from time to time outstanding. The Notes are issued in bearer form, in the denominations of £1,000 and £10,000 each, are serially numbered and issued with Coupons attached. Title to the Notes and the Coupons will pass by delivery. Notes of one denomination are not exchangeable for Notes of the other denomination.

The holder of each Coupon, whether or not the Coupon is attached to a Note, in his capacity as such, shall be subject to and bound by all the provisions contained in the relevant Notes. The Company, the Trustee and any Paying Agents may treat the holder of any Note and the holder of any Coupon as the absolute owner thereof (whether or not such Note or Coupon shall be overdue and notwithstanding any notice of ownership or writing thereon or any notice of previous loss or theft or of any trust or other interest therein) for the purpose of making payment and for all other purposes.

2. NEGATIVE PLEDGE

(A) So long as any of the Notes remains outstanding (as defined in the Principal Deed) the Company will not create or permit to subsist any mortgage, lien, pledge or other charge upon, or with respect to, any of its present or future assets to secure any existing or future Relevant Indebtedness, as defined below, of any person, unless the Company shall, simultaneously with, or prior to, the creation of any such charge, take any and all action necessary to procure that all amounts payable by it in respect of the Notes and the Coupons are secured equally and rateably by such charge to the satisfaction of the Trustee or such other security is provided as the Trustee shall in its absolute discretion deem not materially less beneficial to the Noteholders or as shall be approved by an Extraordinary Resolution (as defined in the Principal Deed) of the Noteholders; provided that:—

- (i) the Company will be entitled to permit to remain secured any loan or other indebtedness existing and secured at the date hereof and any loan or other indebtedness which is already secured on any asset hereafter acquired by the Company at the time of acquisition and not so secured in contemplation of the acquisition;
- (ii) the Company will be entitled to secure or permit to be or remain secured any loan or other indebtedness or any guarantee of any loan or other indebtedness if the liability for the repayment of the principal of and interest on such loan or indebtedness is restricted to, or by reference to, funds available from a particular source or sources (including, in particular, any project, projects or assets) for the undertaking or acquisition or development, as the case may be, of which the loan or indebtedness has been incurred.

(B) For the purpose of this Condition "Relevant Indebtedness" means any loan or other indebtedness (other than indebtedness in the form of sterling debenture stock (as defined in the First Supplemental Trust Deed)) which is in the form of or represented by any bonds, notes or other securities which have a final maturity of more than one year from the date of their creation and which are for the time being quoted, listed or dealt in, at the request or with the concurrence of the Company, on any stock exchange or recognised securities market.

3. INTEREST

(A) The Notes bear interest from 30th July, 1991 at the rate of 11½ per cent. per annum payable annually in arrear on 30th July (an "Interest Payment Date"), the first Interest Payment Date being 30th July, 1992. Each Note will cease to bear interest from the due date for redemption thereof unless, upon due presentation thereof, payment of principal is improperly withheld or refused or default is otherwise made in respect of such payment. In such event, interest will continue to accrue (as well after as before any judgment) up to but excluding the date on which, upon further presentation, payment in full of the principal in respect thereof is made or (if earlier) the seventh day after the notice is duly given to the holder of such Note (either in accordance with Condition 12 or individually) that upon further presentation of such Note being duly made such payment will be made, provided that upon further presentation thereof being duly made such payment is in fact made. Whenever it is necessary to compute any amount of interest in respect of a Note for a period of less than a full year, such interest shall be computed on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

(B) Interest in respect of each Note will be payable against presentation and surrender of the relevant Coupon subject to and in accordance with the provisions of Conditions 5 and 8; provided that if the due date for redemption of such Note is not an Interest Payment Date or if payment of principal is improperly withheld or refused in respect of such Note or if default is otherwise made in respect of such Note or if default is otherwise made in respect of any such payment, interest accrued in respect of such Note from (and including) the Interest Payment Date being or last preceding the Relevant Date (as defined in Condition 6) for the payment of such Note or (as the case may be) 30th July, 1991 will be paid against presentation and endorsement or (as the case may require) surrender of such Note.

4. REDEMPTION AND PURCHASE

(A) Final redemption

Unless previously redeemed or purchased and cancelled as provided below, the Notes will be redeemed at their principal amount on 30th July, 1998.

(B) Redemption for taxation reasons

If the Company satisfies the Trustee immediately prior to the giving of the notice referred to below that on the occasion of the next payment of principal or interest in respect of the Notes, the Company would, as a result of any actual or proposed change in the laws or regulations or treaties of the United Kingdom or any political sub-division thereof or any authority therein or thereof, or in the application or interpretation of such laws or regulations or treaties, be unable to make such payment without having to pay additional amounts pursuant to Condition 6 or to any undertaking given in addition thereto or in substitution therefor pursuant to the Principal Deed the Company may, at its option, having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 12, redeem all, but not some only, of the Notes at their principal amount together with interest accrued to the date fixed for redemption; provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company would be obliged to pay such additional amounts, were a payment in respect of the Notes then due. Upon the expiry of such notice, the Company shall be bound to redeem the Notes accordingly.

It shall be sufficient to establish the existence of the circumstances required to be established pursuant to this paragraph (B) if the Company shall deliver to the Trustee a certificate of an independent lawyer or an accountant satisfactory to the Trustee in a form satisfactory to the Trustee to the effect either that such circumstances exist or that, upon a change in the laws, regulations or treaties of the United Kingdom or the application or interpretation thereof, which at the date of such certificate is proposed and which in the opinion of such lawyer or accountant is reasonably expected to become effective on or prior to the date on which the relevant payment of principal or interest in respect of the Notes would otherwise be made, becoming so effective, such circumstances would exist.

(C) Redemption at the option of Noteholders on Restructuring Event

If prior to 30th July, 1998 there occurs a Restructuring Event and (1) (if at the time that Restructuring Event occurs there are Rated Securities) a Rating Downgrade in respect of that Restructuring Event occurs or (2) (if there are no Rated Securities) a Borrowings Excess exists at the time of or immediately following that Restructuring Event (that Restructuring Event and, where applicable, Rating Downgrade or Borrowings Excess together called a "Put Event"), the holder of each Note will have the option (unless, prior to the giving of the Put Event Notice referred to below, the Company gives notice under Condition 4(B)) to require the Company to redeem or purchase (or procure the purchase of) that Note on the Put Date at its principal amount together with accrued interest to the Put Date. The terms "Restructuring Event", "Rated Securities", "Rating Downgrade", "Borrowings Excess" and "Put Date" are defined below.

A "Restructuring Event" shall be deemed to have occurred at each time (whether or not approved by the Board of Directors of the Company) that either:—

- (i) any person or any persons acting in concert (as defined in the City Code on Takeovers and Mergers), or any persons acting on behalf of any such person(s), at any time is/are or become(s) interested (within the meaning of Part VI of the Companies Act 1985) in (A) more than 50 per cent. of the issued or allotted ordinary share capital of the Company or (B) shares in the capital of the Company carrying more than 50 per cent. of the voting rights normally exercisable at a general meeting of the Company; or
- (ii) the Company and/or any of its subsidiaries sells, transfers, leases or otherwise disposes, otherwise than to a subsidiary of the Company or to the Company, or is dispossessed by any means of the whole or substantially the whole of its or, as the case may be, their undertaking, or (except in the ordinary course of business of the Company and its subsidiaries taken as a whole) the whole or substantially the whole of its or, as the case may be, their property or assets, whether by a single transaction or by a number of transactions whether related or not occurring within any period of twelve months, and where the undertaking or property or assets so disposed of when taken together constitute the whole or substantially the whole of the assets of the Company and its subsidiaries taken together; or
- (iii) the Company pays or declares a dividend or makes a distribution to shareholders or any class of them generally of cash, securities (other than irredeemable share capital of the Company) or any other property which, in any case, when taken together with the effect of all similar transactions during the period of twelve months immediately preceding such event would exceed 50 per cent. of Consolidated Tangible Net Worth (as defined below); or
- (iv) in any twelve month period ending after 30th July, 1992, the Company purchases 50 per cent. or more of its ordinary shares; or
- (v) otherwise than in the ordinary course of business of the Company and its subsidiaries taken as a whole, the Company or any of its subsidiaries provides any financial assistance (within the meaning of section 151 of the Companies Act 1985) (directly or indirectly) by way of (A) loan, gift, guarantee, security, indemnity, release, waiver or any agreement to fulfil or assume any obligations of or corresponding with the obligations of any person, or (B) any other means whereby Consolidated Tangible Net Worth is or is reasonably likely to be reduced to a material extent, to any person for the purpose of any acquisition of ordinary shares in the Company where the value of such financial assistance, when taken together with the aggregate acquisition cost of all ordinary shares in the Company acquired by the Company or any of its subsidiaries plus the aggregate value of all other financial assistance so given in both cases in the twelve months immediately preceding the giving of such financial assistance exceeds 50 per cent. of Consolidated Tangible Net Worth.

A "Rating Downgrade" shall be deemed to have occurred in respect of a Restructuring Event if within a period ending 90 days after public announcement of the Restructuring Event having occurred (or such longer period in which the Rated Securities (as defined below) are under consideration (announced publicly within the first mentioned period) for rating review by a Rating Agency (as defined below) the current rating whether provided by a Rating Agency at the invitation of the Company or by its own volition assigned to the Rated Securities by any Rating Agency is withdrawn directly for credit reasons or reduced from an investment grade rating BBB-/Baa3 (or their respective equivalents for the time being) or better to a non-investment grade rating BB+/Ba1 (or their respective equivalents for the time being) or worse provided that a Rating Downgrade otherwise arising by virtue of a particular reduction in rating shall not be deemed to have occurred in respect of a particular Restructuring Event if the Rating Agency making the reduction in rating to which this definition would otherwise apply does not announce or publicly confirm that the reduction was

the result, in whole or part, of any event or circumstance comprised in or arising as a result of the applicable Restructuring Event.

"Rated Securities" means (a) the Notes or (b) such other comparable long-term unsubordinated unsecured debt of the Company selected by the Company from time to time for the purpose of this definition with the approval of the Trustee and which possesses an investment grade rating by any Rating Agency, whether provided by a Rating Agency at the invitation of the Company or by its own volition.

"Rating Agency" means Standard & Poor's Corporation and its successors or Moody's Investors Service, Inc. and its successors or any rating agency substituted for either of them (or any permitted substitute of them) by the Company from time to time with the approval of the Trustee.

"Borrowings Excess" means, as disclosed in the most recent consolidated financial statements of the Company, as adjusted, Consolidated Total Borrowings being equal to or greater than 200 per cent. of Consolidated Tangible Net Worth.

"Consolidated Total Borrowings" means the aggregate amount outstanding of all obligations of the Company and its subsidiaries (but excluding contingent liabilities) for, or in respect of, Financial Indebtedness (as defined below) owing to persons other than the Company and its subsidiaries as disclosed in the latest consolidated accounts of the Company (after crediting against such amounts outstanding any amounts beneficially owned by the Company or its subsidiaries which are deposited with any bank or other financial institution in either case rated A1 or higher by Standard & Poor's or P1 or higher by Moody's Investors Service, Inc. or its successors or an equivalent rating by any rating agency substituted for either of them by the Company from time to time with the approval of the Trustee not being a subsidiary of the Company (whether on current account or otherwise) and which are repayable on demand or within three months of any demand and the bid price of any debt instrument or other investment beneficially owned by the Company or its subsidiaries (other than any debt instrument or investment issued by the Company or any subsidiary) for which a bid price is readily ascertainable and which are readily realisable at such bid price and are not encumbered in any way; Provided that for the purposes of this exception, the cash balances and investments that are beneficially owned by any subsidiary shall be reduced by a proportion equal to the proportion of the issued equity capital of the subsidiary which is not attributable to the Company or any of its other subsidiaries, provided further that any investment beneficially owned by a foreign registered subsidiary of the Company should also be freely transferable and convertible into sterling).

"Consolidated Tangible Net Worth" means at any time:—

the aggregate of the amounts paid up, credited as paid up or deemed to be paid up on the issued share capital of the Company and the aggregate amount of capital and revenue reserves of the Company and its subsidiaries including but not limited to:—

- (i) any amount credited to share premium account;
- (ii) any revaluation reserves;
- (iii) any capital redemption reserve;
- (iv) any amount credited to the Special Reserve as is referred to in the most recent consolidated financial statements of the Company and its subsidiaries; and
- (v) any balance standing to the credit of the consolidated profit and loss account of the Company and its subsidiaries

all as determined from the most recent consolidated balance sheet of the Company and its subsidiaries prepared under the historic cost convention modified to include the revaluation of land and buildings but adjusting as follows:—

- (vi) by deducting any debit balance on the consolidated profit and loss account of the Company and its subsidiaries;
- (vii) by deducting any amounts shown in respect of the book values of goodwill (including goodwill arising only on consolidation) or other intangible assets of the Company and its subsidiaries, provided that there shall be excluded from the amount shown in respect of intangible assets, such proportion of launching costs (which expression shall include development costs) of any product manufactured by the Company and its subsidiaries which has been previously incurred and which is carried forward in the most recent consolidated financial statements of the Company and its subsidiaries against deliveries of such product;

- (viii) in respect of any variation in interests in subsidiaries and to take account of any subsidiary which shall have become or ceased to be a subsidiary since the date as at which such financial statements were prepared;
 - (ix) excluding all sums set aside for taxation (whether in respect of deferred taxation or otherwise);
 - (x) excluding any distribution declared, recommended or made to members of the Company and outside shareholders in subsidiaries out of profits accrued prior to the date such financial statements were drawn up and not provided for therein;
 - (xi) deducting the amount paid up or credited as paid up on, and the amount of any premium payable on the redemption of, any preference share capital of the Company which is repayable on or prior to the final maturity date of the Notes; and
 - (xii) deducting such amount as the Auditors of the Company shall consider appropriate in respect of any contingent taxation liabilities on the net amount of which the fixed assets of the Company and its subsidiaries shall have been written up as a result of any revaluation, and for this purpose a transfer of any asset by the Company to any of its subsidiaries, or by any subsidiary to the Company or another subsidiary, for a consideration in excess of the book value thereof shall be deemed to be a writing up of the book value of such asset as a result of a revaluation;
- (and so that no amount shall be included or excluded more than once).

“Financial Indebtedness” means, at any time, the principal outstanding amount of any moneys borrowed or raised including, without limitation:—

- (i) the principal amount of all debentures of the Company and its subsidiaries which are not for the time being beneficially owned by the Company or any of its subsidiaries;
- (ii) the amount for the time being guaranteed or secured or the subject of an indemnity given by the Company or any subsidiary (otherwise than in relation to, directly or indirectly, the sale of any product or service by the Company or any of its subsidiaries) in respect of any moneys borrowed by or any other indebtedness or share capital of any person or body whether corporate or not the beneficial interest in the right to repayment whereof or the payment of any premium, interest or dividend thereon is not owned by the Company or any subsidiary;
- (iii) the outstanding amount of acceptances (not being acceptances of trade bills in respect of the purchase or sale of goods in the ordinary course of trading the amount raised whereunder to remain outstanding for 187 days or less) by any bank or accepting house under any acceptance credit opened on behalf of and in favour of the Company or any of its subsidiaries;
- (iv) the nominal amount of any issued or paid up share capital (other than equity share capital) of any subsidiary of the Company not for the time being beneficially owned by the Company or any of its subsidiaries;
- (v) any fixed or minimum premium payable on final redemption or repayment of any debentures, share capital or other moneys borrowed or raised falling to be taken into account;
- (vi) any capital amount in respect of any finance lease payable by the Company or any of its subsidiaries which would be shown as an obligation in a balance sheet prepared in accordance with the accounting principles used in the preparation of the most recent audited consolidated balance sheet of the Company;
- (vii) the principal amount of any book debts of the Company or any subsidiary which have been sold or agreed to be sold, to the extent that the Company or any subsidiary is for the time being liable to indemnify or reimburse the purchaser in respect of any non-payments provided that such principal amount shall be reduced by the value of any security, collateral guarantee, indemnity or other comfort provided to the Company or any subsidiary in relation to such book debts, such value to be determined by the auditors of the Company in such manner as they consider appropriate;
- (viii) any part of the purchase price of any moveable or immoveable assets acquired by the Company or a subsidiary, the payment of which is deferred beyond the date of completion of the conveyance, assignment or transfer of the legal estate to such assets or, if no such conveyance, assignment or transfer is to take place within six months after the date on which the contract for such purchase is entered into or (if later) becomes unconditional, beyond the date; and

(ix) any other indebtedness of the Company or any subsidiary under any agreement entered into primarily as a method of raising finance and which is not referred to in the foregoing paragraphs of this definition which the Auditors of the Company consider shall be included within this definition

but excluding:—

- (a) moneys borrowed by any member of the Company and its subsidiaries for the purposes of repaying or redeeming in whole or in part any other borrowed moneys (including any fixed or minimum premium payable on final repayment) falling to be taken into account and intended to be applied for such purpose within six months after the borrowing thereof save to the extent not so applied during such period;
- (b) any moneys borrowed by the Company or any of its subsidiaries from bankers or other financial institutions for the purpose of financing any contract up to an amount not exceeding those moneys receivable under such contract which are guaranteed or insured by the Export Credits Guarantee Department or any other institution or body carrying on a similar business and approved by the Trustee;
- (c) such proportion of moneys borrowed by a subsidiary of the Company as is equal to the proportion of the issued equity share capital of the subsidiary which is not attributable to the Company or any other subsidiary of the Company but only to the extent that an amount equivalent to such proportion exceeds sums borrowed (if any) by the Company or another subsidiary from such subsidiary;
- (d) moneys borrowed by any subsidiary at the time it becomes a subsidiary and for a period of six months thereafter and moneys borrowed remaining secured on any asset acquired by the Company or any of its subsidiaries at the time of such acquisition and for a period of six months thereafter in each case to the extent that they exceed any increase in the Borrowings Excess arising out of the adjustment to be made to the Consolidated Tangible Net Worth on account of the transaction whereby such company becomes a subsidiary and of any other transaction effected during such period of six months whereby the outside interest of the Company in such subsidiary is reduced;
- (e) sums advanced or paid to the Company or any of its subsidiaries (or their agent or nominee) by customers of the Company or any of its subsidiaries as prepayments or progress payments or payments on account or by way of deposit or security in respect of products or services or any guarantees or indemnities given by the Company or any of its subsidiaries in relation thereto;
- (f) moneys borrowed by the Company or any of its subsidiaries in order to finance the purchase of any asset acquired or to be acquired by the Company or any of its subsidiaries or by any entity acting on behalf of, or at the direction of the Company or any of its subsidiaries, whether or not such member has an interest in such entity and where the purpose of such acquisition is either (I) to assist in the sale of any product or service of the Company or any of its subsidiaries or any entity in which the Company or any of its subsidiaries has an interest or (II) to reduce or otherwise discharge any liability that the Company or any of its subsidiaries, or other entity in which the Company or any of its subsidiaries has an interest, shall have incurred (whether directly or indirectly) pursuant to or in connection with the sale of any such product or service. In such event the aggregate amount of such moneys borrowed (including the capitalised amount of any interest thereon) will be excluded from the definition of "Financial Indebtedness" unless and until any such asset purchased with the proceeds thereof is disposed of by the Company or such subsidiary or any such entity and shall then be included as Financial Indebtedness to the extent that the proceeds of such disposal are less than the principal amount of such moneys borrowed and then only to the amount of such shortfall;
- (g) sums which otherwise would fall to be treated as moneys borrowed or raised of the Company or any of its subsidiaries which were treated with the concurrence of the auditors of the Company or any of its subsidiaries and in accordance with any current statement of standard accounting practice or other accountancy principle or practice generally accepted for the time being in the United Kingdom in the latest audited balance sheet of the Company or the relevant subsidiary on which such consolidation was based as otherwise than borrowed moneys of the Company or the relevant subsidiary;
- (h) moneys borrowed in connection with an encumbrance over any asset in respect of indebtedness of the Company or any of its subsidiaries where the lenders thereof have no right of recovery for non-payment of such indebtedness against the general assets and undertaking of the Company or any of its subsidiaries but have a limited right of recourse only against the asset acquired with the proceeds of such indebtedness (or the proceeds of any insurance in respect thereof) or to any revenues attributable to the exploitation of such asset;

(and so that no amount shall be included or excluded more than once).

Promptly upon the Company becoming aware that a Put Event has occurred, the Company shall, and at any time upon the Trustee becoming similarly so aware the Trustee may, and if so requested by the holders of at least one-fifth in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders the Trustee shall, give notice (a "Put Event Notice") to the Noteholders in accordance with Condition 12 specifying the nature of the Put Event and the procedure for exercising the option contained in this Condition 4(C).

To exercise the option to require redemption of a Note under this Condition 4(C) the holder of the Note must deliver such Note, on any business day (as defined in Condition 5) falling within the period (the "Put Period") of 45 days after a Put Event Notice is given, at the specified office of any Paying Agent, accompanied by a duly signed and completed notice of exercise in the form (for the time being current) obtainable from the specified office of any Paying Agent (a "Put Notice") and in which the holder may specify a bank account complying with the requirements of Condition 5 to which payment is to be made under this Condition 4(C). The Note should be delivered together with all Coupons appertaining thereto maturing after the date (the "Put Date") 7 days after the expiration of the Put Period, failing which the Paying Agent will require payment of an amount equal to the face value of any such missing Coupon. Any amount so paid will be reimbursed in the manner provided in Condition 5(C) against presentation and surrender of the relevant missing Coupon (or any replacement therefor issued pursuant to Condition 10 any time after such payment, but before the expiry of the period of five years from the Relevant Date, as defined in Condition 6, in respect of that Coupon. The Paying Agent to which such Note and Put Notice are delivered will issue to the Noteholder concerned a non-transferable receipt in respect of the Note so delivered. Payment in respect of any Note so delivered will be made, if the holder duly specified a bank account in the Put Notice to which payment is to be made, on the Put Date by transfer to that bank account and in every other case on or after the Put Date against presentation and surrender or (as the case may be) endorsement of such receipt at the specified office of any Paying Agent. A Put Notice, once given, shall be irrevocable. For the purposes of Condition 5 and Condition 7 and certain other purposes specified in the Trust Deed, receipts issued pursuant to this Condition 4(C) shall be treated as if they were Notes. The Company shall redeem the relevant Notes on the Put Date unless previously redeemed and cancelled.

(D) Purchases

The Company may at any time purchase Notes by tender (available to all Noteholders alike) or in the open market or by private treaty at any price. The Company may at its option retain such Notes for its own account and/or resell or cancel or otherwise deal with such Notes at its discretion. Notes held by or on behalf of the Company or any of its subsidiaries shall not entitle the holder to vote at any meetings of the Noteholders and such Notes shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of Noteholders for the purposes of Condition 11. Notes purchased by the Company for cancellation shall be surrendered (together with any unmatured Coupons attached thereto or purchased therewith). If any Note is surrendered for cancellation without all unmatured Coupons appertaining thereto, payment in respect of any such missing unmatured Coupon will be made against presentation and surrender thereof at any time before the expiry of a period of five years after the Relevant Date (as defined in Condition 6) for the payment of such Coupon.

(E) Cancellation

All Notes which are redeemed or which are purchased and surrendered for cancellation will be cancelled forthwith, together with all unmatured Coupons attached thereto or surrendered therewith, and may not be reissued or resold.

5. PAYMENTS

(A) Payments of principal and interest in respect of the Notes will be made against presentation and surrender or (as the case may be) endorsement of Notes or, in the case of payments of interest due on each 30th July, against surrender of Coupons at any specified office of any of the Paying Agents and will be made (i) at the specified office of any Paying Agent in London in sterling or (ii) at the option of the holder, at any specified office of any Paying Agent by sterling cheque drawn on, or by transfer to a sterling account maintained by the payee with, a Town Clearing Branch of a bank in the City of London. Payments will be subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 6.

(B) The names of the initial Paying Agents and their specified offices are set out below. The Company reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Paying Agent and to appoint other or further Paying Agents, provided that it will at all times maintain Paying Agents having specified offices in London and one city in Continental Europe. Notice

of any such termination or appointment and of any changes in the specified offices of the Paying Agents will be given to the Noteholders in accordance with Condition 12.

(C) Each Note should be presented for payment together with all Coupons appertaining thereto which, as at the Relevant Date (as defined in Condition 6) for the payment of such Note, remain unmatured, failing which the amount of any such missing Coupon will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time not later than five years after the Relevant Date (as defined in Condition 6) for the payment of such Coupon.

(D) If the due date for payment of any amount of principal or interest in respect of any Note is not at any place of payment a business day, then the holder of such Note or the relevant Coupon shall not be entitled to payment at that place of payment of the amount due until the next succeeding day that is a business day in such place of payment and shall not be entitled to any further interest or other payment in respect of any such delay. For this purpose, "business day" means any day on which banks are open for business in London and the relevant place of payment.

6. TAXATION

All payments of principal and interest in respect of the Notes will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the United Kingdom or any authority therein or thereof, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In such event, the Company will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders and Couponholders shall equal the respective amounts of principal and interest which would have been received in respect of the Notes or, as the case may be, Coupons in the absence of such withholding or deduction, except that no such additional amounts shall be payable in respect of any Note or Coupon presented for payment:—

- (a) by or on behalf of a holder who is subject to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of his having some connection with the United Kingdom otherwise than merely by the holding of such Note or Coupon;
- (b) in the United Kingdom; or
- (c) more than 30 days after the Relevant Date, except to the extent that the holder would have been entitled to such additional amounts on presenting the same for payment on the last day of such period of 30 days.

For the purposes of these Conditions, the "Relevant Date" in respect of any payment means whichever is the later of (i) (in the case of Notes) the due date for payment and (in the case of Coupons) the date for payment shown thereon and (ii) if the full amount of monies payable is not paid to the Trustee or the Principal Paying Agent (as defined in the First Supplemental Trust Deed) on or before the due date for payment, the date on which, the Trustee or the Principal Paying Agent having received the amount of all monies payable in respect of the Notes or Coupons then due for payment, notice to that effect shall have been given to the Noteholders in accordance with Condition 12.

References herein to principal and/or interest shall be deemed also to refer to any additional amounts which may be payable under this Condition 6 or any undertaking given in addition thereto or in substitution therefor pursuant to the Principal Deed.

7. EVENTS OF DEFAULT

The Trustee in its discretion may, and if so requested in writing by the holders of at least one-fifth in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall, give notice to the Company that the Notes are, and they shall accordingly forthwith become, immediately due and repayable at their principal amount, together with accrued interest as provided in the Trust Deed, after the occurrence of any of the following events (an "Event of Default"):

- (a) if default is made for a period of ten business days or more in the payment of any principal or interest due in respect of the Notes or any of them and for this purpose a "business day" shall mean a day on which banks are open for business in London; or
- (b) if the Company fails to perform or observe any of its other obligations under the Notes or the Trust Deed and (except where in any such case the Trustee considers such failure to be incapable of remedy

when no such notice as is hereinafter mentioned will be required) such failure continues for the period of 45 days (or such longer period as the Trustee may permit) next following the service by the Trustee on the Company of notice requiring the same to be remedied; or

- (c) if any other indebtedness for borrowed monies of the Company other than indebtedness for borrowed monies which is of a limited recourse nature (being indebtedness for borrowed monies the liability for repayment of which is restricted as referred to in Condition 2(A)(ii)) is not paid when due or within any applicable grace period relating thereto, or any indebtedness for borrowed monies of the Company is declared to be or otherwise becomes due and payable prior to its specified maturity; provided that such occurrence is not being challenged in good faith by the Company in, or in the course of action prior to, appropriate proceedings and provided further that any such event shall only be capable of being an Event of Default if the aggregate amount of all such indebtedness for borrowed monies exceeds £10,000,000 (or its equivalent in other currencies); or
- (d) if any order shall be made by any competent court or resolution passed for the winding-up of the Company or a Principal Subsidiary, or an administration order is made in relation to the Company or a Principal Subsidiary, or if the Company or a Principal Subsidiary stops payment of its obligations generally or ceases to carry on its business or a substantial part thereof other than (in each such case) for the purpose of a reconstruction or amalgamation the terms of which have previously been approved in writing by the Trustee; or
- (e) if an encumbrancer takes possession or an administrative or other receiver is appointed of the whole or any material part of the assets of the Company or a Principal Subsidiary, or if a distress or execution is levied or enforced upon or sued out against any material part of the assets of the Company or a Principal Subsidiary and is not removed, discharged or paid out within 60 days unless any of the same is (in each such case) being contested in good faith by the Company or the relevant Principal Subsidiary in, or in the course of action prior to, appropriate proceedings; or
- (f) if the Company or a Principal Subsidiary is unable to pay its debts within the meaning of section 123 of the Insolvency Act 1986 of Great Britain (but not including section 123(1)(a) thereof) or makes a general assignment for the benefit of its creditors;

provided that, in the case of any such events other than those described in paragraph (a) of this Condition, the Trustee shall have certified to the Company that such event is in its opinion materially prejudicial to the interests of the Noteholders.

For the purposes of this Condition, "Principal Subsidiary" means any subsidiary of the Company whose turnover, as shown in the latest audited profit and loss account, exceeds 20 per cent. of the consolidated turnover of the Company and its consolidated subsidiaries as shown by the latest published audited consolidated profit and loss account of the Company and its consolidated subsidiaries and either (i) whose profits or (in the case of a subsidiary which has subsidiaries) consolidated profits, before taxation and extraordinary items, as shown by its latest audited profit and loss account, exceed 20 per cent. of the consolidated profits before taxation and extraordinary items of the Company and its consolidated subsidiaries as shown by the latest published audited consolidated profit and loss account of the Company and its consolidated subsidiaries or (ii) whose total assets or (in the case of a subsidiary which has subsidiaries) total consolidated assets, as shown by its latest audited balance sheet, are at least 20 per cent. of the total assets of the Company and its consolidated subsidiaries as shown by the latest published audited consolidated balance sheet of the Company and its consolidated subsidiaries. For the purposes of calculating the profits or (in the case of a subsidiary which has subsidiaries) consolidated profits or total assets or (in the case of a subsidiary which has subsidiaries) total consolidated assets of any subsidiary which is not a wholly-owned subsidiary of the Company pursuant to (i) or (ii) above, only such proportion of the above-mentioned profits or total assets shall be taken into account as the Company's holding, either direct or indirect, of issued equity share capital in such subsidiary bears to that subsidiary's total issued equity share capital. A report by the auditors of the Company that in their opinion a subsidiary is or is not or was or was not at a specified date a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on all concerned. References herein to the audited profit and loss account and balance sheet and audited accounts of a subsidiary which has subsidiaries shall be construed as references to the audited consolidated profit and loss account, consolidated balance sheet and consolidated accounts of such subsidiary and its subsidiaries, if such are required to be produced and audited, or, if no such accounts or balance sheet are produced, to pro forma accounts and balance sheet, prepared for the purpose of such reports. If the latest published audited consolidated profit and loss account of the Company and its consolidated subsidiaries shows a loss before taxation and extraordinary items, then every subsidiary whose turnover exceeds 20 per cent. of the consolidated turnover of the Company and its consolidated subsidiaries as aforesaid and whose latest audited

profit and loss account (consolidated if appropriate) shows a profit before taxation and extraordinary items shall be a Principal Subsidiary.

8. PRESCRIPTION

Each Note and Coupon will become void unless presented for payment, in the case of Notes, within a period of 10 years and, in the case of Coupons, within a period of five years from the Relevant Date (as defined in Condition 6) in respect thereof (but without prejudice to the provisions of Condition 5(C) concerning payments in respect of missing unmatured Coupons¹).

9. ENFORCEMENT

At any time after the Notes shall have become immediately due and repayable, the Trustee may, at its discretion and without further notice, institute such proceedings against the Company as it may think fit to enforce repayment of the Notes together with accrued interest and to enforce the provisions of the Trust Deed, but it shall not be bound to take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by the holders of not less than one-fifth in principal amount of the Notes then outstanding and (b) it shall have been indemnified to its satisfaction. No Noteholder or Couponholder shall be entitled to proceed directly against the Company unless the Trustee, having become bound so to do, fails so to do within a reasonable period and such failure shall be continuing.

10. REPLACEMENT OF NOTES AND COUPONS

If a Note or Coupon is mutilated, defaced, lost, stolen or destroyed, it may be replaced at the specified office in London of the Principal Paying Agent (as defined in the First Supplemental Trust Deed) on payment of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity and/or security as the Company may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

11. MEETINGS OF THE NOTEHOLDERS, MODIFICATION AND WAIVER

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including modification by Extraordinary Resolution of these terms and conditions or the provisions of the Trust Deed. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the principal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain of these terms and conditions and provisions of the Trust Deed (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes or Coupons), the necessary quorum for passing an Extraordinary Resolution will be two or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, in principal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Couponholders.

The Trustee may, without the consent of the Noteholders or the Couponholders, agree to any modification (except as aforesaid) of these terms and conditions or of any of the provisions of the Trust Deed or to any waiver or authorisation of any breach or proposed breach by the Company of the provisions of these terms and conditions or of any of the provisions of the Trust Deed which, in the opinion of the Trustee, is not materially prejudicial to the interests of the Noteholders or to any modification of these terms and conditions or of any of the provisions of the Trust Deed which is made to correct any manifest error or is of a formal, minor or technical nature. Any such modification, waiver or authorisation will be binding on the Noteholders and Couponholders and any such modification will (unless the Trustee agrees otherwise) be notified to the Noteholders in accordance with Condition 12 as soon as practicable thereafter.

12. NOTICES

All notices to be given to Noteholders will be valid if published in a leading London daily newspaper with circulation in Europe approved by the Trustee, which is expected to be the *Financial Times*. Such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date of such publication. If publication is not practicable in such newspaper as is mentioned above, notice

will be valid if given in such other manner, and shall be deemed to have been given on such date, as the Company and the Trustee shall determine.

13. FURTHER ISSUES

The Company shall be at liberty from time to time without the consent of the Noteholders to create and issue further notes or bonds either ranking (in the case of notes) *pari passu* in all respects (save for the date for and the amount of the first payment of interest thereon) and so that the same shall be consolidated and form a single series with the Notes or upon such terms as to interest, conversion, premium, redemption and otherwise as the Company may at the time of issue thereof determine. Any further notes forming a single series with the Notes shall, and any other further bonds or notes may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of bonds and notes of other series in certain circumstances where the Trustee so decides.

14. INDEMNIFICATION OF THE TRUSTEE

The Principal Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce payment of the Notes unless indemnified to its satisfaction. The Trustee is entitled to enter into business transactions with the Company without accounting for any profit resulting therefrom.

15. GOVERNING LAW

The Trust Deed and the Notes and Coupons are governed by and shall be construed in accordance with English law.

USE OF PROCEEDS

The net proceeds of the Notes, which are estimated to amount to approximately £149.4 million, are intended to be used for general corporate purposes.

CAPITALISATION OF ROLLS-ROYCE plc

The following table sets out the consolidated shareholders' funds of the Group as at 31st December, 1990 and the consolidated borrowings of the Group as at 31st May, 1991, adjusted for the issue of the Notes:—

	31st December, 1990
	(£ millions)
Capital and reserves	
Called-up share capital	192
Reserves including share premium account	972
	1,164
Minority interests in subsidiaries	38
	<u>1,202</u>

Note:—

Save as disclosed herein, there has been no material change in the capital and reserves of the Group since 31st December, 1990.

	31st May, 1991
	(£ millions)
Borrowings *	
Secured loans	
Sterling	1
Unsecured loans	
9½ per cent. Notes 1993	150
11½ per cent. Notes 1998 (now being issued)	150
Other sterling loans	157
Foreign currency loans **	28
Capital obligations under finance leases	39
	<u>525</u>

Notes:—

- (1) The Group had cash at the bank and in-hand, as at 31st May, 1991, amounting to £323 million, excluding the net proceeds of the issue of the Notes.
- *(2) Total borrowings falling due within one year from 31st May, 1991 are £180 million.
- (3) The nature of the Group's contingent liabilities is described in Note 26 to the published audited consolidated accounts for the year to 31st December, 1990, since which an additional contingent liability has been incurred, amounting to £16 million, in respect of discounted long-term trade bills.
- ** (4) Foreign currencies are translated at the exchange rates prevailing on 31st December, 1990 for shareholders' funds and 31st May, 1991 for cash and borrowings or, where applicable, at the sterling equivalent taking account of future foreign exchange contracts.
- (5) Save as disclosed above, there has been no material change in the borrowings of the Group since 31st May, 1991.
- (6) Save as aforesaid and apart from intra-group indebtedness and guarantees, at 31st May, 1991 no member of the Group had any loan capital outstanding or created but unissued, and neither the Company nor any of its subsidiaries had any borrowings or indebtedness in the nature of borrowings, including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits, hire-purchase commitments, mortgages or charges, commitments under finance leases, guarantees or other material contingent liabilities.

ROLLS-ROYCE plc

BUSINESS

The Company was incorporated in 1971 in England with limited liability under the Companies Acts 1948-67 with Registered No. 1003142. The origins of the business go back to Sir Henry Royce and the Hon. C. S. Rolls, the compatibility of whose business interests at the turn of the century led to the formation of the original Rolls-Royce Limited in 1906.

The Company was "privatised" in May, 1987 and in May, 1989 it merged with Northern Engineering Industries plc ("NEI") and now holds or controls the whole of the issued ordinary share capital of NEI.

The Company's principal operations were restructured on 1st January, 1991 into two business groups:—

- (1) the Aerospace Group which designs, develops, manufactures and supports gas turbine engines for civil and military aircraft. The product range extends from 1,900 lb. thrust to more than 75,000 lb. thrust, suitable for powering executive jets, helicopters and the largest civil airliners, including those still at the planning stage, as well as a wide range of military aircraft. Over 300 airlines, 700 executive and corporate operators and 100 armed services use aircraft powered by Rolls-Royce engines; and
- (2) the Industrial Power Group which offers a full spectrum of design and project management expertise and equipment for constructing complete power generation and transmission systems to the highest environmental standards. Companies in this group provide comprehensive refurbishment and modification services to the nuclear power industry and supply nuclear steam-raising plant for naval propulsion. Other group companies provide a wide range of advanced materials handling plant and equipment to a worldwide market. Nearly 200 customers in more than 50 countries use Rolls-Royce gas turbines for power generation, gas and oil pumping and other industrial applications. Naval vessels of 25 countries also use Rolls-Royce power.

The Company's headquarters and technology base and most of its personnel are in the United Kingdom. It has interests in overseas subsidiary companies which include manufacturing, repair and overhaul facilities in Canada, advanced engineering facilities in the U.S.A., and repair and overhaul facilities in Brazil plus marketing and customer support representatives in more than 30 countries.

HM Government continues to hold a single Special Rights Redeemable Preference Share, the rights attaching to which require the holder's consent to any change in the provisions of the Company's Articles of Association governing the limit placed on the proportion of foreign held shares and the nationality of the Chairman and Chief Executive of the Company and a certain proportion of the Directors, the requirements for a quorum of Directors and the prohibition on the appointment of alternate Directors. Special Shareholder consent is also required for any proposal for the voluntary winding up or dissolution of the Company, or for any disposal of the whole or a material part of its assets or of such part of its assets as are employed in its nuclear business.

CURRENT DEVELOPMENTS

In his statement to the Annual General Meeting of Rolls-Royce held on 28th May, 1991, Lord Tombs (the Chairman of the Company) reported that, as anticipated, 1991 would be a difficult year. He said that, worldwide, almost 20 airlines had experienced significant financial difficulties and many others had suffered a dramatic reduction in passenger traffic as a result of the Gulf conflict. Consequently, orders for spares had fallen and deliveries for some new aircraft were being postponed. In addition, he explained that defence agencies around the world were proposing extensive cuts in defence purchasing and that accordingly Rolls-Royce's defence equipment order book was being greatly affected.

As regards the current financial year, Lord Tombs said that given this background:—

"The resulting effects on our profits and cashflow are severe and may continue well into 1992."

Lord Tombs indicated that both of Rolls-Royce's major U.S. aero-engine competitors were facing similar economic pressures but said that the situation in the United Kingdom was made worse by inflation and wage increases exceeding those being encountered by Rolls-Royce's overseas competitors and by high sterling interest rates, which, by strengthening sterling, reduced overseas competitiveness. To maintain its competitive position within the world, the high level of investment in 1990 in research and development would continue into the first half of 1991 and, in addition, Rolls-Royce would have to reduce its manufacturing capacity to match the work available.

Lord Tombs also said that the prospects for the future of Rolls-Royce were good, its aerospace civil order book remained strong and prospects for additional orders were good in a number of countries. Its civil engine market share had doubled in the last few years and the Industrial Power Group, which constitutes a significant percentage of Rolls-Royce's output, was performing well.

The current financial position remains as described by Lord Tombs at the Annual General Meeting with the worldwide economic recession and market conditions in the aircraft industry continuing to affect profits and cashflow.

DIRECTORS

The Directors of the Company, all of whose business addresses are 65 Buckingham Gate, London SW1E 6AT, United Kingdom, are:—

<u>Name</u>	<u>Title</u>
Lord Tombs of Esdaile, BSc(Econ), F.Eng	<i>Chairman</i>
Sir Ralph Robins, BSc(Eng), F.Eng	<i>Chief Executive and Deputy Chairman</i>
Terence Harrison, DL, BSc(Eng), F.Eng	<i>Managing Director Industrial Power Group</i>
Dr. Robert Hawley, BSc, PhD, DSc, F.Eng	<i>Managing Director (Operations) Northern Engineering Industries plc</i>
Dr. Gordon R. Higginson, BSc(Eng), PhD	<i>Non-Executive Director</i>
James O. Keir, JP, C.Eng	<i>Director — Supply</i>
Air Chief Marshal Sir Douglas Lowe, GCB, DFC, AFC, CRAcS	<i>Non-Executive Director</i>
Peter F. Macfarlane, FCA, FCT	<i>Finance Director</i>
Stewart C. Miller, CRE, BSc(Eng), F.Eng	<i>Managing Director Aerospace Group</i>
Harold G. Mourgue, FCA	<i>Non-Executive Director</i>
Sir Robin Nicholson, FRS, F.Eng	<i>Non-Executive Director</i>
Sir Philip Shelbourne, MA	<i>Non-Executive Director</i>
Frank Turner, BSc(Eng), F.Eng	<i>Director — Civil Engines</i>

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

PROFIT AND LOSS ACCOUNT

	Year ended 31st December,		
	1988	1989	1990
	(£ millions)		
Turnover	1,973	2,962	3,670
Operating profit	333	383	468
Research and development (net)	(149)	(161)	(237)
Income from interests in associated undertakings	—	—	2
Net interest (payable) receivable	13	15	(7)
Profit before exceptional items and taxation	197	237	226
Exceptional items*	(29)	(4)	(50)
Profit on ordinary activities before taxation	168	233	176
Taxation	(22)	(36)	(36)
Profit on ordinary activities after taxation	146	197	140
Attributable to minority interests in subsidiary undertakings	(1)	(5)	(6)
Profit attributable to the shareholders	145	192	134
Dividends	(50)	(67)	(69)
Retained profit for the year	95	125	65
Earnings per ordinary share			
Net basis	18.1p	21.3p	13.9p
Net basis before exceptional items	21.7p	21.8p	19.1p
Dividends per ordinary share	6.3p	7.0p	7.25p

* In 1990 an exceptional provision of £50 million was made to cover restructuring costs and to provide for uncertainties faced by customer airlines. Prior year exceptional items relate to restructuring only.

BALANCE SHEET

	As at 31st December,		
	1988	1989	1990
	(£ millions)		
Fixed assets	473	683	712
Current assets	1,309	1,910	2,135
	1,782	2,593	2,847
Liabilities and provisions	(830)	(1,394)	(1,645)
	952	1,199	1,202
Share capital	160	192	192
Reserves	789	934	972
Shareholders' funds	949	1,126	1,164
Minority interests in subsidiary undertakings	3	73	38
	952	1,199	1,202

ANALYSIS BY BUSINESS SEGMENT

	Turnover			Profit		
	1988	1989	1990	1988	1989	1990
	(£ millions)			(£ millions)		
Aero Gas Turbines	1,682	2,054	2,340	132	147	74
Power Engineering	250	674	976	19	52	82
General Engineering	41	234	354	4	19	27
	1,973	2,962	3,670	155	218	183

The profit represents "Profit on ordinary activities before taxation" as adjusted for net interest (payable) receivable.

The exceptional items of £50 million (1989: £4 million) have been charged against Aero Gas Turbines' results. In 1988, £27 million was charged to Aero Gas Turbines and £23 million to Power Engineering.

The above summary consolidated financial information has been derived from the published audited consolidated accounts of the Group and should be read in conjunction with the notes thereto.

UNITED KINGDOM TAXATION

The comments below are of a general nature based on advice received by the Company as to current U.K. law and Inland Revenue practice. They relate only to the position of persons who are the absolute beneficial owners of both their Notes and the related Coupons and may not apply to certain classes of persons such as dealers. Any Noteholders and Couponholders who are in doubt as to their personal tax position should consult their professional advisers.

1. While the Notes continue to be quoted on a recognised stock exchange within the meaning of Section 841 of the Income and Corporation Taxes Act 1988, payments of interest may be made without withholding or deduction for or on account of U.K. income tax where:—

- (a) the payment of interest is made by or through an overseas paying agent; or
- (b) the payment is made by or through a person who is in the United Kingdom but:—
 - (i) an appropriate form of declaration of non-residence is provided by or on behalf of the person who is the beneficial owner of the Notes and entitled to the interest and is provided to the paying agent; or
 - (ii) the Notes are held in a “recognised clearing system”. Euroclear, CEDEL and First Chicago Clearing System have each been designated as a “recognised clearing system” for this purpose.

In all other cases, interest will be paid under deduction of U.K. tax at the basic rate (currently 25 per cent.) subject to any direction to the contrary from the Inland Revenue in respect of such relief as may be available pursuant to the provisions of any relevant double taxation treaty.

2. A collecting agent in the United Kingdom obtaining payment of interest whether in the United Kingdom or elsewhere (in circumstances where no withholding or deduction for or on account of U.K. income tax has been made by the person paying the interest) on behalf of a holder of a Note or Coupon may withhold or deduct tax at the basic rate unless it is proved, on a claim in that behalf made in advance to the satisfaction of the Inland Revenue, that the person who is the beneficial owner of the Note or Coupon and entitled to the interest is not resident in the United Kingdom.

3. Interest on the Notes will have a U.K. source and accordingly will be chargeable to U.K. tax by direct assessment even if it is paid without withholding or deduction. However, based on Inland Revenue Extra-Statutory Concession B13 the interest will not generally be assessed to U.K. tax in the hands of Noteholders who are not resident in the United Kingdom, except where such persons:—

- (a) are chargeable in the name of a trustee or other representative mentioned in Section 72 of the Taxes Management Act 1970 or in the name of an agent or a branch in the United Kingdom having the management or control of the interest; or
- (b) seek to claim relief in respect of taxed income from U.K. sources; or
- (c) are chargeable to corporation tax on the income of a U.K. branch or agency to which the interest is attributable; or
- (d) are chargeable to income tax on the profits of a trade carried on in the United Kingdom to which the interest is attributable.

Where interest has been paid under deduction of U.K. tax, Noteholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in an applicable double taxation treaty.

Noteholders and Couponholders should note that the provisions relating to additional amounts referred to in Condition 6 of the Terms and Conditions of the Notes would not apply if the Inland Revenue sought to assess directly the person entitled to the relevant interest to U.K. tax on income. However, exemption from or reduction of such U.K. tax liability might be available under a relevant double taxation treaty.

- 4. (a) The Notes are “qualifying corporate bonds” with the result that on a disposal of the Notes neither chargeable gains nor allowable losses will arise for the purpose of taxation of capital gains.
- (b) A transfer of a Note by a holder resident or ordinarily resident for tax purposes in the United Kingdom or who carries on a trade in the United Kingdom through a branch or agency to which the Note is attributable may give rise to a charge to tax on income in respect of an amount representing interest on the Note which has accrued since the preceding interest payment date.

5. No U.K. Inheritance Tax is charged on the death of, or a gift of Notes by, a Noteholder who is neither domiciled, nor deemed to be domiciled, in any part of the United Kingdom provided that the relevant Notes are situated outside the United Kingdom at the time of death or gift. Where Notes are held in a clearing system the Inland Revenue is known to consider that the situs of the relevant assets is not necessarily determined by the place where the Notes are physically held. Prospective Noteholders to whom this may be of significance are asked to consult their own professional advisers.

6. No U.K. stamp duty or stamp duty reserve tax is payable on the issue of a Note or on its redemption or transfer by delivery.

SUBSCRIPTION AND SALE

S.G. Warburg Securities, Goldman Sachs International Limited, NatWest Capital Markets Limited, Barclays de Zoete Wedd Limited and Baring Brothers & Co., Limited (the "Managers") have, pursuant to a Subscription Agreement dated 22nd July, 1991 (the "Subscription Agreement"), jointly and severally agreed with the Company to subscribe and pay for the Notes at the issue price of 101.465 per cent. of their principal amount. The Company has agreed to pay to the Managers a selling commission of 1% per cent. and a combined management and underwriting commission of ¼ per cent. calculated on the principal amount of the Notes. The Company has agreed to pay the Managers up to £35,000 in reimbursement of certain of their expenses in connection with the issue of the Notes. The Subscription Agreement may, in certain circumstances, be terminated by the Managers prior to the issue of the Notes. The Company has agreed to indemnify the Managers against certain liabilities in connection with the subscription of the Notes as more particularly described in the Subscription Agreement.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933 (the "Securities Act") and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain circumstances exempt from the registration requirements of the Securities Act. Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date, within the United States or to, or for the account or benefit of, U.S. persons, and that it will have sent to each dealer to which it sells Notes during the restricted period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a U.S. person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Each of the Managers has represented and agreed that, (i) prior to application for listing of the Notes being made in accordance with Part IV of the Financial Services Act 1986, it did not offer or sell any Notes in the United Kingdom or elsewhere, by means of any document, other than in circumstances which do not constitute an offer to the public within the meaning of the Companies Act 1985, (ii) it has complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom and (iii) it has only issued or passed on and will only issue or pass on to any person in the United Kingdom any document received by it in connection with the issue of the Notes (other than any document which consists of or any part of listing particulars, supplementary listing particulars or any other document required or permitted to be published by listing rules under Part IV of the Financial Services Act 1986) if that person is of a kind described in Article 9(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1988.

Save for having obtained approval of this document by the Council of the London Stock Exchange pursuant to listing rules made under Part IV of the Financial Services Act 1986 and for having delivered copies thereof to the Registrar of Companies in England and Wales, no action has been or will be taken by the Company or the Managers that would permit a public offering of the Notes or distribution of this document in any jurisdiction where, or in any circumstances in which, action for these purposes is required. This document does not constitute an offer and may not be used for the purposes of any offer or solicitation in or from any jurisdiction where such an offer or solicitation is not authorised.

Neither the Company nor any of the Managers represent that the Notes may at any time lawfully be sold in or from any jurisdiction (other than in or from Great Britain) in compliance with any applicable registration requirements or pursuant to an exception available thereunder or assumes any responsibility for facilitating such sales.

GENERAL INFORMATION

1. The listing of the Notes on the London Stock Exchange will be expressed as a percentage of their principal amount (exclusive of accrued interest). It is current market practice that any transactions on the London Stock Exchange will normally be effected for settlement in sterling and for delivery on the fifth working day after the day of the transaction. It is expected that such listing will be granted on or about 26th July, 1991 subject only to the issue of the temporary global Note representing the Notes. Prior to official listing, dealings will be permitted by the Council of the London Stock Exchange in accordance with its rules.
2. Except as described in this document, there has been no significant change in the financial or trading position of the Group since 31st December, 1990, the date of the last audited accounts of the Company.
3. The Directors are not aware of any legal or arbitration proceedings pending or threatened against any member of the Group which may have, or have had during the previous 12 months, a significant effect on the financial position of the Group.
4. The financial statements of Rolls-Royce for each of the two financial years ended 31st December, 1988 and 1989 were audited by Coopers & Lybrand Deloitte, Chartered Accountants, and those for the financial year ended 31st December, 1990 were audited by KPMG Peat Marwick McLintock, Chartered Accountants.
5. The financial information on the Group contained in this document does not amount to statutory accounts within the meaning of section 240 of the Companies Act 1985. Statutory accounts relating to each financial year to which the financial information relates have been delivered to the Registrar of Companies. The auditors of Rolls-Royce have made reports under section 235 of the Companies Act 1985 in respect of each set of statutory accounts and each such report was an unqualified report and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.
6. The Notes have been accepted for clearance through Euroclear (reference number 6789) and CEDEL (reference number 556866). The ISIN Number for the Notes is XS0033061275.
7. Copies of the following documents will be available for inspection during normal business hours on any weekday (Saturdays and public holidays excepted) at the offices of Freshfields, Whitefriars, 65 Fleet Street, London EC4Y 1HS for 14 days from the date of this document:—
 - (a) the Memorandum and Articles of Association of the Company;
 - (b) the published audited financial statements of Rolls-Royce for each of the two financial years ended 31st December, 1989 and 1990; and
 - (c) the Subscription Agreement and the Principal Deed and drafts, subject to modification, of the First Supplemental Trust Deed and the Paying Agency Agreement.

THE COMPANY
Rolls-Royce plc
65 Buckingham Gate
London SW1E 6AT

TRUSTEE FOR THE NOTEHOLDERS

The Chase Manhattan Bank, N.A.
Woolgate House
Coleman Street
London EC2P 2HD

LEGAL ADVISERS

To the Company
Freshfields
Whitefriars
65 Fleet Street
London EC4Y 1HS

To the Managers and the Trustee
Slaughter and May
35 Basinghall Street
London EC2V 5DB

AUDITORS

KPMG Peat Marwick McLintock
P.O. Box 486
1 Puddle Dock
Blackfriars
London EC4V 3PD

PRINCIPAL PAYING AGENT

Morgan Guaranty Trust Company of New York
60 Victoria Embankment
London EC4Y 0JP

PAYING AGENTS

Morgan Guaranty Trust
Company of New York
Avenue des Arts 35
B-1040 Brussels
Belgium

Banque Paribas Luxembourg
10A Boulevard Royal
L-2449 Luxembourg

Swiss Bank Corporation
Aeschenvorstadt 1
CH-4002 Basle
Switzerland

LISTING SPONSOR

S.G. Warburg Securities
1 Finsbury Avenue
London EC2M 2PA