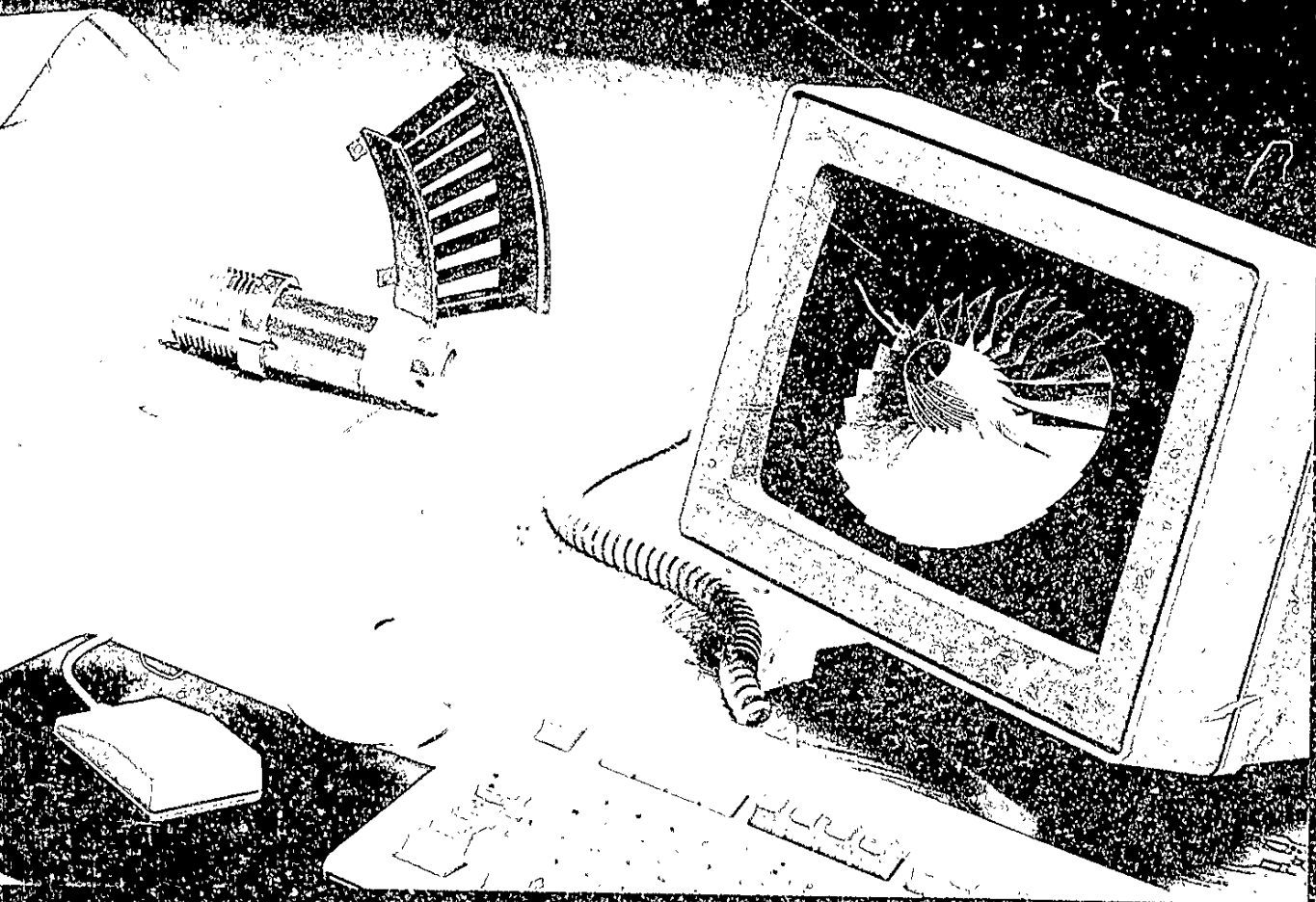




ROLLS-ROYCE plc

1990 CHAIRMAN'S STATEMENT
ANNUAL REVIEW AND
SUMMARY FINANCIAL STATEMENT

COMPANY NUMBER
1003142



GROUP FINANCIAL HIGHLIGHTS

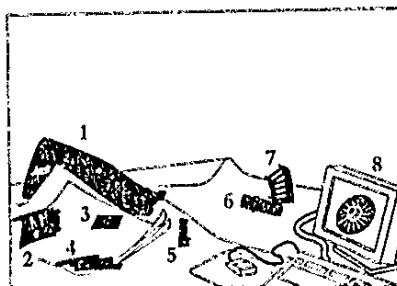
1990/1989 (continued from page 98)

	1990	1989
	£m	£m
Turnover	3,670	2,912
Operating Profit	468	383
Research and development (net)	(237)	(161)
Profit before exceptional items and taxation	226	237
Profit before taxation	176	233
Profit attributable to the shareholders	134	192
Shareholders' funds	1,164	1,126
Earnings per ordinary share - net basis before exceptional items	19.1p	21.8p
Dividends per ordinary share	7.25p	7.0p
Average number of ordinary shares in issue	961 m	901 m

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Registered Office:
Rolls-Royce plc
65 Buckingham Gate
London SW1E 6AT
Telephone: 071-222-9020



Cover illustration: 1 Wide-chord fan blade; 2 Section of nozzle guide vane from RB211-524 engine; 3 NHI Control Systems printed circuit board; 4 Steam turbine cylinder gland sealing strips; 5 High-pressure gas turbine blade; 6 Radial connecting tube from a large generator rotor; 7 Outlet guide vane section from Tay gas turbine; 8 Computer generated image of Trent fan assembly. Background: Blueprints of other Rolls-Royce Aerospace and Industrial Power products.

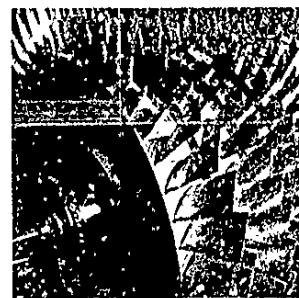
Rolls-Royce is a world leader in the supply of advanced engineering products and aftermarket services. It employs some 64,000 people. In 1990 over 70 per cent of Rolls-Royce plc sales were achieved overseas, confirming its position as one of the United Kingdom's major exporters.

The two main divisions of Rolls-Royce are the Aerospace Group and the Industrial Power Group.

The Aerospace Group designs, develops, manufactures and supports gas turbine engines for civil and military aircraft. Over 300 airlines, 700 executive and corporate operators and 100 armed services use aircraft powered by Rolls-Royce engines. The product range extends from 1,900lb thrust to more than 85,000lb thrust, suitable for powering executive jets, helicopters and virtually all civil airliners, including those still at the planning stage, as well as a wide range of military aircraft.

The Industrial Power Group 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. Group companies 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 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.



Rolls-Royce won two Queen's Awards for Technology in 1990 – for noise reduction on new aero engines (such as this RB211 under assembly, above) and for work in minimising the emission of nitrogen oxides (NOx) from power stations. Low NOx combustion systems include NEI burner technology, shown here on the test rig in Derby.

Profit before tax and exceptional items fell by £11 million to £226 million (1989 £237 million). Exceptional items of £50 million (1989 £4 million) reduced the profit before tax to £176 million (1989 £233 million).



Chairman of Rolls-Royce plc Lord Tomlin of Brighthelm, discusses new materials with project engineer Nirosh Kumar in the advanced materials technology facility, Derby

Operating profit increased to £383 million and the average profit margin to sales was maintained. In the aero-gas turbine business, margins fell due to a combination of competitive pressures on engine selling prices and a reduction in civil spares sales in the last few months. Power Engineering margins improved and in particular the Industrial Gas Turbine business had a very good year, delivering a record number of industrial RB211 engines.

Turnover increased by 24% to £3,650 million

compared with 1989, and more than doubled compared with 1986.

1990 saw the peak of our investment programme designed to provide a full and competitive range of civil and military aero-engines. The need to do this was recognised some years ago and has provided the basis for a doubling of our market share in the civil sector and the steady growth of new customers. The net R&D charge to revenue increased by £76 million to £237 million.

During the past five years our gross expenditure on R&D has exceeded £1.7 billion and, after taking credit for contributions from governments and overseas partners, our net expenditure, charged to revenue account, has been £806 million, which is comparable with the profit before tax over the same period of £853 million.

This financial and engineering commitment has firmly established Rolls-Royce as a company able to offer a wide range of fully competitive engines.

1990 was a difficult year in which the task of supplying a strong order book was made more difficult by a seven week strike at a key Scottish factory in the last quarter of 1989. This disrupted production, increased inventory and put pressure on cash flow. The cash flow was further damaged by the influence on air traffic of events in the Gulf, which led to reduced civil spares orders. As a result of these factors, our interest earnings of £15 million in 1989 became a charge of £7 million in 1990.

Following a strong performance in the second half of the year, year end net cash reached £170 million, slightly less than the previous year end (£193 million), after a £30 million redemption of variable rate preference shares.

The combination of the increased net R&D charge and the adverse interest movement amounts to £98 million. As a result, the profit before tax and exceptional items is marginally below that for 1989 despite an increased turnover.

Given these factors I believe that the underlying performance of the Company is satisfactory and provides a sound base from which to face the uncertainties and opportunities which result from the Gulf conflict in both the

civil and military aero-engine sectors. Reduced civil flying and airline financial problems are already resulting in sharply reduced spares orders.

ORGANISATION

On January 1, 1991 a further stage in the rationalisation of the Group took place with the appointment of Sir Ralph Robins as Chief Executive and the formation of two business groups. The Aerospace Group is the responsibility of Mr Stewart Miller and the Industrial Power Group is managed by Mr Terry Harrison. The Industrial Power Group includes the Industrial and Marine gas turbine business and the nuclear businesses from the pre-merger Rolls-Royce company, as well as the NEI businesses. Close integration of the marine, nuclear and research activities is now taking place.

Our European activities, already widespread, were greatly strengthened by the formation of BMW Rolls-Royce GmbH in Germany. In addition to its manufacturing operations, this company will design engines in the 10-20,000lb thrust range.

We continue to benefit from the efforts of our workforce at all levels and I am grateful for the understanding and constructive way in which our efforts to reduce unit costs are received and supported.

In the Queen's Birthday Honours of 1990 Mr Stewart Miller was awarded a CBE. Very sadly, Mr Anthony Warrington, who retired in 1989 having been Secretary to the Company for many years, died suddenly on December 10, 1990 and I would like to take this further opportunity of recording the Board's gratitude for his valuable and devoted service.

FUTURE PROSPECTS

On our usual conservative basis, the order book stands at £5.7 billion but there are early signs that some aircraft deliveries may be postponed. There are signs of possible delays in some engine orders, and spares sales continue to be depressed by reduced civil flying.

The industrial climate in the UK is a very difficult one. Our inflation rate is falling but remains higher than that of our competitors and the strong pound creates serious problems for exporters like ourselves. Much also depends upon the international economic situation after the resolution of the Gulf conflict and upon the health of the airline industry. We are taking determined steps to further reduce our unit costs and an exceptional provision of £50 million has been made to cover restructuring costs and to provide for uncertainties faced by our customer airlines.

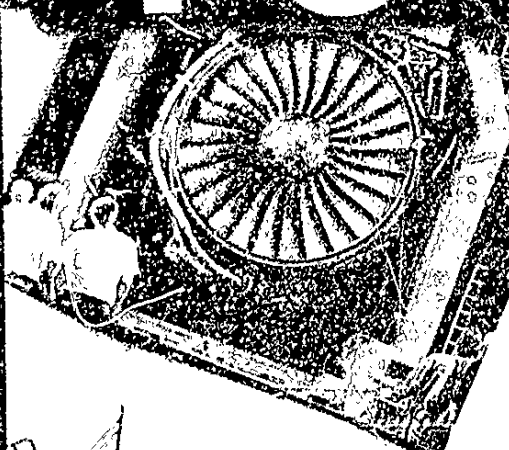
DIVIDEND

A final dividend of 4.7p (1989 4.7p) is proposed making a total of 7.25p (1989 7.0p). The dividend is almost twice covered (1989 2.9 times).

Tombs x Tombs x

Lord Tombs of Brailles

19-06-91



TRENT ENGINE



1988

Engineering work begins on the Trent engine for new generation of wide-bodied airliners.

1989

Launch orders received for McDonnell Douglas MD-11 trijets and Airbus A330 twinjets.

1990

Major component/rig test programme underway.

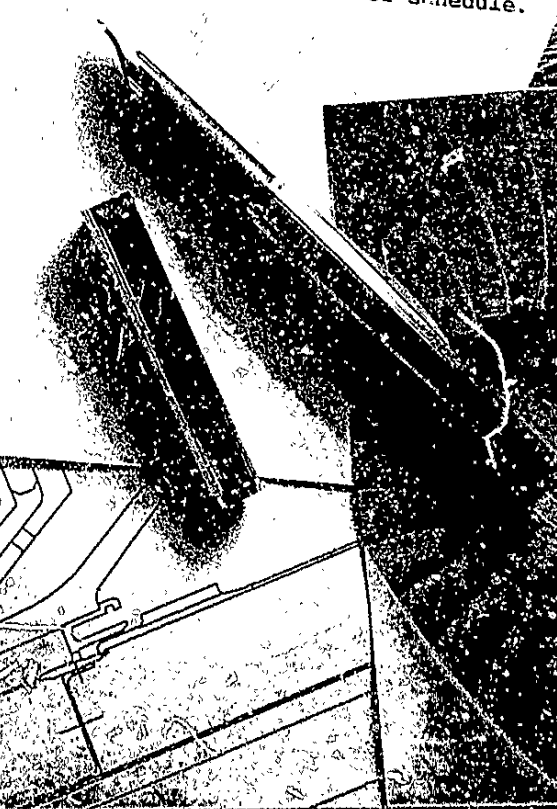
Performance targets exceeded in tests on high and intermediate pressure compressors.

First test of containment ring using an aluminium isogrid Kevlar system.

Wind-tunnel tests on Trent nacelle designs completed successfully.

First Trent engine runs on schedule.

70,000lb thrust achieved - 5,000lb more than needed for 1993 entry into service - as first Trent test series is completed ahead of schedule.



The principal activities of Rolls-Royce plc are concentrated in the United Kingdom but major subsidiaries are located in Australasia, the USA, Canada, Brazil and southern Africa. In 1990 co-operative programmes with companies in other countries continued to be important to Rolls-Royce activities worldwide. During the year the Group entered several new agreements designed to further expand the business.

The Group strengthened its position in Europe by forming BMW Rolls-Royce GmbH, a joint venture company with BMW AG, which will participate in both the Rolls-Royce Trent and Tay programmes. The new company, which acquired all the existing aero engine interests and programmes of KHD AG, will also launch its own family of aero gas turbines in the 10-20,000lb thrust class.

A new company, Europea Microfusione Aerospaziali SpA, formed during 1990 between Rolls-Royce, Alfa Romeo Avio and Alenia with the assistance of an Italian government grant, will manufacture precision castings in a new factory in southern Italy. Rolls-Royce is taking a 33⅓% equity share in the company and will receive a fee for its technology.

Industria de Turbo Propulsores SA, the new industrial company formed last year in Spain, has now acquired a major overhaul facility in Madrid. It is also benefiting from government assistance in the construction of a new factory in northern Spain.

Rolls-Royce & Partners Finance Limited completed its first full year of operation during which it acquired equity shares in Aircraft Finance and Trading Limited and GPA Rols Limited. It also provided financing support to Rolls-Royce sales activities.

AERO GAS TURBINES CIVIL ENGINES

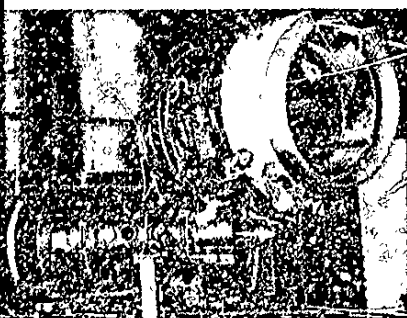
After the exceptional level of orders for new airliners through the whole industry in 1989, aircraft manufacturers were able to reduce delivery lead times as demand began to fall in 1990. Competition between manufacturers increased still further as defence workloads declined.

In this climate, winning new customers became even more important. Rolls-Royce made significant gains in all major markets, achieving a record order book with around 20% of civil engine orders worldwide.

High-thrust engines dominated the industry. The Rolls-Royce Trent, already the lead engine on the Airbus A330 and set to enter service on the McDonnell Douglas MD-11 in 1993, became the first aero engine to run at greater than 70,000lb take-off thrust. The Trent 800 is offered for the Boeing 777, the latest of the new generation of wide-bodied airliners, which was launched during 1990.

The RB211-524G/H completed a successful first year in service on the Boeing 747-400. British Airways, Qantas, Cathay Pacific and Air New Zealand all expanded

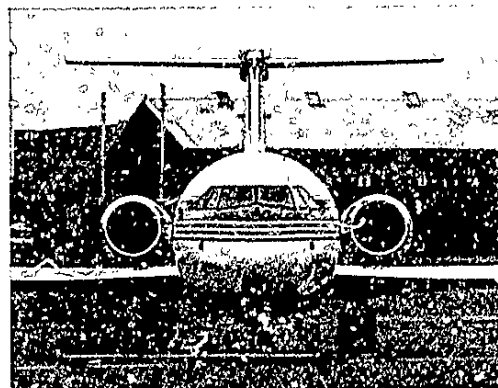
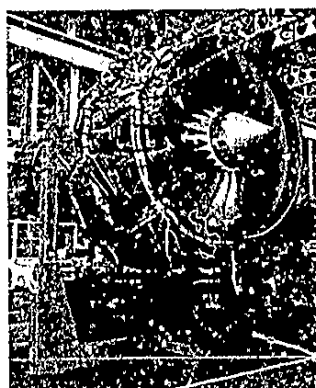
Opposite page (clockwise from top): First Trent engine is installed for test; metal spraying of engine components; Leading tester David Wilkins inspects the wide-chord fan; computer-aided design of Trent engine cowling; intermediate pressure compressor test rig.



Derby engine fitters Alan Pepper (left) and David Oliver inspect the 500th Tay engine prior to delivery. Behind them is the 2,000th RB211, also delivered during the year.

Right The success of the International Aero Engines V2500, seen here on the assembly line at Derby, has continued with further major orders in 1990.

Right The first aircraft to be re-engined with the Tay, this BAC One-Eleven, made its public debut at the Farnborough Airshow in September.



their fleets. The -524H also entered service on the Boeing 767-300 with British Airways.

The RB211-535 powered Boeing 757 was approved for 180-minute extended range operations (ETOPS) and the 535F5/15 derivative, which will provide substantial further improvements in fuel economy, was launched. Three-quarters of 757 operators have selected the 535 powerplant including Iberia of Spain which placed a major order in 1990. Avensa of Venezuela and Kenya Airways also became new customers. An agreement was signed with Tupolev of the USSR to install the engine in the twin-engined TU204. Orders and options for the 535 engine now exceed 1,100.

During its second year of service, orders for the International Aero Engines (IAE) V2500 engine, in which Rolls-Royce has a major share, have increased to over 1,550 engines to power Airbus A320 and A321 aircraft and the McDonnell Douglas MD-90. These orders are worth \$8 billion to IAE. Significant contributions to this position included Lufthansa's selection of the V2500 for 40 aircraft, which launched the V2500 in the A321. The selection of the V2500 by America West for A320 aircraft represented a substantial contribution to the total IAE order book.

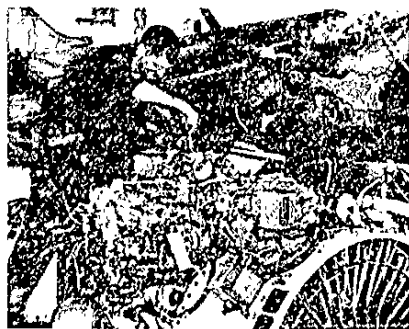
Re-engining older aircraft to meet Stage 3 noise regulations saw two major developments in 1990. United Parcel Service, the largest package carrier in the world, became the launch customer for a programme to re-engine the Boeing 727-100, which will be fitted with Tay 650 engines. The first BAC One-Eleven re-engined with the Tay made its maiden flight in the United States and, in September, its public debut at the Farnborough Air Show.

Tay engines passed the 500 production engines milestone as the Fokker 100 continued to sell steadily. TAM of Brazil became the engine's first customer in South America.

In the market for smaller engines, Williams-Rolls Inc received orders for the FJ44 turbofan for the Cessna CitationJet.

MILITARY ENGINES

1990 has been a year of extraordinary contrasts for the Military Engine Business. Political developments which culminated in the Conventional Forces, Europe (CFE) agreement in Europe, also saw the serious threat and outbreak of war in the Gulf. While European developments have encouraged new defence strategies and falling



The Harrier Pegasus engine has been in front line service for over 20 years. The latest H.141 version provides the US Marine Corps with more power at lower engine speeds.

Left: The Adour, which powers the BAe Hawk illustrated here, received 76 new orders in 1990.

defence budgets, the Gulf crisis placed levels of wartime demand on support for operational equipment.

Against this background, there have been some significant achievements. The uprated Pegasus with 20% more thrust in the Harrier AV8B entered service with the US Marine Corps. The US, Italian and Spanish governments have agreed to develop a new version of the aircraft with an advanced radar which will also use this engine.

The Adour 871, chosen for new sales of the Hawk and the US Navy T-45 trainer, has received its certificate of airworthiness. The Adour received 76 new orders, with a further 32 expected for Hawk sales to Malaysia announced in December. Adour sales to the Republic of Korea, now also receiving its first Gem-powered Lynx helicopters, represent a significant breakthrough into a growing market hitherto served only by US products.

The first Viper 680 engines destined for the Royal New Zealand Air Force were delivered to Macchi in Italy for installation on the MB.339 trainer aircraft.

Confirmed as the Royal Navy's engine choice for the EH101 anti-submarine helicopter, the RTM322 turboshaft achieved certification in August.

ENGINE REPAIR

The repair and overhaul business continues to be important to the Company and, reflecting this, activities in the after-sales market have been consolidated into a single accountable unit. Several significant contracts were won from the British Ministry of Defence. With recent contracts for RB211 overhaul, Rolls-Royce is the market leader for repair and overhaul work on all its major engine types.

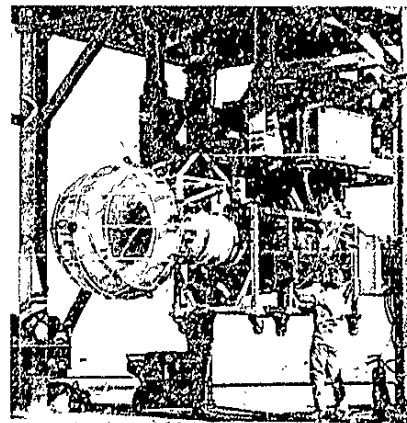
SUPPLY

The Company's confidence in its pioneering wide-chord fan blades is now vindicated by more than 3 million operating hours since their service introduction in 1984. Investment at Barnoldswick has continued in 1990 with the acquisition of further new equipment for the unique blade manufacture process.

Further technological advances are being incorporated into the next generation of blades for the high thrust Trent family of aero engines. Such investment ensures that the company maintains and enhances its lead in fan technology.

The Company continues to develop its UK production facilities into manufacturing cells and generic 'product families' with significant improvements in efficiency, inventory and unit cost being realised. Fifty cells were complete and operating by the end of 1990.

Rolls-Royce's worldwide product support network ensures that all customers - such as this Middle East air force - receive a total quality service in the field.

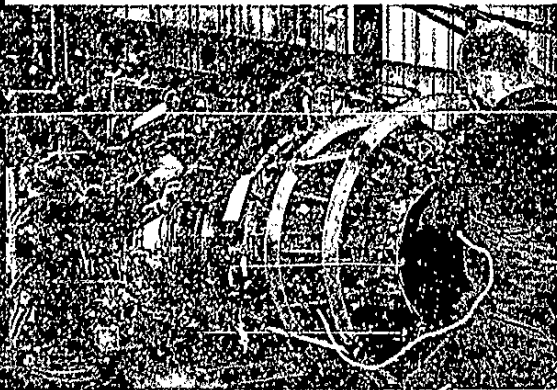


The Ministry of Defence has confirmed the Rolls-Royce Turbomeca RTM322 engine as its choice for the Royal Navy's EH101 helicopter. Here, foreman Stan Kram shows some of the engine's features to engineering apprentice Claire Webb.

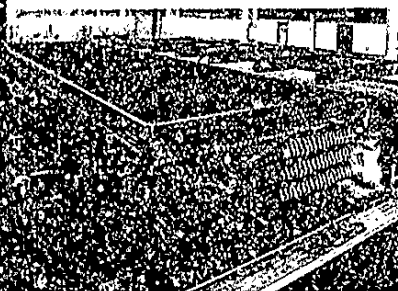


Opposite page: The Trent turbofan engine, the first of its kind, has achieved a thrust of 70,000lb, comfortably above the thrust required for initial entry into service. Versions of the Trent are on offer which will take the thrust to 85,000lb and above, with very competitive levels of overall performance.

Boisot little: Steve Morgan (left) and Steve Wright prepare an EJ200 for test. This engine, for the new European Fighter Aircraft, continues its highly successful development programme.



NEI International Combustion received further orders for its boiler technology. Working on a heat recovery module for the latest generation of combined cycle power stations are Percy Bacon (left) and Satpal Singh Dhanjal.



RESEARCH AND DEVELOPMENT

Undoubtedly the highlight of the year was the successful test programme and first run of the Trent civil turbofan engine which has achieved, or exceeded, all the objectives set for it. When the first series of tests ended, two months ahead of schedule, the engine had also become the first turbofan to achieve a thrust of 70,000lb, comfortably above the thrust required for initial entry into service. Versions of the Trent are on offer which will take the thrust to 85,000lb and above, with very competitive levels of overall performance.

Intensive performance refinement programmes on the RB211-524G and RB211-535 engines have recorded excellent levels of in-flight fuel consumption with further improvement expected in 1991/2. Development work also continues to provide thrust growth for the V2500 engine in support of the A321 and MD-90 aircraft.

The autumn of 1990 saw the full scale development version of the EJ200 engine for the European Fighter Aircraft (EFA) running to production performance levels and confirming the excellent results achieved on earlier tests.

Advanced engineering programmes have made good progress in 1990 including engine demonstration of low-emissions combustion and advanced single-crystal and ceramic composite materials. There have also been encouraging results on innovative alloy technologies and manufacturing processes, contrafans and advanced computational methods. A CRAY vector processor has been installed, together with new workstations, to facilitate interactive working.

POWER ENGINEERING

ENERGY CONVERSION

The Rihand Super Thermal Power Project in Uttar Pradesh, India, was virtually completed in 1990, with each of the two generating units producing 500MW of power. NEI Power Projects has been responsible for engineering and managing the entire contract to produce 1000MW of much-needed power for the Indian National Grid. More than 110,000 tonnes of equipment, mostly produced in NEI factories, has been shipped from the United Kingdom.

NEI ABB Gas Turbines Limited, the joint venture between NEI and Asea Brown Boveri, formed at the beginning of 1990, won its first big UK contract in July. The £250 million order, for a 650MW combined cycle power station for National Power at Killingholme on Humberside, represents a breakthrough into a new and expanding market.

The development of combined cycle power stations has also created excellent business opportunities for NEI International Combustion, which won a £50 million contract to supply all eight waste heat boilers for the Enron Power Corporation's 1725MW station at Wilton on Teesside. The receipt of a £20 million order for the three boilers at Killingholme is further evidence of NEI International Combustion's expertise in large-scale waste heat transfer systems.

Overseas, NEI Parsons won a £70 million order to convert an existing open cycle gas turbine power station to the new and more efficient technology at



RIHAND SUPER THERMAL POWER PROJECT

A complete 1000MW coal-fired power station on the south shore of Lake Rihand, Uttar Pradesh, India. NEI Power Projects is engineer and project-manage the entire contract.

110,000 tonnes of equipment shipped from United Kingdom and erected on greenfield site 250km from nearest telecommunications centre at Varanasi.

Construction virtually complete. First 500MW generating unit produces commercial load.

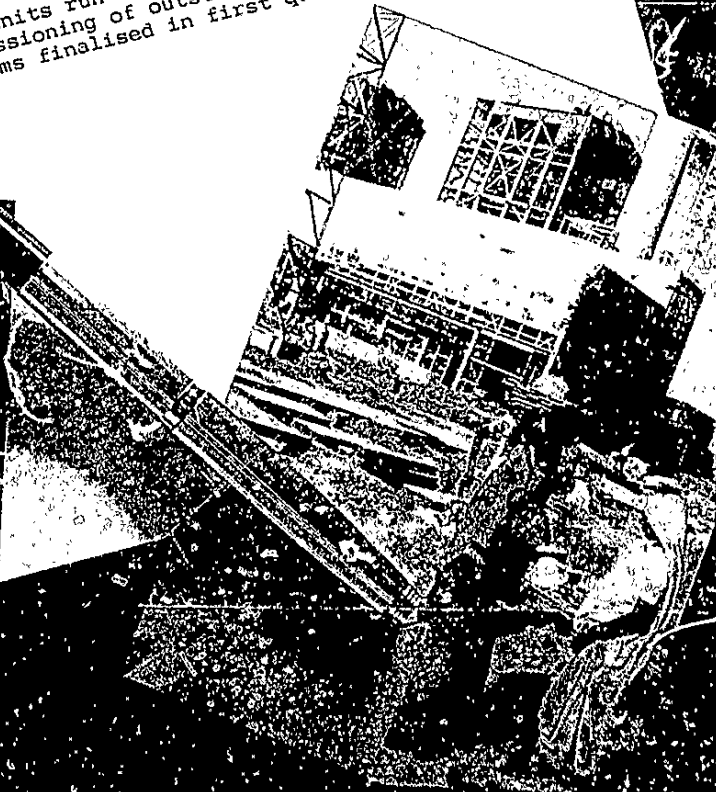
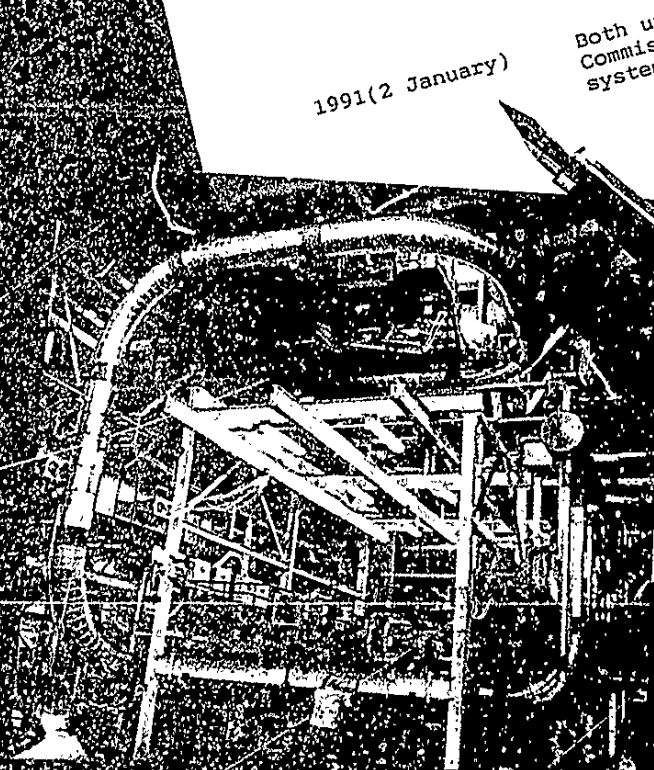
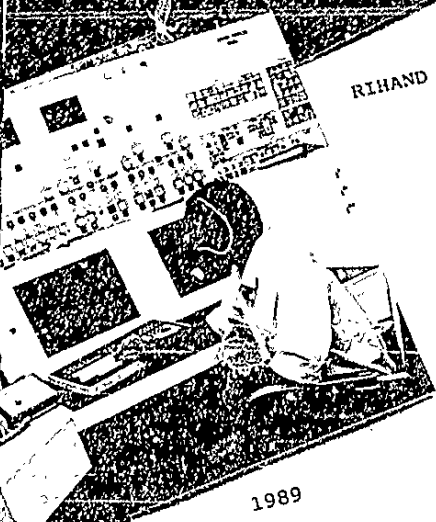
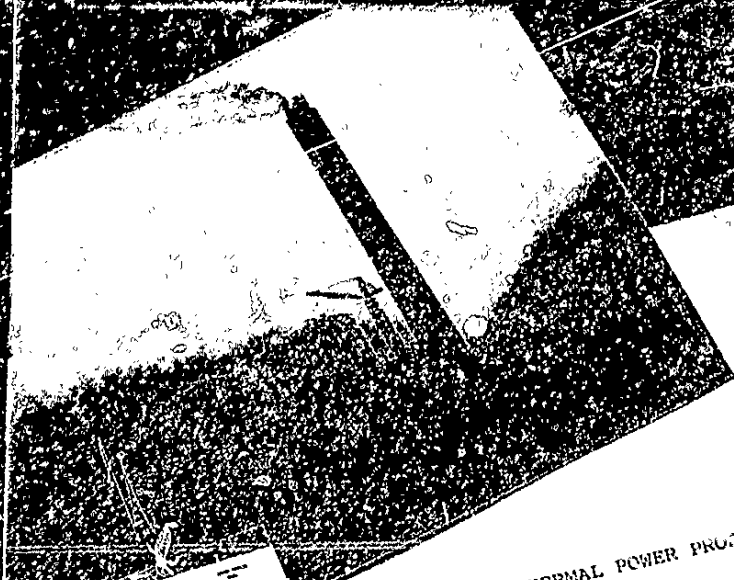
First unit exceeds all expectation in terms of availability and load factor. Second unit brought into successful operation.

Both units run at full load together. Commissioning of outstanding ancillary systems finalised in first quarter of 1991.

1991(2 January)

1989

1990



Connaught Bridge in Malaysia. NEI ABB has also won other Malaysian contracts for gas turbine power plant.

TRANSMISSION AND DISTRIBUTION

NEI Reyrolle continued to demonstrate its leadership in extra-high-voltage gas-insulated switchgear with further orders in 1990 for equipment in the 380-525kV range. Saudi Consolidated Electric Company placed a £25 million order for a new substation and extensions to three existing Reyrolle-built substations. In the UK, the National Grid Company ordered a new £37 million 400kV substation for Killingholme. This will include a micro-processor-based co-ordinated control system – the first of its kind in the country.

Right NEI Reyrolle built this electricity substation for the Saudi Consolidated Electric Company, one of three for which extensions were ordered in 1990.

Far right Testers Walter Cann (foreground) and Terence Daggan prepare NEI Reyrolle gas-insulated switchgear for despatch.



NUCLEAR ENGINEERING

Although support activities to the Royal Navy's submarine fleet have been running at a high level, the Company expects the British Government review of defence expenditure to reduce the number of nuclear-powered submarines in service. This, together with a delay in ordering the next class of submarines, has resulted in a significant reduction in nuclear component manufacture. However, opportunities for the decommissioning and disposal of time-expired plant are being actively pursued.

As the British Ministry of Defence seeks to subcontract more work, Rolls-Royce has used its experience of managing high technology facilities, such as the prototype reactor plants at Dounreay, Scotland, to bid for the management of other facilities and projects.

INDUSTRIAL AND MARINE

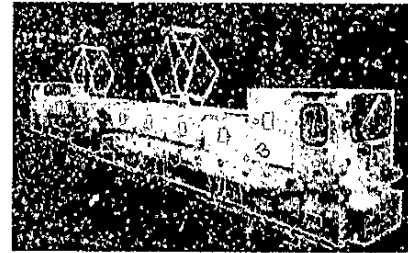
The strong level of business in the oil and gas sector continued, with orders being received for 31 gas turbines. Engineering work continued to increase the power of the RB211 whilst reducing exhaust emissions and a record number of units was delivered. Avon units already fitted with environmental safeguards performed well in service and this highly successful engine has now achieved more than 25 million hours in operation.

Early in 1990 the Spey SM1C, the most powerful version yet of this successful marine propulsion system, entered service in HMS *Brave*. The engine has been the subject of keen interest from the Japanese Defence Agency and also from the operators of civilian passenger ferries worldwide, who recognise its potential for the new fast twin-hull designs.

GENERAL ENGINEERING

MINING EQUIPMENT

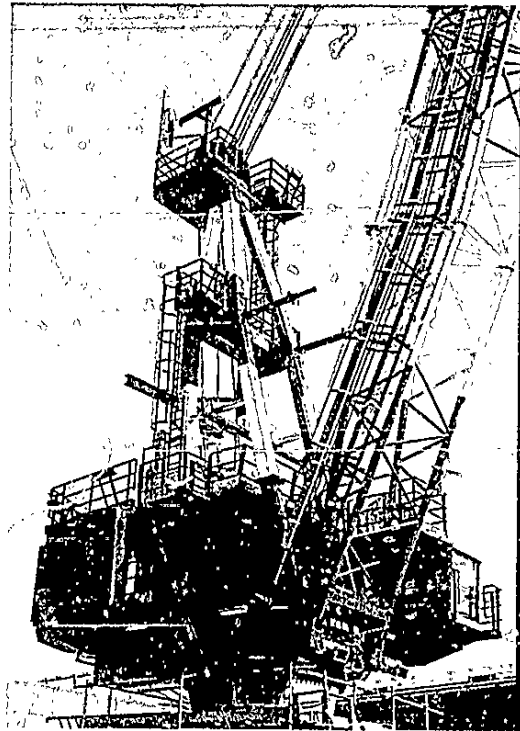
Significant orders for specialised transport systems for newly developed mines in Shanxi province are the reward for years of sustained effort in the Chinese coal mining market. Fourteen Clayton 12.5 tonne electric trolley locomotives are to be supplied for hauling coal trains, along with six sets of Becorit diesel-hydraulic locomotive-hauled monorail transport systems.



DOCK, HARBOUR AND MARINE EQUIPMENT

NEI dominance in the offshore crane market was demonstrated as further orders were received for BP North Sea production and drilling platforms in the Bruce Field. Combining sophisticated features, such as wave motion compensation, with the reliability and ruggedness required for offshore operation, these cranes have earned an enviable reputation for service in extreme conditions.

NEI Clarke Chapman experience in the manufacture and installation of bulk ore unloading equipment won orders for a 2,600 tonne/hour machine of the grab type for British Steel at Port Talbot, and for a 1,000 tonne/hour pneumatic machine, to discharge alumina and petroleum coke at the Port-de-Sept-Isle smelter in Quebec. In addition a substantial order was received for jib cranes for the large drydock facility in Dubai.



ENVIRONMENTAL PROTECTION

Rolls-Royce initiatives to reduce the environmental impact of its products and manufacturing facilities received recognition in 1990 as both the Aerospace Group and NEI International Combustion received Queen's Awards for Technology.

Rolls-Royce state-of-the-art technology has drastically reduced the noise of new aero engines, while NEI International Combustion gained its award for its work in minimising the emission of nitrogen oxides (NOx) – a major constituent of acid rain – from power stations. Low NOx combustion systems have been supplied for coal and oil-fired power stations in Britain, the USA, Brazil and Sweden.

Top Fourteen Clayton 12.5 tonne mining locomotives are being supplied to China.

Above An offshore crane for the North Sea Bruce Field under test at NEI Clarke Chapman on Tyneside.



The directors have pleasure in presenting the summary financial statement of the Group for the year ended December 31, 1990.

This summary financial statement does not contain sufficient information to allow for a full understanding of the results of the Group and state of affairs of the Company or of the Group. The Companies Act 1985 gives members the right to receive, free of charge, a copy of the full annual accounts, the auditors' report on those accounts and the directors' report, enclosed this year under the title 'Directors' Report and Accounts'. In future we will send you this summary financial statement only, unless you ask for the Directors' Report and Accounts as well. You may do this by filling in and returning the slip at the bottom of the Chairman's covering letter.

Full accounts for the year ended December 31, 1989 have been filed with the Registrar of Companies. The full accounts for the year ended December 31, 1990 will be presented to the shareholders at the forthcoming annual general meeting and accordingly have not yet been delivered to the Registrar of Companies.

The auditors' report on the annual accounts of the Group was unqualified and did not contain a statement under either S237(2) of the Companies Act 1985 (accounting records or returns inadequate or accounts not agreeing with records and returns) or S237(3) (failure to obtain necessary information and explanations).

The Chairman's Statement (pages 2-3) and the Review of Activities (pages 4-11) give information relating to the year's operations, research and development activities and future prospects.

The directors described on page 12 were in office throughout 1990, no new appointments to, or resignations from, the Board occurred during the year. The aggregate emoluments, including pension contributions, of the directors of the Company for the year ended December 31, 1990 were £1,500,352 (1989 £1,268,892). Excluding pension contributions, the emoluments of the Chairman were £180,064 (1989 £119,335) and the emoluments of the highest paid director were £249,177 (1989 £196,757).

REPORT OF THE AUDITORS

KPMG Peat Marwick McLintock

To the Members of Rolls-Royce plc

In our opinion the summary financial statement set out on pages 13-15 is consistent with the annual accounts and directors' report of Rolls-Royce plc for the year ended December 31, 1990 and complies with the requirements of section 251 of the Companies Act 1985 and the regulations made thereunder.

KPMG Peat Marwick McLintock
Chartered Accountants

London
March 6, 1991

KPMG Peat Marwick McLintock

SUMMARY GROUP PROFIT AND LOSS ACCOUNT

for the year ended December 31, 1990

	1990 £m	1989 £m
<i>Turnover</i>	3,670	2,962
<i>Operating profit</i>	468	383
Research and development (net)	(237)	(161)
Income from interests in associated undertakings	2	—
Net interest (payable) receivable	(7)	15
<i>Profit on ordinary activities before exceptional items and taxation</i>	226	237
Exceptional items*	(50)	(4)
<i>Profit on ordinary activities before taxation</i>	176	233
Taxation	(36)	(36)
<i>Profit on ordinary activities after taxation</i>	140	197
Attributable to minority interests in subsidiary undertakings	(6)	(5)
<i>Profit attributable to the shareholders of Rolls-Royce plc</i>	134	192
Dividends - interim paid 2.55p (1989 2.3p) per share	(24)	(22)
- final proposed 4.7p (1989 4.7p) per share	(45)	(45)
<i>Retained profit for the year</i>	65	125
<i>Earnings per ordinary share</i>		
Net basis	13.9p	21.3p
Net basis before exceptional items	19.1p	21.8p

*A provision of £50m has been made to cover restructuring costs and to provide for uncertainties faced by customer airlines.

ANALYSIS BY BUSINESS SEGMENT

	Turnover		Profit	
	1990 £m	1989 £m	1990 £m	1989 £m
Aero Gas Turbines**	2,340	2,054	74	147
Power Engineering	976	674	82	52
General Engineering	354	234	27	19
	3,670	2,962	183	218

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

**The exceptional items of £50m (1989 £4m) have been charged against Aero Gas Turbines' results.

SUMMARY GROUP BALANCE SHEET

15

at December 31, 1990

	1990	1989
	£m	£m
Fixed assets		
Tangible assets	676	658
Investments	36	25
	712	683
Current assets		
Stocks	888	754
Debtors	816	749
Short-term deposits and cash	431	407
	2,135	1,910
Creditors - amounts falling due within one year		
Borrowings	(100)	(52)
Other creditors	(1,074)	(939)
Net current assets	961	919
Total assets less current liabilities	1,673	1,602
Creditors - amounts falling due after one year		
Borrowings	(161)	(162)
Other creditors	(127)	(68)
Provisions for liabilities and charges	(183)	(173)
	1,202	1,199
Capital and reserves		
Called up share capital	192	192
Share premium account	239	238
Revaluation reserve	132	135
Other reserve	22	28
Profit and loss account	579	533
Shareholders' funds	1,164	1,126
Minority interests in subsidiary undertakings	38	73
	1,202	1,199

Lord Tombs of Brailes
P.F. Macfarlane

} Directors

March 6, 1991

Tombs
P.F. Macfarlane

PROFIT AND LOSS ACCOUNT

	1990	1989	1988	1987	1986
	£m	£m	£m	£m	£m
Turnover	3,670	2,962	1,973	2,059	1,802
Operating profit	468	383	333	354	276
Research and development (net)	(237)	(161)	(149)	(187)	(132)
Income from interests in associated undertakings	2	—	—	—	—
Net interest (payable) receivable	(7)	15	13	(4)	(21)
Profit before exceptional items and taxation	226	237	197	163	123
Exceptional items*	(50)	(4)	(29)	(7)	(3)
Profit on ordinary activities before taxation	176	233	168	156	120
Taxation	(36)	(36)	(22)	(21)	1
Profit on ordinary activities after taxation	140	197	146	135	121
Attributable to minority interests in subsidiary undertakings	(6)	(5)	(1)	(1)	(1)
Profit attributable to the shareholders	134	192	145	134	120
Dividends	(69)	(67)	(50)	(42)	—
Retained profit for the year	65	125	95	92	120
Earnings per ordinary share					
Net basis	13.9p	21.3p	18.1p	18.2p	18.9p
Net basis before exceptional items	19.1p	21.8p	21.7p	19.1p	19.4p
Dividends per ordinary share	7.25p	7.0p	6.3p	5.25p	—

BALANCE SHEET

Fixed assets	712	683	473	438	405
Current assets	2,135	1,910	1,309	1,106	940
	2,847	2,593	1,782	1,544	1,345
Liabilities and provisions	(1,645)	(1,394)	(830)	(685)	(833)
	1,202	1,199	952	859	512
Share capital	192	192	160	160	127
Reserves	972	934	789	695	380
Shareholders' funds	1,164	1,126	949	855	507
Minority interests in subsidiary undertakings	38	73	3	4	5
	1,202	1,199	952	859	512

OTHER FINANCIAL INFORMATION

Research and development (gross)	480	343	304	328	299
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*In 1990 an exceptional provision of £50m has been made to cover restructuring costs and to provide for uncertainties faced by customer airlines.

FINANCIAL CALENDAR

Qualifying date for final dividend	March 21, 1991
Annual General Meeting	May 28, 1991
Payment of final/script dividend	July 15, 1991
Press advertisement of 1991 Interim Results*	September 13, 1991
Ex dividend date for interim dividend	September 16, 1991
Calculation period for script dividend	September 16-20, 1991
Qualifying date for interim dividend	October 4, 1991
Financial year end	December 31, 1991
Payment of interim/script dividend	January 6, 1992
Press advertisement of 1991 Preliminary Results*	March, 1992
1991 Annual Report published	April, 1992

* Preliminary and Interim Results are notified by press advertisement only

ANALYSIS OF ORDINARY SHAREHOLDERS AT DECEMBER 31, 1990

Size of holding	Number of holdings	% of total holdings	% of total shares
1-150	454,905	71.07	7.06
151-1,000	158,038	24.69	5.40
1,001-10,000	24,877	3.89	6.39
10,001-100,000	1,513	0.24	5.52
100,001-1,000,000	560	0.09	19.06
1,000,001 and over	162	0.02	56.57
	640,055	100.00	100.00

You can obtain the current market price of the Company's shares by telephoning 0839 500 232.

If you have any queries about your shareholding please write to or telephone the Registrar.

Registrar:
National Westminster Bank PLC
Registrar's Department
PO Box 82
Caxton House
Redcliffe Way
Bristol BS99 7NH
Telephone: 0272-306600

Rolls-Royce plc will hold its Annual General Meeting at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1 on Tuesday May 28, 1991 at 11.30 am for the following purposes:

1. To receive the Report of the Directors and the audited accounts for the year ended December 31, 1990 and to declare a dividend.
2. To re-elect Dr G. R. Higginson as a director.
3. To re-elect Mr S. C. Miller as a director.
4. To re-elect Sir Ralph Robins as a director.
5. To re-elect Mr F. Turner as a director.
6. To reappoint KPMG Peat Marwick McLintock as auditors to the Company and to authorise the directors in their absolute discretion to fix the auditors' remuneration.
7. To consider and, if thought fit, to pass the following as a special resolution:

That the Company empowers its directors to allot equity securities, as defined in Section 94 of the Companies Act 1985, for cash as if Section 89 (1) of the Act did not apply. This power shall be limited to:

- (1) allotting shares on a rights issue to holders of ordinary shares, so that the number of shares allotted to them is in proportion (as nearly as possible) to the number of ordinary shares already held. The directors may deal as they see fit with fractional entitlements and with legal or practical problems or the requirements of any regulatory body or stock exchange; and
- (2) allotting equity securities (other than under sub-paragraph (1)) up to a total nominal amount of £9,609,036. This amount represents five per cent of the Company's issued share capital.

The power shall expire on August 27, 1992 or the conclusion of the next Annual General Meeting, whichever is earlier.

The Company may make an offer or enter an agreement before this expiry date which will or may require the directors to allot equity securities on the Company's behalf after that expiry date and in these circumstances the directors shall have the power to allot such equity securities.

8. To consider and, if thought fit, to pass the following as a special resolution:

That the Company amends its Articles of Association as follows

- 8.1 by inserting the following definition in Article 2
" "subsidiary undertaking" the meaning set out in section 258 of the Act;"
- 8.2 in Article 74 by deleting, wherever they appear, the references to "subsidiary", "subsidiaries" or "subsidiary companies" and substituting "subsidiary undertaking" or "subsidiary undertakings" as appropriate.
- 8.3 by inserting the following new sub-paragraph in Article 102(B)
"(vi) any proposal concerning any insurance which the Company has the power to purchase or maintain for or for the benefit of any directors of the Company or persons who include directors of the Company."

84 by redesignating Article 111 as Article 111(A) and by inserting the following new paragraph:

"111(B) With the prior sanction of an ordinary resolution, the directors may offer extra shares to shareholders as an alternative to any dividend or dividends which the resolution specifies. These extra shares will be known as a "scrip dividend".

111(C) Each shareholder who chooses a scrip dividend will be allotted the number of shares which, at the Relevant Value, are worth an amount as close as possible to, but no more than, the cash dividend that the shareholder would have received, exclusive of any imputed tax credit. "Relevant Value" means the average of the middle market quotations for the Company's shares on The Stock Exchange taken from the Daily Official List for a day chosen by the directors and the four business days immediately following.

111(D) The directors shall not allot fractions of shares. The board may make whatever arrangements they think fit to deal with fractional entitlements that would otherwise arise. These arrangements may include (i) provisions under which the whole or part of the benefit of fractional entitlements is kept for the Company and/or (ii) provisions under which fractional entitlements are accumulated on behalf of a shareholder, and applied in allotting bonus shares to that shareholder or subscribing cash for shares on behalf of that shareholder, and/or (iii) provision for cash payments to be made to shareholders in respect of their fractional entitlements.

111(E) The full cash dividend will not become payable to shareholders who validly choose the scrip dividend. Instead, extra shares will be allotted to such shareholders in accordance with Article 111(C). For this purpose the directors shall set aside a sum equal to the total nominal amount of the additional shares to be allotted from sums credited to the Company's reserves, its share premium account or its profit and loss account. The directors shall apply this sum to pay up the relevant number of shares for allotment and distribution to such shareholders. When allotted, these shares shall rank on equal terms with the existing issued shares (except for the right to receive the relevant cash dividend).

111(F) The directors may on any occasion decide not to make the right to choose a scrip dividend available to shareholders or any category of shareholders in any territory where:

- 1) the offer of such a right would or might be unlawful, or
- 2) the directors consider that compliance with local laws or regulations would be onerous.

In these cases the provisions of this Article shall be subject to such decisions.

111(G) The directors shall have the power to do anything which they think fit to put this Article into effect."

8.5 In Article 120 by:

- 8.5.1 inserting the words "or (where the Acts or any applicable regulations allow, and if the directors so resolve) a copy of a summary financial statement instead of such balance sheet and profit and loss account" after the words "every balance sheet and profit and loss account" in line one;
- 8.5.2 inserting the words "or this statement" after the words "these documents" wherever they appear in the Article;
- 8.5.3 inserting the words "or this statement" after the words "such documents" in line 16.

9. To consider and, if thought fit, to pass the following as an ordinary resolution:

That, if the Company passes resolution 8, the Company:

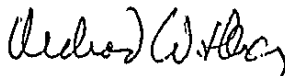
- 9.1 authorises the directors to exercise the power contained in the Articles of Association to allow the shareholders to choose to receive new fully paid ordinary shares of 20p each credited as fully paid on the basis determined by the directors in accordance with the Articles of Association, instead of any dividend payable or declared for any period ending on or before December 31, 1995.
- 9.2 authorises the directors to capitalise the nominal amount of the extra shares which shareholders choose to receive out of the sums standing to the credit of the Company's reserves, its share premium account or its profit and loss account, to apply that sum to pay up in full the appropriate number of unissued shares, and to allot these shares to the shareholders who have validly chosen to receive them.

By order of the Board

Richard W. Henschley

Secretary

April 3, 1991



NOTES:

- (1) Members entitled to attend and vote at the meeting may appoint one or more proxies to attend and, on a poll, to vote instead of them. A proxy need not be a member of the Company. Appointing a proxy will not preclude members from attending and voting at the meeting if they later decide to do so.
- (2) Members must lodge proxy forms with the Registrar not less than 48 hours before the time fixed for holding the meeting for them to be effective. The address of the Registrar is on page 17 of this Report.
- (3) Members may inspect the register of directors' interests in shares of the Company and the directors' contracts of service. Members may do this from the date of this notice until the date of the meeting at the Company's registered office during normal business hours and from 10.00 am on the date and at the place of the meeting until it closes.

The Annual General Meeting is a meeting of shareholders which the Company must hold each year. This year there are nine resolutions which the Company will ask the shareholders to approve.

Resolution 1: To receive the report and accounts and declare a dividend

The directors will present the Report of the Directors and the audited accounts for 1990 to the meeting. The Company paid an interim dividend on December 3, 1990. However the shareholders must declare the final dividend, which cannot exceed the amount the directors recommend on page 1 of the Report of the Directors. If approved, the Company will pay this final dividend on July 15, 1991.

Resolutions 2 to 5: Re-election of directors

Under the Company's Articles of Association some of the directors must retire by rotation each year. They may seek re-election.

The four directors who retire this year, Dr. G.R. Higginson, Mr. S.C. Miller, Sir Ralph Robins and Mr. F. Turner, seek re-election. Page 12 gives information on these directors.

Resolution 6: Reappointment and remuneration of auditors

A resolution to reappoint KPMG Peat Marwick McLintock as the Company's auditors will be proposed.

Resolution 7: Limited authority to allot shares

Any shares which the Company offers for cash it must generally offer first to shareholders in proportion to their existing shareholdings. This is the 'pre-emption right' of shareholders. Resolution 7 is a special resolution to renew the existing authority, which expires at the end of the 1991 Annual General Meeting, to exclude this statutory pre-emption right to a limited extent. The resolution would enable the directors to allot shares for cash, other than proportionately to existing shareholders, over the period until the 1992 Annual General Meeting, or August 27, 1992 if earlier. The maximum allotment would be £9,609,036, which is 5% of the Company's issued share capital. The resolution follows Stock Exchange guidelines. The resolution also allows the directors to allot shares for cash by rights issue. The directors consider that this limited exclusion of Section 89 of the Companies Act 1985 will provide a desirable degree of flexibility to take advantage of business opportunities as they arise.

Resolution 8: Amendments to Articles of Association

The proposed amendment to Article 2 adds the new Companies Act 1989 definition of "subsidiary undertaking". In Article 74 ("Borrowing Powers") "subsidiary" is replaced by "subsidiary undertaking" which is the term now used in the Company's accounts.

The proposed amendment to Article 102 will allow the directors to vote on proposals concerning insurance policies which are for the directors' benefit.

The proposed amendment to Article 111 will allow the Company to offer shareholders the opportunity to receive their dividends in fully paid shares rather than cash. This is known as a 'scrip dividend alternative'. A separate circular is enclosed explaining this in more detail.

The proposed amendments to Article 120 will enable the Company to issue summarised financial accounts in accordance with the Companies Act 1989. It will allow the directors to send shareholders, if they agree, a summary financial statement rather than a copy of the full annual accounts and directors' report.

Resolution 9: Scrip dividend

In line with the amendments to Article 111, resolution 9 seeks approval to allow the directors to offer a scrip dividend alternative for any dividend declared for any period ending on or before December 31, 1995.

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