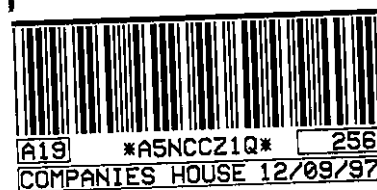


ROLLS-ROYCE & PARTNERS FINANCE LIMITED

ANNUAL REPORT 1996

(Registered Number : 2159897)



DIRECTORS' REPORT

The Directors present their Annual Report and the audited Financial Statements for the year ended 31 December 1996.

REVIEW OF THE BUSINESS

The Group's business involves the leasing of commercial jet engines and spare parts. The Group started the year with a portfolio of 49 engines. During 1996 the Group acquired 11 engines while it disposed of 4, closing the year with a portfolio of 56 engines including 8 on finance leases to airlines.

Both the level of business and the year end financial position were satisfactory and the directors expect that the present level of activity will be sustained for the foreseeable future.

FINANCIAL REVIEW

Results

The profit before taxation of the Company and its subsidiaries was US\$12,023,000 (1995 US\$9,714,000).

Proposed Transfer to Reserves and Payment of Dividend

The proposed transfer to reserves is US\$8,087,000 (1995 US\$4,874,000). The Directors do not recommend the payment of a dividend (1995 nil).

DIRECTORS

The Directors who held office throughout the period, were as follows:

Director

M Townsend (Chairman)

W T Powers

M A Cowdry

DIRECTORS' INTERESTS

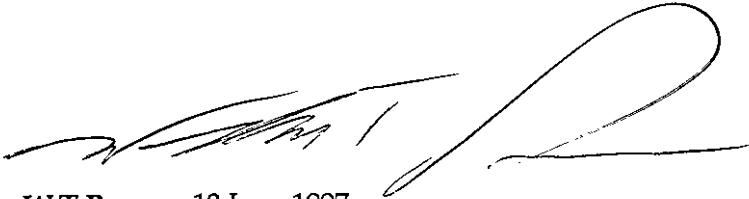
None of the directors, or their immediate family, had any beneficial interest in the shares of the Company during the year. The beneficial interest of directors holding office at 31 December 1996, including immediate family, in the ordinary share capital of Rolls-Royce plc are as follows.

| | <u>Holdings</u> | | | <u>Options</u> | | |
|----------|-----------------|----------|----------|----------------|-----------|----------|
| | 31.12.95 | 31.12.96 | 31.12.95 | Granted | Exercised | 31.12.96 |
| W Powers | - | - | 59,659 | - | - | 59,659 |
| M Cowdry | - | - | 59,650 | - | - | 59,650 |

The interests of Mr M Townsend in the share capital of other companies in the same group are contained in the report of the directors of the ultimate parent company, Rolls-Royce plc.

Approved by the Board

Signed on its behalf by:-

A handwritten signature in black ink, appearing to read 'W T Powers', followed by a large, stylized flourish or '2'.

W T Powers, 13 June 1997
65 Buckingham Gate, London SW1E 6AT

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

**AUDITOR'S REPORT TO THE MEMBERS
OF ROLLS-ROYCE & PARTNERS FINANCE LIMITED**

We have audited the Financial Statements on pages 6 to 21.

Respective Responsibilities of Directors and Auditors

As described on page 4 the Company's Directors are responsible for the preparation of Financial Statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of Opinion

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

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

Opinion

In our opinion the Financial Statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 1996 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

8 Salisbury Square
Blackfriars
LONDON
EC4Y 8BB

27 June 1997

GROUP PROFIT AND LOSS ACCOUNT
For the year ended 31 December 1996

| | Notes | 1996 US\$000 | 1995 US\$000 |
|--|-------|-----------------|-----------------|
| Turnover | 2 | 30,711 | 27,336 |
| Cost of Sales | | (13,692) | (11,932) |
| Gross Profit | | 17,019 | 15,404 |
| General and administrative costs | | (3,660) | (4,186) |
| Operating Profit | | 13,359 | 11,218 |
| Net interest payable | 4 | (2,352) | (4,527) |
| Share of profits of associated undertakings | | 1,016 | 3,023 |
| Profit on Ordinary Activities before Taxation | 3 | 12,023 | 9,714 |
| Taxation | 7 | (3,936) | (4,840) |
| Retained profit for the financial year | 17 | 8,087 | 4,874 |

The notes on pages 9 to 21 form part of these Financial Statements.

All the results have been derived from continuing activities.

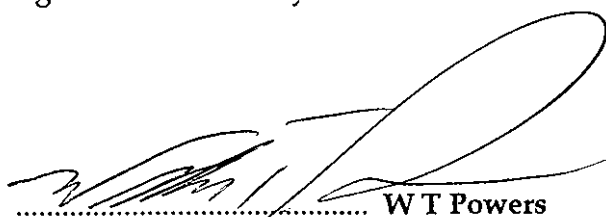
As permitted by the Companies Act 1985, a separate profit and loss account for the Company has not been included in these financial statements. Of the Group "retained profit for the financial year" a (loss)/profit of \$(5,461,000) (1995 \$481,000) has been dealt with in the profit and loss account of the Company.

BALANCE SHEETS
As At 31 December 1996

| | Notes | GROUP | | COMPANY | |
|--|-------|-----------------|-----------------------------|-----------------|-----------------------------|
| | | 1996 US\$000 | Restated 1995 US\$000 | 1996 US\$000 | Restated 1995 US\$000 |
| Fixed Assets | | | | | |
| Tangible Assets | 8 | 118,906 | 125,150 | 32,776 | 14,537 |
| Investments - subsidiary undertakings | 9 | - | - | 2,770 | 2,770 |
| - associated undertakings | 10 | 13,093 | 14,295 | 13,951 | 13,926 |
| | | <u>131,999</u> | <u>139,445</u> | <u>49,497</u> | <u>31,233</u> |
| Current Assets | | | | | |
| Stock | | 55 | 55 | 55 | 55 |
| Debtors - amounts falling due within one year | 11 | 29,472 | 9,312 | 74,599 | 95,913 |
| Debtors - amounts falling due after one year | 12 | 4,031 | 4,806 | 434 | 759 |
| Cash at bank and in hand | | 767 | 7,516 | 29 | 4,615 |
| | | <u>34,325</u> | <u>21,689</u> | <u>75,117</u> | <u>101,342</u> |
| Creditors - amounts falling due within one year | 13 | <u>(59,420)</u> | <u>(75,831)</u> | <u>(70,498)</u> | <u>(84,612)</u> |
| Net Current Assets / (Liabilities) | | <u>(25,095)</u> | <u>(54,142)</u> | <u>4,619</u> | <u>16,730</u> |
| Total Assets less current liabilities | | 106,904 | 85,303 | 54,116 | 47,963 |
| Creditors - amounts falling due after one year | 14 | <u>(29,497)</u> | <u>(18,762)</u> | <u>(14,725)</u> | <u>(4,594)</u> |
| Provisions for Liabilities and Charges | 15 | <u>(12,973)</u> | <u>(10,235)</u> | <u>(1,823)</u> | <u>(340)</u> |
| Net Assets | | <u>64,434</u> | <u>56,306</u> | <u>37,568</u> | <u>43,029</u> |
| Capital and Reserves | | | | | |
| Called up share capital | 16 | 42,708 | 42,708 | 42,708 | 42,708 |
| Profit and Loss account | 17 | 21,726 | 13,598 | (5,140) | 321 |
| Equity Shareholders' Funds | | <u>64,434</u> | <u>56,306</u> | <u>37,568</u> | <u>43,029</u> |

The balance sheet has been restated to include maintenance reserves in creditors. See note 14.

The Financial Statements were approved by the Board of Directors on 13 June 1997 and were signed on its behalf by:


..... **W T Powers**

The notes on pages 9 to 21 form part of these Financial Statements.

**GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 1996**

| | 1996 US\$000 | 1995 US\$000 |
|--|-----------------|-----------------|
| Profit for the financial year | 8,087 | 4,874 |
| Intangible assets written off | - | (3,376) |
| Exchange adjustments on foreign currency net investments | 41 | - |
| Total recognised gains and (losses) for the year | 8,128 | 1,498 |

**RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS
FOR THE YEAR ENDED 31 DECEMBER 1996**

| | GROUP | | COMPANY | |
|---|-----------------|-----------------|-----------------|-----------------|
| | 1996 US\$000 | 1995 US\$000 | 1996 US\$000 | 1995 US\$000 |
| Shareholders' funds at 1 January | 56,306 | 54,808 | 43,029 | 43,324 |
| Total recognised gains/ (losses) for the year | 8,128 | 1,498 | (5,461) | (295) |
| Shareholders funds at 31 December | 64,434 | 56,306 | 37,568 | 43,029 |

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

Basis of Accounting

The Financial Statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules. A separate profit and loss account is not presented in respect of the Company as provided by S.228(7) of the Companies Act 1985.

The Company is exempt from the requirement of Financial Reporting Standard No.1 to prepare a cash flow statement as it is a wholly-owned subsidiary undertaking of Rolls-Royce plc and its cash flows are included within the consolidated cash flow statement of that Company.

Under FRS8 the company is exempt from the requirement to disclose related party transactions with the Rolls-Royce Group and its associated undertakings on the grounds that it is a wholly owned subsidiary undertaking of Rolls-Royce plc.

Basis of Consolidation

The Group financial statements include the financial statement of the Company and all of its subsidiary undertakings made up to December 31, together with the Group's share of the results of associated undertakings up to December 31.

Goodwill, which represents the excess of the value of the purchase consideration for shares in subsidiary and associated undertakings over the fair value to the Group of the net assets acquired, has been written off to reserves.

Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated into US dollars at the rate ruling at the year end. The trading results of overseas undertakings are translated at the average exchange rates for the year. Exchange adjustments arising from the retranslation of the opening net investment, and from the translation of the profits or losses at average rate, are taken to reserves. Other exchange differences, including those arising from currency conversions in the usual course of trading, are taken into account in determining profit on ordinary activities before taxation.

Income from Operating Leases

Net income from operating leases, after charging depreciation and interest, is credited to profit and loss account on a straight line basis.

NOTES (continued)**Cost of Assets Held for Use in Operating Leases**

When previously used assets which are not in a fully overhauled condition are acquired, a Maintenance Reserve is created and the asset cost increased, by the amount estimated to be needed to return the asset to a fully overhauled condition. This reserve is released to match subsequent maintenance costs.

Income from Finance Leases

Income is credited to the profit and loss account in proportion to the funds invested.

Depreciation

Fixed assets are depreciated on a straight line basis from the time that they are first brought into use so as to write off their cost, less estimated residual value, over the following periods:

Engines - the lesser of:

- (i) the period up to the 25th anniversary of the engine being first delivered to an airline, or purchased for lease by the company; and
- (ii) the anticipated remaining useful life of the airframe for which the engine is designed.

Fixtures, Fittings &
Motor Vehicles - 5 years.

Operating Leases where the Company is Lessee

Costs in respect of operating leases are charged to the profit and loss account on an accruals basis. There are no assets under finance leases.

Taxation

Provision for taxation is made at the current rate and for deferred taxation on all timing differences where a liability is expected to crystallise in the foreseeable future.

Pension Costs

Contributions are charged against profit so as to spread the cost of pensions over employees' working lives with the Company.

NOTES (continued)

2. ANALYSIS OF TURNOVER

| 1996 | Operating Lease Rentals US\$000 | Finance Lease Rentals US\$000 | Asset Disposals US\$000 | Fees US\$000 | Total US\$000 |
|---------------|--|--|-------------------------------|-----------------|------------------|
| Europe | 6,927 | 144 | 6,015 | - | 13,086 |
| North America | 6,830 | 1,778 | - | 100 | 8,708 |
| South America | 4,710 | 275 | - | - | 4,985 |
| Australasia | 1,430 | 730 | 1,732 | 40 | 3,932 |
| | 19,897 | 2,927 | 7,747 | 140 | 30,711 |

| 1995 | Operating Lease Rentals US\$000 | Finance Lease Rentals US\$000 | Asset Disposals US\$000 | Fees US\$000 | Total US\$000 |
|---------------|--|--|-------------------------------|-----------------|------------------|
| Europe | 9,342 | 389 | 2,499 | 120 | 12,350 |
| North America | 7,043 | - | 150 | - | 7,193 |
| South America | 2,057 | 166 | 1,730 | - | 3,953 |
| Australasia | 1,301 | 1,054 | 1,485 | - | 3,840 |
| | 19,743 | 1,609 | 5,864 | 120 | 27,336 |

The analysis above is provided for information purposes only as the Directors are of the opinion that the Group is engaged in a single trade.

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

| | 1996 US\$000 | 1995 US\$000 |
|---|-----------------|-----------------|
| After Crediting | | |
| Realised exchange gains | 55 | 13 |
| After Charging | | |
| Depreciation of Owned tangible fixed assets | 5,668 | 4,917 |
| Depreciation of Leased tangible fixed assets | - | 1,337 |
| Operating lease rentals payable - hire of plant and equipment | 57 | 50 |
| Auditors remuneration: | | |
| Audit | 29 | 24 |
| Non-Audit | 23 | 25 |

NOTES (continued)

4. NET INTEREST PAYABLE

| | 1996 US\$000 | 1995 US\$000 |
|--|-----------------|-----------------|
| Interest payable on: | | |
| Borrowings repayable within five years | 174 | 2,111 |
| Loans from parent company: | | |
| - repayable within five years | 3,391 | 1,991 |
| - repayable after more than five years | 402 | 45 |
| Finance leases | - | 2,007 |
| | <u>3,967</u> | <u>6,154</u> |
| Interest receivable on: | | |
| Loan to associate company | 1,215 | 1,463 |
| Other | 400 | 164 |
| | <u>1,615</u> | <u>1,627</u> |
| Net Interest Payable | <u>2,352</u> | <u>4,527</u> |

5. EMOLUMENTS OF DIRECTORS

Total emoluments of the directors in relation to their duties as directors of the Company, were as follows:

| | 1996 US\$000 | 1995 US\$000 |
|--|-----------------|-----------------|
| Pension Contributions and related payments | 28 | 30 |
| Salary, performance related bonuses and benefits | 308 | 891 |
| | <u>336</u> | <u>921</u> |
| Total emoluments | 336 | 921 |

The emoluments, excluding pension contributions, were:

| | 1996 £000 | 1995 £000 |
|-----------------------|--------------|--------------|
| Chairman | - | - |
| Highest paid director | 145 | 372 |

NOTES (continued)

The emoluments of directors, including the above were:-

| | | | Number 1996 | Number 1995 |
|----------|----|----------|----------------|----------------|
| Nil | to | £5,000 | 1 | 6 |
| £45,001 | to | £50,000 | - | 1 |
| £50,001 | to | £55,000 | 1 | - |
| £145,001 | to | £150,000 | 1 | - |
| £165,001 | to | £170,000 | - | 1 |
| £370,001 | to | £375,000 | - | 1 |

6. EMPLOYEE INFORMATION

| | 1996 US\$000 | 1995 US\$000 |
|---|-----------------|-----------------|
| Employment Costs: | | |
| Salaries | 1,253 | 1,924 |
| Social security costs | 121 | 357 |
| Other pension costs | 113 | 129 |
| | 1,487 | 2,410 |
| Average number of employees during the year | 15 | 9 |

For the purposes of this note, employees are taken as being those people with contracts of employment with a fellow subsidiary but whose time is dedicated to the business of the Company and Group and whose costs of employment are charged to the Company.

7. TAXATION

| | 1996 US\$000 | 1995 US\$000 |
|--|-----------------|-----------------|
| The charge comprises: | | |
| Group Relief payable at 33% | 1,212 | - |
| Group Relief not paid for | (1,212) | - |
| Prior year tax charge at 33% | - | (50) |
| Deferred taxation | 2,738 | 4,407 |
| Overseas taxation | 3 | 150 |
| Share of associated undertaking's taxation | 1,195 | 333 |
| | 3,936 | 4,840 |

NOTES (continued)

8. TANGIBLE FIXED ASSETS

| GROUP | ASSETS HELD FOR USE IN OPERATING LEASES US\$000 | FIXTURES, FITTINGS & MOTOR VEHICLES US\$000 | TOTAL US\$000 |
|---|---|---|------------------|
| COST at 1 January 1996 | 136,853 | 496 | 137,349 |
| Additions | 29,946 | 2 | 29,948 |
| Disposals | (32,747) | (157) | (32,904) |
| Cost at 31 December 1996 ^{1, 2, 3} | 134,052 | 341 | 134,393 |
| DEPRECIATION at 1 January 1996 | 11,958 | 241 | 12,199 |
| Provided during the year | 5,594 | 74 | 5,668 |
| Released on disposals | (2,369) | (11) | (2,380) |
| Depreciation at 31 December 1996 | 15,183 | 304 | 15,487 |
| NET BOOK VALUES | | | |
| at 31 December 1996 | 118,869 | 37 | 118,906 |
| at 31 December 1995 | 124,895 | 255 | 125,150 |
| COMPANY | ASSETS HELD FOR USE IN OPERATING LEASES US\$000 | FIXTURES, FITTINGS & MOTOR VEHICLES US\$000 | TOTAL US\$000 |
| COST at 1 January 1996 | 15,093 | 496 | 15,589 |
| Additions | 28,940 | 2 | 28,942 |
| Disposals | (9,256) | (157) | (9,413) |
| Cost at 31 December 1996 ^{1, 2, 3} | 34,777 | 341 | 35,118 |
| DEPRECIATION at 1 January 1996 | 811 | 241 | 1,052 |
| Provided during the year | 1,440 | 74 | 1,514 |
| Released on disposals | (213) | (11) | (224) |
| Depreciation at 31 December 1996 | 2,038 | 304 | 2,342 |
| NET BOOK VALUES | | | |
| at 31 December 1996 | 32,739 | 37 | 32,776 |
| at 31 December 1995 | 14,282 | 255 | 14,537 |

¹ The cost of assets held for use in operating leases includes maintenance reserves of US\$8,192,000 (Group) and US\$2,169,000 (Company) as explained in Note 1.

² The value of assets held for use in operating leases which have not yet been brought into use and for which no depreciation has yet been charged, in accordance with note 1, is US\$3,968,000 (Group) and US\$2,030,000 (Company) (1995 Group - US\$10,969,000 and Company - US\$4,973,000).

³ Disposals of assets held for use in operating leases includes engines transferred to finance leases to customers.

NOTES (continued)

| | COMPANY & GROUP | |
|---|-----------------|-----------------|
| | 1996 US\$000 | 1995 US\$000 |
| Capital expenditure commitments: Contracted but not provided for | 2,000 | 900 |

9. INVESTMENTS - subsidiary undertakings

| | 1996 US\$000 | 1995 US\$000 |
|---------------------------|-----------------|-----------------|
| Company Shares at cost | 2,770 | 2,770 |

10. INVESTMENTS - Associated undertakings

| | Shares at Cost US\$000 | Share of Post Acquisitions Reserves US\$000 | Loans US\$000 | Total US\$000 |
|---------------------------|------------------------------|--|------------------|------------------|
| Group | | | | |
| At 1 January, 1996 | 1,050 | (681) | 13,926 | 14,295 |
| Exchange adjustments | | (48) | | (48) |
| Additions | | | 25 | 25 |
| Share of Retained Profits | | (1,179) | | (1,179) |
| At 31 December 1996 | 1,050 | (1,908) | 13,951 | 13,093 |
| Company: | | | | |
| At 1 January 1996 | - | - | 13,926 | 13,926 |
| Additions | - | - | 25 | 25 |
| At 31 December 1996 | - | - | 13,951 | 13,951 |

The subsidiary and associated undertakings are listed on page 21.

NOTES (continued)

11. DEBTORS - Amounts falling due within one year

| | GROUP | | COMPANY | |
|--------------------------------|-----------------|-----------------|-----------------|-----------------|
| | 1996 US\$000 | 1995 US\$000 | 1996 US\$000 | 1995 US\$000 |
| Finance lease receivables | 24,929 | 832 | 600 | 476 |
| Trade Debtors | 1,350 | 2,296 | 287 | 1,098 |
| Other Debtors | 153 | 1,988 | 15 | 1,874 |
| Prepayments and accrued income | 426 | 194 | 151 | 90 |
| Amounts owed by: | | | | |
| - subsidiary undertakings | - | - | 72,314 | 89,821 |
| - associated undertakings | 1,000 | - | - | - |
| - other group undertakings | 327 | 4,002 | 24 | 2,554 |
| - holding company | 1,287 | - | 1,208 | - |
| | 29,472 | 9,312 | 74,599 | 95,913 |

12. DEBTORS - Amounts falling due after one year

| | GROUP | | COMPANY | |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|
| | 1996 US\$000 | 1995 US\$000 | 1996 US\$000 | 1995 US\$000 |
| Finance lease receivables | 4,031 | 4,806 | 434 | 759 |
| Investment in Finance Leases | | | | |
| Additions during the year at cost | 23,034 | - | - | - |
| Rents receivable in the year | 3,642 | 1,609 | 726 | 528 |

NOTES (continued)

13. CREDITORS - Amounts falling due within one year

| | GROUP | | COMPANY | |
|------------------------------|-----------------|-----------------|-----------------|-----------------|
| | 1996 US\$000 | 1995 US\$000 | 1996 US\$000 | 1995 US\$000 |
| Other loans | 301 | 151 | 301 | 151 |
| Trade Creditors | 80 | 634 | 80 | 391 |
| Tax Payable | | - | | - |
| Accruals and deferred income | 2,370 | 915 | 1,764 | 600 |
| Deposits from lessees | 631 | 81 | 231 | - |
| Maintenance Reserves | 10,847 | 3,600 | 2,600 | 1,000 |
| Amounts owed to: | | | | |
| - subsidiary undertakings | - | - | 12,386 | 12,019 |
| - other group undertakings | 6 | 685 | 6 | 685 |
| - holding company | 45,185 | 69,765 | 53,130 | 69,766 |
| | 59,420 | 75,831 | 70,498 | 84,612 |

14. CREDITORS - Amounts falling due after more than one year

| | GROUP | | COMPANY | |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|
| | 1996 US\$000 | 1995 US\$000 | 1996 US\$000 | 1995 US\$000 |
| Other loans | - | 301 | - | 301 |
| Accruals and deferred income | 166 | - | 166 | - |
| Deposits from lessees | 2,047 | 2,682 | 933 | 1,005 |
| Maintenance Reserves | 21,284 | 15,779 | 7,626 | 3,288 |
| Amounts owed to holding company | 6,000 | - | 6,000 | - |
| | 29,497 | 18,762 | 14,725 | 4,594 |

NOTES (continued)

MAINTENANCE RESERVES included above comprise:

| | GROUP | | COMPANY | |
|--------------------------------------|-----------------|-----------------|-----------------|-----------------|
| | 1996 US\$000 | 1995 US\$000 | 1996 US\$000 | 1995 US\$000 |
| At 1 January | 19,379 | 19,307 | 4,288 | 6,619 |
| Provided or received during the year | 15,945 | 10,621 | 7,045 | 3,772 |
| Paid out during the year | (1,405) | (3,131) | (1,107) | (256) |
| Release on disposal | (1,788) | (7,418) | - | (5,847) |
| At 31 December | 32,131 | 19,379 | 10,226 | 4,288 |

Maintenance reserves are amounts provided by the Company, or paid by lessees, towards the future maintenance costs of lease assets. Maintenance reserves have been reclassified as creditors to put them on a consistent basis with the accounting policies of the Rolls-Royce Group.

15. PROVISIONS for liabilities and charges

| | GROUP | | COMPANY | |
|--|-----------------|-----------------|-----------------|-----------------|
| | 1996 US\$000 | 1995 US\$000 | 1996 US\$000 | 1995 US\$000 |
| DEFERRED TAXATION | | | | |
| At 1 January | 10,235 | 5,828 | 340 | 626 |
| Charge for the year | 2,738 | 4,407 | 1,483 | (286) |
| At 31 December | 12,973 | 10,235 | 1,823 | 340 |
| The provision for deferred taxation arises from: | | | | |
| The difference between accumulated depreciation and capital allowances | 12,973 | 8,934 | 1,823 | 834 |
| Other timing differences | - | 1,301 | - | (494) |
| | 12,973 | 10,235 | 1,823 | 340 |

NOTES (continued)

16. SHARE CAPITAL

| | Authorised US\$000 | Allotted US\$000 | Paid US\$000 |
|------------------------------------|-----------------------|---------------------|-----------------|
| US\$1 Ordinary Shares ¹ | 200,000 | 196,268 | 40,726 |
| US\$1 Preferred Shares | 1,982 | 1,982 | 1,982 |
| | 201,982 | 198,250 | 42,708 |

¹ The amount paid represents 196,267,500 Ordinary Shares of US\$1 each, at 20.75 cents per share.

17. PROFIT AND LOSS ACCOUNT

| | GROUP US\$000 | COMPANY US\$000 |
|----------------------------|------------------|--------------------|
| Profit at 1 January 1996 | 13,598 | 321 |
| Exchange adjustments | 41 | |
| Results for the year: | | |
| Company | - | (5,461) |
| Group | 8,087 | - |
| Profit at 31 December 1996 | 21,726 | (5,140) |

18. OPERATING LEASE ANNUAL COMMITMENTS

| | 1996 US\$000 | 1995 US\$000 |
|--|-----------------|-----------------|
| Leases which expire between one and five years | - | 47 |

None of the commitments relates to land and buildings.

NOTES (continued)

19. CONTINGENT LIABILITIES

| | GROUP and COMPANY | |
|---|-------------------|-----------------|
| | 1996 US\$000 | 1995 US\$000 |
| Guarantees in respect of the obligations of an associated undertaking | 32,200 | 33,400 |
| Asset value guarantees in respect of aircraft | - | 9,900 |

In the opinion of the Directors, no losses are likely to arise in respect of the above.

No valuable security has been provided by the Company or Group in respect of the above guarantees.

20. PENSION FUNDING

- i) The Company is a member of The Rolls-Royce Pension Fund, which is a defined benefit scheme. The scheme is administered by Trustees and the assets of the fund are invested by them independently of the finances of the Rolls-Royce plc group. The scheme is funded by annual contributions from:

- a) the Company, its Parent, and fellow UK subsidiary undertakings
- b) scheme members

The pension cost is assessed across the group as a whole in accordance with the advice of qualified actuaries.

Particulars of the actuarial valuation of the scheme are shown in the Annual Report of Rolls-Royce plc. The most recent valuation was at 31 March 1994.

- ii) The Company also operates a group personal pension plan funded by the Company on a defined contributions basis.

The total pension cost charged to the accounts is \$113,000 (1995 \$129,000).

21. HOLDING COMPANY

Rolls-Royce plc, a company registered in England and Wales, is the ultimate holding Company and heads the largest and smallest group in which the results of the Company are consolidated. Copies of its consolidated Financial Statements can be obtained from 65 Buckingham Gate, London SW1E 6AT.

SUBSIDIARY UNDERTAKINGS as at 31 December 1996

| NAME | COUNTRY OF CORPORATION | BUSINESS | INTEREST IN ORDINARY SHARES % |
|---|------------------------|--------------------|-------------------------------|
| RRPF Engine Leasing Limited | England | Leasing of engines | 100 |
| RRPF Engine Leasing (No.2) Limited | England | Leasing of engines | 100 |
| Rolls-Royce & Partners Finance (Netherlands) B.V. | Netherlands | Holding Company | 100 |
| Rolls-Royce & Partners Finance (Ireland) ¹ | Ireland | Holding Company | 100 |

ASSOCIATED UNDERTAKINGS as at 31 December 1996

| NAME | COUNTRY OF CORPORATION | BUSINESS | INTEREST IN ORDINARY SHARES % |
|---|------------------------|---|-------------------------------|
| Aircraft Financing and Trading Holdings B.V. ^{1 and 2} | Netherlands | Aircraft leasing and financial services | 50 |
| Sama Leasing Company Limited | Cayman Islands | Aircraft leasing | 50 |

The Loans to Associated Undertakings comprises subordinated loan capital in Aircraft Financing and Trading Holdings BV. The loans have been provided equally with the other shareholder.

¹ The shareholdings in Rolls-Royce & Partners Finance (Ireland) and Aircraft Financing and Trading Holdings B.V. are held by Rolls-Royce & Partners Finance (Netherlands) B.V.

² Aircraft Financing and Trading BV has 14 wholly owned subsidiaries which are engaged in aircraft operating leasing.

COMPANY PROFIT AND LOSS ACCOUNT
for the year ended 31 December 1996

| | 1996 US\$000 | 1995 US\$000 |
|--|-----------------|-----------------|
| Turnover | 4,760 | 10,789 |
| Cost of Sales | (2,050) | (4,513) |
| Gross Profit | 2,710 | 6,276 |
| Administrative Expenses | (3,610) | (4,618) |
| Interest from Associated Undertaking | 1,215 | 1,463 |
| Interest Payable | (4,293) | (2,704) |
| Profit/(Loss) on Ordinary Activities before Taxation | (3,978) | 417 |
| Tax on Ordinary Activities | (1,483) | 64 |
| Profit/(Loss) for the Financial Year after Taxation | (5,461) | 481 |

This is unaudited and for information only.