



10-CH/NL/0330 PT A

Part A.

**CONFIDENTIAL**

(Circulate under cover and notify REGISTRY of movement)

Begins: 22/4/87.  
Ends: 15/12/87.

  
 PO -CH /NL/0330  
  
 PART A

Chancellors (Lawson) Papers:

FOREIGN SHAREHOLDING IN  
ROLLS ROYCE

PO -CH /NL/0330  
PART A

DD's: 25 Year

*Debes*

3/11/95.

C/502 also  
pages below

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CR 22/4

1. MR BURBNER

Note at end

MB

From: R M BENT

Date: 22 April 1987

2. FINANCIAL SECRETARY

22/4

cc Chancellor

Mr Monck

Mrs Brown

Mr Lyne

Mr Waller

Mr McIntyre

Mr Ross  
Mr Coobey

*It is important that the offer is fully announced on 7 May, subsequently a GB is announced prior to 19 May, as it may be market and that is underwritten.*

*can you who will be cause to note, to use offer to this is must*

ROLLS-ROYCE UNDERWRITING: TERMINATION PROCEDURES

You should be aware that Samuel Montagu, in its role as lead underwriter, has queried the operation of the termination procedures in the Underwriting Agreement in the event of an announcement of a general election prior to the commencement of dealings in Rolls-Royce shares (expected to be on 19 May).

The Underwriting Agreement

2. The relevant clauses of the Underwriting Agreement are 9.1-9.5: copies are attached for information. These follow the now standard form for such clauses, last used for the BA sale.

3. You will note that, under clause 9.1(a)(i), a majority of the underwriters may (without Government involvement or concurrence) deem the announcement of a UK general election to be an adverse change in national political conditions. If they then also deem (again unilaterally) the change to be of such magnitude and severity as to be material in the context of the Offer, and not a proper underwriting risk, the Secretary of State for Trade and Industry and Samuel Montagu must jointly consult the Bank of England (clause 9.1). The result of the consultation may be a joint decision to terminate the Offer (clause 9.3(b)). Failing this, the Offer goes ahead and the underwriters have no further recourse (clause 9.5).

Negotiations with Samuel Montagu

4. Given the press speculation about a forthcoming election, Samuel Montagu sought a specific clause to require consultation with the Bank of England in the event of the announcement of a UK general election. We thought it wrong to concede this additional and specific force majeure clause. We anticipated that it would become a standard demand by the underwriters in later privatisations, and we also feared that it could be a forerunner for other types of specific force majeure clauses hitherto resisted.

*2. Whether possible, Mr Channon (as No Man's response) will need to be written to PM to inform her of the offer & call on the election schedule 7 & 19 May.*

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5. In further negotiations with Samuel Montagu, officials established that no change to the Underwriting Agreement would be needed if Samuel Montagu could be given a side letter. This side letter, issued by DTI officials, would simply confirm that the announcement of a UK general election, if made prior to the commencement of dealings, would be regarded as an adverse change for the purpose of clause 9.1(a)(i) of the Underwriting Agreement.

6. DTI officials propose to proceed on this basis, and we recommend that no objection be raised.

Assessment

7. Before the underwriters can secure consultation with the Bank of England, they will still have to demonstrate that, in their reasonable opinion, the change is of such magnitude and severity that it should not be regarded as a normal underwriting risk.

8. In practice, there is little that can be done to protect the Offer if an election is announced during the Offer period.

9. But if an announcement is made after the Offer closes on 7 May but before dealings commence (expected to be on 19 May), we think that the requirement in paragraph 7, while not watertight, offers as much protection as can reasonably be expected. The underwriters would have to argue that, notwithstanding the subscription or otherwise of the offered shares in the free market up to the closure of the Offer, the subsequent announcement of a general election had materially and severely worsened their underwriting risks. In fact, the underwriters seem unlikely to raise objections if the Offer is already a clear success. If it is not, they will have to have regard to the damage that will result to the City's reputation if they seek to wriggle free of their commitment to underwrite the Offer using the election announcement as an excuse.

*R M Bent.*

R M BENT  
IAE2 Division

*It seems a bit perverse that an early Election, widely predicted and in circumstances which should favour the markets, has to be acknowledged as an "adverse change". But the inevitable uncertainty of an Election period, plus the fact that the biggest lies entirely with the Government, has to be allowed for.*

*If the claim is activated in those circumstances, I agree with the Bent that the consultation procedure involving the Bank should be an adequate safeguard. And better a side letter in this case than an amendment to the standard agreement.*

*RB. 22/4.*

~~State and that person, but failing such agreement in such manner as the Secretary of State shall determine.~~

8.5 The Secretary of State may agree to pay separate legal expenses as aforesaid for any person seeking indemnity under Clause 8.1 if he sees fit subject to that person procuring that its legal advisers shall, to such extent as may in the circumstances be reasonable, co-operate fully in dealing with any such claim but without prejudice to the right of the Secretary of State to settle or compromise such claim as he thinks fit, subject only to prior consultation to the extent reasonable and practicable in all the circumstances with that person concerned and Samuel Montagu.

8.6 The right of any person to be indemnified pursuant to Clause 8.1 is without prejudice to its obligations under this Agreement or (in the case of Samuel Montagu) to its obligations under the Agency Agreement or any other agreement with the Secretary of State and (in any such case) without prejudice to any liability on the part of any such person for any antecedent or other breach of any of the terms of this Agreement or (in the case of Samuel Montagu) of the Agency Agreement or of any other agreement with the Secretary of State.

## 9. Termination

### 9.1 If:-

(a) between the execution of this Agreement and the time when the conditions contained in Clause 2 are satisfied there shall, in the reasonable opinion of the Secretary of State or a majority in number of the Underwriters, have been:-

(i) any adverse change in national or international financial, political, industrial or economic conditions or currency exchange rates or exchange controls; or

(ii) any press or public announcement concerning Rolls-Royce or any of its subsidiaries (or the Offer) by the Directors or by Rolls-Royce or any of its subsidiaries falling within the restrictions imposed by Clause 4.10 which has not been approved

by the Secretary of State and Samuel Montagu prior to its release; or

(iii) any press or public announcement affecting Rolls-Royce, any of its subsidiaries or the Offer in the United Kingdom or elsewhere by or on behalf of any Minister of the Crown; or

(b) the requirements of Clauses 4.2(a), (b) or (c) have not been fulfilled or have not been deemed to have been fulfilled by reason of Clause 4.3; or

(c) between the execution of this Agreement and the time when the conditions contained in Clause 2 are satisfied the Secretary of State and Samuel Montagu on behalf of the Underwriters agree that any event has or is likely to have occurred which, had the same occurred immediately before the date of the Prospectus, would have caused any statement contained in the Prospectus to be untrue, incorrect or misleading or would have resulted in there being an omission therefrom which is material in the context of the Offer,

the effect of which event is, in the reasonable opinion of the Secretary of State or a majority in number of the Underwriters, of such magnitude and severity as to be material in the context of the Offer, and which, in the case of an opinion formed by a majority in number of the Underwriters, should not, in the reasonable opinion of such a majority, be regarded as a proper underwriting risk in the context of the Offer, the Secretary of State and Samuel Montagu on behalf of the Underwriters shall consult as to what action shall be taken in relation thereto, and if the Secretary of State and Samuel Montagu on behalf of the Underwriters shall not agree whether or not the Offer should proceed the Secretary of State and Samuel Montagu shall jointly consult the Bank of England, and shall before reaching a decision take full account of the Bank of England's assessment.

9.2 The Secretary of State confirms that he has informed the Bank of England of the contents of Clause 9.1.

9.3 If:-

(a) either or both of the conditions referred to in Clause 2 is not satisfied; or

(b) following any consultation pursuant to Clause 4.9 or Clause 9.1 the Secretary of State and Samuel Montagu on behalf of the Underwriters shall agree that the Offer should not proceed; or

(c) the Allocation Announcement has not been made either:-

(i) within 96 hours (or such longer period as may be agreed between the Secretary of State and Samuel Montagu on behalf of the Underwriters) after Samuel Montagu shall have been notified of the number of Underwritten Shares comprised in Valid Applications; or

(ii) by 12.00 midnight on 26th May, 1987;

whichever shall be the earlier

this Agreement (other than Clause 9.4 below and the provisions of the other Clauses referred to in Clause 9.4 below) shall terminate and Samuel Montagu shall notify Rolls-Royce thereof as soon as reasonably practicable thereafter.

9.4 If this Agreement is terminated (in the manner and to the extent referred to in Clause 9.3), the parties hereto shall be released and discharged from their respective obligations hereunder or pursuant hereto except for:-

(a) the liability of the Secretary of State under the indemnity contained in Clause 8.1;

(b) the liability of the Secretary of State to pay the commissions referred to in Clauses 6.1, 6.2 and 6.3 and the costs referred to in Clause 6.4 if this Agreement shall terminate in any of the circumstances mentioned in Clauses 9.3(a) or (c) or shall terminate

pursuant to any consultation referred to in Clause 4.9 unless such consultation takes place as a result of an event falling within the provisions of Clause 4.9(c) having occurred or being likely to occur;

(c) the liability of the Secretary of State to pay the commissions referred to in Clause 6.1, 6.2 and 6.3 and the costs referred to in Clause 6.4 if this Agreement shall terminate in the circumstances mentioned in Clause 9.3 (b) by reason of Clause 9.1(a)(iii);

(d) the liability of any party hereto by reason of his or its antecedent breach of the terms of this Agreement.

9.5 If any consultation pursuant to Clause 4.9 or 9.1 does not result in the Secretary of State and Samuel Montagu on behalf of the Underwriters agreeing that the Offer should not proceed neither the Secretary of State nor any of the Underwriters shall thereafter be entitled to rescind this Agreement solely by reason of any matter which gave rise to the said consultation.

~~10. Authority of Samuel Montagu~~

~~Samuel Montagu is hereby authorised by each of the other Underwriters to act on behalf of it in relation to all matters requiring the consent or agreement of the Underwriters under this Agreement.~~

11. Time of the Essence

Any time, date or period mentioned in any Clause may be extended by agreement between the parties hereto, but, as regards any time, date or period originally fixed or any time, date or period so extended as aforesaid, time shall be of the essence.

12. Consent

Where any matter or thing is required to be done pursuant to this Agreement with the consent of the Secretary of State such consent shall ~~only be validly given if it is given in writing under the hand of the~~



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- MB 7/5
1. MR BURNER
  2. FINANCIAL SECRETARY

From: R M BENT  
Date: 7 May 1987  
cc Chancellor  
Mr Monck  
Mrs Brown  
Mr Lyne  
Mr Waller  
Mr McIntyre  
Mr Ross-Goobey

## ROLLS-ROYCE: ALLOCATION POLICY

An allocation meeting is planned for the morning of Saturday 9 May, once the final number and distribution of applications is known. I understand that you may be unable to be present. We would hope that you can be contacted by telephone to approve any recommendations emerging.

2. This submission proposes the broad lines of an allocation policy, which will however need to be adapted to the precise pattern of applications.

### Background information

3. Details of the Rolls-Royce offer are summarised at Annex A. The timetable for allocation decisions is at Annex B. Annex C summarises allocation precedents for BA, BGC, BAe and BT.

### Latest news

4. We understand that the present count (2pm 7 May) is approaching 1.8m applications.

### Recommendation

5. On the basis of advice from Samuel Montagu, and following a discussion with DTI officials, we recommend that:

(i) a ballot should be avoided if possible. We can certainly cope with 1.6m applications, and probably up to 1.8m applications, without a ballot on the agreed timetable, but beyond this number logistical problems such as a delay in the despatch of allocation letters, and consequently to the start of dealings, have to be weighed in the balance. On the basis of the latest news, a ballot cannot be ruled out;

(ii) a degree of priority should be given to small applications. On the latest news, applications for the minimum number of shares (400) will have to be scaled down because there will not be enough to go around. If possible, it would be desirable not to scale down lower than 150 shares;

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(iii) the treatment of **large applications** will be influenced by the decisions taken for small ones. It is unlikely that we shall want to allocate less than 1% of the number of shares applied, and probable that we shall need a cut-off to give priority to the small applications. In this, we should bear in mind that the **institutions have already received 50% of the offer placed firm.** Now is the time for members of the public to catch up:

(iv) the basis of allocation to **employees and pensioners** will require special treatment to take account of the arrangements under the various offers. We recommend, and Rolls-Royce agree, that there should be a degree of priority for the small applicant:

(v) we suggest that the aim for **foreign applications** should be to allocate no more than 10% of the shares to **foreigners** to leave a degree of headroom within the 15% limit imposed by the Articles of Association. But unless this target figure looks like being breached, we recommend that the same allocation arrangements should be made for foreign held shares as for UK shares. More generous treatment would be difficult to defend domestically, and harsher treatment risks interesting the EC Commission in privatisation policy:

(vi) a **contingency reserve** of between 0.5-1m shares should be held back to cope with any errors in the Receiving Banks or suspect multiple applications which are subsequently found to be OK:

(vii) all **cheques** relating to minimum applications should be **cashed** as soon as we can confirm that **no ballot is needed,** and this threshold should be raised progressively thereafter as more information becomes available. We may need to consult you on Friday about the level above which cheques should be held unrepresented pending possible rejection in the allocation decision:

(viii) an **announcement** of the allocation decision should be made by Samuel Montagu on Saturday afternoon to be followed by an arranged PQ on Monday which DTI Ministers will answer.

RMBent.

R M BENT  
IAE2 Division

ANNEX A

DETAILS OF THE OFFER

1. Total number of shares on offer 801.5m , price per share 170p
2. Minimum application 400 shares.
3. Share bands for the public offer as follows:

400-1000	in multiples of 100 shares
1000 - 2000	in multiples of 500 shares
2000- 10 000	in multiples of 1000 shares
10 000- 50 000	in multiples of 5000 shares
50 000 - 100 000	in multiples of 10 000 shares
over 100 000	in multiples of 50 000 shares
4. Up to 10% of the shares- 80.1m- reserved for Rolls Royce employees and pensioners under free , matching, discount and priority offer arrangements.
5. 60% of the shares - 473.8m - placed with institutions . 5 % or less of these with foreign institutions ( to be confirmed).
6. Institutional placing subject to clawback of 79m shares into public offer if public and priority employee/pensioner applications exceed 655.3m shares.
7. No more than 15% of the shares - 120.2m may be held by foreigners. Assuming 5% of institutional placing with foreigners, this would allow up to about 25% of the public offer to be allocated to foreigners without breaching the 15% limit.

ANNEX B

TIMETABLE

Friday 8 May

1800-            Analysis of applications ( if less than 1.2m  
2000            applications ) available

Saturday 9 May

0800            Analysis of employee/pensioner applications

1000            Analysis of applications ( if between 1.2m and 1.6m  
                 applications ) available.

1000            Allocation meeting at Samuel Montagu offices ( if less  
                 than 1.2m applications received).

1145            Allocation meeting ( if between 1.2m and 1.6m  
                 applications received).

Publicity arrangements subject to further discussion.

1200            Instructions to receiving banks on minimum  
                 allocations.

1500            Allocation announcement.

Monday 11 May

0800            Latest time for agreement on basis of allocation, for  
                 delivery to Stock Exchange by 0900

Arranged PQ on basis of allocation

BRITISH AIRWAYS plc

720,200,000 Ordinary Shares of 20p each  
 Offer price 125p per share  
 1st instalment (65p) payable by 6th February 1987

Application bands

400-1,000	multiples of 100 Shares
1,000-5,000	multiples of 500 Shares
5,000-10,000	multiples of 1,000 Shares
10,000-50,000	multiples of 5,000 Shares
50,000-100,000	multiples of 10,000 Shares
over 100,000	multiples of 50,000 Shares

Applications received for UK Public and Employee Offers

No. of shares available for UK Public and Employee Offers - 341.4 million.  
 A total of 1.2 million applications for 7.8 billion shares (almost 23 times over subscribed)  
 1,187,200 applications for up to 100,000 Shares - 2.9 billion Shares  
 7,124 applications for over 100,000 Shares (5,000 applications received) - 4.9 billion Shares

Basis of allocation

<u>No. of Shares applied for</u>	<u>No. of Shares allocated</u>	
	<u>Employee/pensioner priority</u>	<u>Public</u>
400-1,500	met in full	200
2,000-5,000	met in full	250
6,000-10,000	met in full	300
15,000-25,000	met in full	350
30,000-35,000	25,000	350
40,000-100,000	25,000	1%
over 100,000	25,000	nil

Employee Free, Matching and Discount Offers - met in full

Summary of allocations

		<u>No. of Shares allocated</u>	
		<u>(million)</u>	<u>%</u>
UK Offers			
Employees and pensioners	*	62.2	8.6
UK public applications	*	254.7	35.4
UK institutions		260.2	36.1
Overseas applications	*	5.4	0.7
Overseas offers		118.6	16.5
Loyalty share bonus retentions	*	<u>19.1</u>	<u>2.7</u>
		<u>720.2</u>	<u>100</u>

\* Total available to satisfy public and employee applications - 341.4 million

BRITISH GAS plc

4,025,500,000 Ordinary Shares of 25p each

Offer Price 135p per share

1st instalment (50p) payable by 3rd December, 1986

Application Bands

100-1,000	multiples of	100 Shares
1,000-5,000	" "	500 Shares
5,000-10,000	" "	1,000 Shares
10,000-50,000	" "	5,000 Shares
50,000-100,000	" "	10,000 Shares
over 100,000	" "	50,000 Shares

Applications received

In total, 4.5 million applications (including employee and pensioner applications) were received for around 6.6 billion Shares as follows:

2.6 million customers applied for 3.0 billion shares and  
1.7 million other members of general public applied for 3.3 billion Shares  
(4 times oversubscription)

Basis of allocation

No. of Shares applied for

No. of Shares allocated

	<u>Preferential</u>		<u>General Public</u>	<u>Customer</u>
	<u>Employee</u>	<u>Pensioner</u>		
100 - 400	met in full	met in full	met in full	met in full
500 - 700	met in full	met in full	400	500
800 - 1,000	met in full	met in full	500	600
1,500	met in full	met in full	600	800
2,000	met in full	met in full	800	1,000
2,500	met in full	met in full	1,000	1,200
3,000 - 5,000	met in full	met in full	1,200	1,400
6,000 - 10,000	5,500	5,500	1,400	1,600
15,000 - 18,519	5,700	5,700	10%	10% + 300
18,519 - 20,000	6,200	*	10%	10% + 300
20,000 - 100,000	*	*	10%	10% + 300
150,000 or over	*	*	7%	7% + 300

\* To the extent that any such application exceeds 20,000 Shares (employees) or 18,519 Shares (pensioners), the excess is rounded down to the next nearest general public application denomination and an additional allocation made on that excess as if it were a general public application.

Summary of allocations

	<u>No. of Allocations</u>	<u>No. of Shares Allocated (millions)</u>	<u>% of shares</u>
Customers	2,603,000	1,394 )	
Other General Public	1,735,000	954 )	64
Employee + Pensioner Free & Matching	133,000	32 )	
Employee + Pensioner Preferential	69,000	176 )	
U.K. Institutions		969	24
Overseas Sales		<u>463</u>	<u>12</u>
		<u>3,988m</u>	<u>100%</u>

A further 162 million shares were retained by Secretary of State for Energy to meet bonus share entitlements (No. of shares offered was 4025.5 million - this does not tie up)



BRITISH AEROSPACE PUBLIC LIMITED COMPANY

146,852,746 Ordinary Shares of 50p each  
Offer price 375p per Share  
1st instalment (200p) payable by 10th May 1985

Application bands

100-2,000	multiples of	100 Shares
2,000-5,000	multiples of	200 Shares
5,000-20,000	multiples of	500 Shares
20,000-50,000	multiples of	1,000 Shares
over 50,000	multiples of	10,000 Shares

Applications received

Approximately 264,000 applications from the public (including employees and existing shareholders and excluding institutional priority applications) for approximately 790 million Shares (approximately 12 times oversubscribed).

Shareholders' preferential entitlement - 89% taken up- met in full, approximately 23 million Shares.

Employees preferential entitlement met in full, approximately 3 million Shares.

Basis of allocation to general public

<u>No. of Shares applied for</u>	<u>No. of Shares allocated</u>
100-200	100
300-500	125
600-700	150
800-900	175
1,000-1,900	200
2,000-3,800	225
4,000-9,500	250
10,000-20,000	275
over 20,000	nil

Allocations made to some 260,000 public applicants.

BRITISH TELECOMMUNICATIONS plc

3,012,000,000 Ordinary Shares of 25p each

Offer price 130p per Share

1st instalment (50p) payable by 28th November, 1984

Application Bands

200 - 400	in multiples of	200 Shares
400 - 1,600	in multiples of	400 Shares
1,600 - 4,000	in multiples of	800 Shares
4,000 - 20,000	in multiples of	1,000 Shares
20,000 - 100,000	in multiples of	10,000 Shares
over 100,000	in multiples of	50,000 Shares

Applications received

2,060,000 applications from the general public, approximately 1 million for 200 or 400 Shares.

220,000 applications from employees for Free Shares ) 53,000,000  
184,000 applications from employees for Matching Shares) shares

Total number of Shares applied for in UK Offer for Sale (including Priority Applications from institutions) about 12,750,000,000 (over 4 times offered Shares).

Basis of allocation

<u>No. of Shares applied for</u>	<u>No. of Shares Allocated</u>	
	General Public in full	Preferential Employee + Pensioner in full
200 - 400		
800	500	in full
1,200	600	in full
1,600 - 20,000	800	in full
30,000 - 100,000	800	20,000
over 100,000	nil	20,000

Summary of Allocations

	<u>No. of shares allocated</u>	<u>% of Offer</u>
Public applicants	1,031,551,993	34.3
Employees and BT pensioners	137,098,007	4.6
Institutional Priority Applicants	1,428,350,000	47.4
Overseas Offerings	415,000,000	13.7
	<hr/>	<hr/>
	<u>3,012,000,000</u>	<u>100.0</u>

FROM: T U BURGNER  
DATE: 20 May 1987

CHANCELLOR

cc Financial Secretary  
Sir P Middleton  
Mr Monck  
Mr Moore  
Mrs Brown  
Mr Waller  
Mr Bent  
Mr Lyne  
Mr Ross Goobey

*Thanks.  
As I half-expect  
Black Hawk to  
S. Montoya, wh. must be  
scr against price  
name when  
consult  
fake*

*Ch*

Tom Burgner has given the premium throughout as a % of the partly paid price. But he agrees that for public presentation we should use the % of the total price - ie half the figures here. DTI and HMT press offices will use the latter - **ROLLS ROYCE - FIRST DAY OF TRADING** if they get enquiries on the level of the premium

*Thanks.  
Have  
reported.*

*AWK*

1. Trading in Rolls Royce shares opened today. Turnover was high, exceeding 400 million shares ie at least 50 per cent of the total. The sellers were mainly, as anticipated, members of the public (small shareholders). The main buyers were UK financial institutions (though some of the smaller ones were thought to be net sellers taking initial profits) and overseas, mainly from Japan.

*\* although some of this was reported trading in the same shares.*

2. The 85p partly paid share opened at 129-131, reached 143.5 at its highest point and <sup>at 4.00 pm stood</sup> closed the day at 139-140, a premium of 54-55 (64%)\*. Some of the initial premium reflects general movements in stock market prices - the FT all shares index increased 11% between the 27 April, immediately before Impact Day, and last night. However most of it was the anticipated demand from overseas, since foreign applications during the offer period (about 3%) had left a good deal of room to build up positions within the overall 15% total.

*\* and closed the day at 143-146 (70%)*

3. Capel's view is that the Rolls Royce price is more likely to go up than down for a while yet. This is largely due to the strength of unsatisfied Japanese and other overseas demand. There have been substantial falls in both Tokyo and Wall Street today, and these could affect demand but are not thought likely to do so. The other underlying factor is the strength of the London market itself. This is very sensitive to predictions about the

RESTRICTED

Election outcome; but unless these change substantially is thought likely to remain strong, thereby underpinning the Rolls Royce price.

713

T U BURGNER



FROM: A W KUCZYS

DATE: 21 May 1987

MR BURGNER

cc PS/Financial Secretary  
 Sir P Middleton  
 Mr Monck  
 Mr Moore  
 Mrs Brown  
 Mr Waller  
 Mr Culpin  
 Mr Bent  
 Mr Lyne  
 Mr Ross Goobey

**ROLLS ROYCE - FIRST DAY OF TRADING**

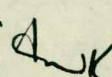
The Chancellor was grateful for your minute of 20 May (not copied to Mr Culpin).

2. The Chancellor was not altogether surprised at the way Rolls Royce shares moved to an early premium. Black mark to Samuel Montagu, which must be set against their name when considering future privatisations.

3. The Chancellor attaches great importance to getting across publically that the proper measure of the premium is as a percentage of the total price, not the partly paid price (as I mentioned to you yesterday).

A handwritten signature in dark ink, appearing to be 'AWK'.

A W KUCZYS

PS As I mentioned this morning, the Chancellor has also asked for a note and line to take on foreign buying of Rolls Royce shares, and implications of reaching the 15% ceiling. 

RESTRICTED

FROM: T U BURGNER  
DATE: 21 May 1987

CHANCELLOR

cc Financial Secretary  
Sir P Middleton  
Mr Monck  
Mr Moore  
Mrs Brown  
Mr Waller  
Mr Culpin  
Mr Bent  
Mr Lyne  
Mr Ross-Goobey

*Thanks - This is what I'm clear who is on the list*

*over the 'excess' M.*

ROLLS ROYCE - FOREIGN BUYING

1. You have asked for a note on foreign buying of RR shares and the implications of reaching the 15% ceiling.
2. There is clearly a lot of foreign, particularly Japanese, interest in RR and this has been one of the main influences in the high level of premium. What counts for the 15% limit is whether the shares are registered with the company. For this to happen shares have to be fully paid, including paying the second instalment early, and the appropriate declaration of nationality made to the company. So far there appears to have been no signs of a rush to register (very few second instalment cheques were paid yesterday). But a clear trend will not be visible before next week at earliest.
3. The position on reaching 15% is clearly set out in the prospectus. If at any time the 15% level is exceeded, the Articles of Association require the excess to be sold. Pending disposal, the ownership of the shares carries no rights to attend or vote at general meetings, ie the holder is disenfranchised in respect of the excess.
4. The receiving banks will be monitoring carefully the flow of payments from foreigners and will pass the information daily to DTI, RR and Samuel Montagu. This

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will enable the company and DTI to take necessary action should this arise.

5. The share price at around 12.30pm today was 142-144p, having touched 150p at one point this morning. This is slightly down on yesterday's close (143-145p). The premium is currently 57-59p (33-35% of the full price).

LINE TO TAKE

Foreign buying into RR? Foreign interest not at all surprising. Foreigners received less than 5% of the original offer. Some may well be anxious to build up a holding in a first-rate British company.

Excessive foreign ownership? Prospectus makes it clear that the company's Articles restrict the number of foreign held shares at any one time to a maximum of 15%.

Danger of exceeding 15%? No risk of that. Investors wishing to register their shares have to make a declaration stating whether shares are foreign-held. This enables the company to keep a close watch on the percentage of foreign-held shares. If the 15% limit were ever exceeded, the Articles require the excess to be sold. Pending sale, the foreign investor would have no voting rights in respect of the excess shares.

TU

T U BURGNER



RESTRICTED



FROM: A W KUCZYS  
DATE: 22 May 1987

A handwritten signature in the top right corner of the page.

MR BURGNER

cc: FST  
Sir P Middleton  
Mr Monck  
Mr Moore  
Mrs Brown  
Mr Waller  
Mr Culpin  
Mr Bent  
Mr Lyne  
Mr Ross-Goobey

**ROLLS ROYCE - FOREIGN BUYING**

The Chancellor was grateful for your note of 21 May - although he is not quite clear who is identified as the owner of the "excess".

A handwritten signature of A W Kuczys.

A W KUCZYS

CONFIDENTIAL

FROM: T U BURGNER  
DATE: 28 May 1987

CHANCELLOR

cc Financial Secretary  
Sir P Middleton  
Mr Monck  
Mr Moore  
Mrs Brown  
Mr Waller  
Mr Culpin  
Mr Bent  
Mr Lyne  
Mr Ross Goobey



ROLLS ROYCE - FOREIGN BUYING

1. You may like a further note.
2. As you know, the market activity highlighted in yesterday's report in the Independent (attached) has no implication for control of the company which the 15% limit is directed at, because until the second instalment is paid and the shares are registered, no voting rights attach to the share purchases. The press report suggests that a significant number of foreign buyers will pay early and secure registration, but surprisingly Nat-West (the registrar) say that so far none has done so. However the situation is expected to change within the next few days - Nat-West are reporting daily to RR and DTI.
3. You asked about identifying the owner of any "excess" over 15%. The operation of the 15% limit is a matter for RR under the Articles of Association. However the prospectus says that they will have regard "so far as practicable, to the date order in which particulars of Foreign-held Shares have been entered (or are deemed to have been entered) in the separate register" except where the company "consider this would be inequitable", in which case they can apply other criteria; and except where foreign-held shares are registered "at or around the same time". Thus RR have a certain amount of discretion, although they would have to justify departures from date order. In respect of any excess over 15% the company would write to the holder asking him to transfer the share to a non-foreigner within 21 days.

CONFIDENTIAL

4. If a rush of foreign applications to register materialises during the next few days, RR propose to make an announcement (probably next week) that they intend broadly to follow a policy of first-come-first-served, except that for an initial period (probably of a few weeks) they will give preference to those foreign holders who received shares in the initial allocation who may wish to register the original allotment (about 3% of the total RR shares). In effect they would be serving notice to such allottees that if they want to secure registration they will have to pay the second instalment early.

5. You will have seen that the premium appears to have steadied around the 58p mark (34% of the full price).

TU

T U BURGNER

Guinness, Keehan.

The unwanted £17.5m bid from USM quoted Sunleigh Electronics has thrown up

not least because it is a company.

# Foreign R-R holdings 'top 15%'

SAMUEL MONTAGU, the Government's merchant bank adviser for the flotation of Rolls-Royce, admitted yesterday that it had no idea how many shares in the aero-engine manufacturer had been bought by foreigners, since dealings began a week ago.

But brokers were certain that the Japanese had accumulated more than 15 per cent of Rolls' shares, in contravention of its articles of association. "We are convinced that the Japanese got close to 15 per cent on the first day", said one leading market maker.

By Robert Peston

The Government regards Rolls as a prize British asset and has enshrined in its articles as "a cardinal principle" that it should "remain under British control". To this effect, foreigners are prohibited from acquiring more than 15 per cent of the shares.

American investors cannot buy Rolls' shares for 90 days after the first dealing date. But the Japanese have been accumulating the stock in huge quantities. On the

first day of dealings, Nomura, the largest Nippon broker, bought 20 million for clients. Demand then tailed off, but Keith Clarke, of Nomura, said that purchases have surged again.

Daiwa, a smaller Japanese securities dealer, has bought several million shares. Rival Yamaichi revealed purchases of 15 million.

It is also understood that leading UK broker James Capel bought 15 million for the Japanese on the first day of dealings. Warburg Securities and Hoare Govett were also very active on

behalf of Far Eastern clients.

The number of foreign shareholders cannot be counted accurately until the second instalment of 85p is paid, which is not due until 23 September.

But enthusiastic investors can pay the second tranche early, in order to guarantee a place on the share register as part of the lucky 15 per cent.

If the limit is breached, Rolls can force latecomers on the register to sell. Paul Seabrook, of Daiwa, said this could be extremely costly to his clients.



FROM: MISS J L CAMP

DATE: 29 May 1987

MR T U BURGNER

Handwritten initials, possibly "JL", in cursive script.

**ROLLS ROYCE - FOREIGN BUYING**

The Chancellor has seen and was grateful for your minute of 28 May.

*Jaret Camp*  
MISS J L CAMP

FROM: T U BURGNER

DATE: 4 June 1987

PS/CHANCELLOR

*Nigel*  
*PI thank*

*T.*

cc: Financial Secretary  
Sir P Middleton  
Mr Monck  
Mr Moore  
Mrs Brown  
Mr Waller  
Mr Culpin  
Mr Bent  
Mr Lyne  
Mr Ross Goobey

**ROLLS ROYCE - FOREIGN SHAREHOLDING**

Further to my note of 28 May, I have just received the text of a draft statement that Rolls Royce is proposing to issue this afternoon through the Stock Exchange. As will be seen, the expected rush of registrations by foreign shareholders has not yet materialised. At close of business yesterday the proportion of Rolls Royce issued share capital registered as foreign-held was only about 0.5%. But there is no reason to discourage the company from issuing their statement given the recent press speculation on this subject.

*TU*

T U BURGNER

DRAFT RELEASE

to: Company Announcements Office, The Stock Exchange

ROLLS-ROYCE PLC

RESTRICTION ON PERCENTAGE OF FOREIGN SHAREHOLDING

Recent Press comment has indicated that a substantial number of Rolls-Royce plc shares may have been acquired by overseas investors following the recent privatisation of the Company by HM Government.

Although at close of business on 3 June the number of foreign-held shares actually received for registration represents only [0.5%] of the Company's issued share capital, the Directors of Rolls-Royce plc wish to remind prospective shareholders (including applicants under the offer for sale) of the maximum total limit on "foreign-held" shares contained in the Company's Articles of Association. This limit is 15% of the total of the Company's issued ordinary share capital at any time, and applies on registration of fully paid shares.

The Directors will, in the absence of special circumstances, identify excess shares on the basis of the order in which foreign-held shares are received as acceptable for registration. Priority between all foreign applicants for first registration will thus generally be determined by the date and time of receipt of the second instalment of the offer price under the Government's sale arrangements which is due to be paid to its Receiving Bank no later than 23 September 1987, but which may, at the investor's choice, be paid at any time before that date for the purpose of early registration.

In accordance with the Company's Articles, and as summarised in the Prospectus, when the 15% limit is reached the Directors will identify the "excess" foreign-held shares and notify the holders of those shares that they must transfer them within 21 days so that they cease to be foreign held. If a holder of excess foreign-held shares fails to comply with this obligation, the Directors will arrange for the Company to sell the shares on that person's behalf in order to maintain the level of foreign shareholdings at no more than the 15% limit.

CRH0011.TXT

END



FROM: N G FRAY

DATE: 5 June 1987

MR BURGNER

**ROLLS-ROYCE: FOREIGN SHAREHOLDING**

The Chancellor has seen and was grateful for your minute of 4 June.

*Nigel Fray*  
N G FRAY





# ACOST

Advisory Council on Science and Technology  
70 Whitehall, London SW1A 2AS  
01-270-

The Rt. Hon. Margaret Thatcher, MP.,  
The Prime Minister,  
10, Downing Street,  
LONDON, SW1A 2AA.

30th September, 1987

*Dear Prime Minister,*

Your new Advisory Council on Science and Technology had its first meeting on Tuesday 29th September and addressed itself to the question of national priorities for science and technology. It is our intention to provide preliminary advice in December this year, followed by more detailed comments in April 1988. This first year's advice will, of necessity, be based on the earlier work of ACARD but making full use of the resources which the enlarged membership of ACOST offers.

My purpose in writing to you at this early stage is to seek guidance on a point which is crucial to the question of setting priorities.

ACOST's starting point is that the overall total of UK expenditure on civil R&D must be raised over the next 5 years. We base this view not on academic comparisons of past expenditures by competitor nations but on the shared recognition that science and technology is the main engine for growth. We are aware that other countries are well advanced in their plans for increased, targetted government expenditure and incentives to industry to capture growing world markets for goods and services based on advanced technologies.

ACOST will aim to give advice on which areas of technology offer the greatest opportunities for the UK, what basic research is required to underpin those areas and what positive support from Government will be required to catalyse this process.

contd/.....

Secretariat:  
Telephone 01-270 0105  
Telex 27582 CABOFF G  
Fax 01-270 0074  
Prestel 21 999 3466  
Gold 81 MPO 005

The Rt. Hon. Margaret Thatcher, MP.,

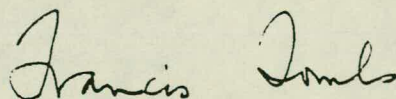
ACOST would expect, also, to be able to point to areas of Government expenditure on R & D where savings could be made, either because industry should now be assuming responsibility for that expenditure or because the research field should have a lower priority. But if we do this we fear that the savings made will be withdrawn from R & D activities and that the overall national effort will actually diminish. I appreciate that no firm assurance that this will not happen can be given. But it would assist our work if we could be sure that this is not the intention. This follows on from the point made in my letter of 17th August.

ACOST is of the view that we should first bring about some reallocation of government resources which will generate new knowledge, new talent in science and engineering and lead to more rapid commercialisation. Second, that a higher level of expenditure on basic science by Government may be necessary, aimed at specific targets and to an agreed time schedule. Third, that the organisation of government R & D, the procurement programmes of Departments and the relationship between business, government and science should lead to increased investment in the development and application of technologies by the private sector.

On a more specific issue ACOST agreed to convene a round-table discussion, with strong industrial involvement, on space research. This will take place about the middle of October and I will chair the meeting. I have no intention of generating a lobby for more money for space research but I will hope to be in a position to put forward some views on what should be the distribution and balance of UK effort between different areas of this very broad field.

I would welcome a response on my first point before ACOST next meets on 17th November.

Yours sincerely,



Sir Francis Tombs



cc Mr Alex Allan - Tsy

Cathy

CABINET OFFICE

Qd.0652

70 Whitehall London SW1A 2AS Telephone 01-~~XXX~~ 270 0320

Our ref: ST 141/1

David Norgrove Esq  
10 Downing Street  
London SW1

CH/EXCHEQUER	
REC.	13 OCT 1987 13/10
ACTION	CST
COPIES TO	

We need to  
action out

13 October 1987

Dear David

ACOST: LETTER OF 30 SEPTEMBER FROM SIR FRANCIS TOMBS TO THE PRIME MINISTER

I enclose a draft reply, prepared, as agreed, in response to your letter of 30 September to Tom Jeffery.

Copies to him and other recipients of your letter.

Your  
Vivian Brown

VIVIAN BROWN

**DRAFT LETTER FROM THE PRIME MINISTER TO SIR FRANCIS TOMBS**

In your letter to me of 30 September you asked about the Government's intention as to our total expenditure on R & D.

I do not believe the starting point for your work of advising on science and technology priorities should be overall levels of funding. You imply in your letter of 30 September, and in your earlier one of 17 August, that lower government spending on R & D automatically leads to lower national spending on R & D from both public and private sources. This does not follow. For example, we took the decision to reduce defence spending on R & D in order to release scarce scientific staff for industry to employ on private venture work; the Defence Secretary made this clear in his White Paper on the Defence Estimates last May. If industry responds to this opportunity, as I hope it will, there will be a switch from public to private funding of research.

What the Government would like from ACOST is advice on national priorities for science and technology and on the quality of existing programmes. I understand John Fairclough has already passed on to you a specific request for advice on the organisation of research in universities. More generally, where ACOST's advice on priorities directly concerns public expenditure, the Government looks to ACOST to identify arguments for savings with the same rigour as those for increases. The purpose of the new machinery, of which ACOST is an important part, is to ensure that funding goes to programmes of real scientific merit and that they are carried out, wherever possible, with a view to their being taken over later by industry for commercial exploitation. Where existing programmes do not satisfy these criteria (and are not essential for departments' own purposes) we will consider redirecting resources to programmes which do.

You also mentioned a round table discussion on space. I am grateful for your assurance that this is not intended as a lobby for more money for space. What we need on space, as on other science and technology programmes, is advice on how to secure better value for money from our existing expenditure.

*Pls try & find a date comm. to CST & myself*

FROM: M A WALLER

DATE: 16 September 1987

CHANCELLOR

cc. PS/Chief Secretary  
Mr Monck  
Mr Burgner

**DINNER INVITATION FROM SIR FRANCIS TOMBS**

You asked for my advice on what motives might lie behind Sir Francis Tomb's invitation to dinner. I can think of two immediate ones relating to Rolls Royce.

2. As Chairman of Rolls Royce, Sir Francis will be very mindful of the fact that Rolls Royce may shortly be submitting to HMG a bid for launch aid of up to £150m over the PES period to finance the up-grading of the RB211-524 to compete with the largest engines now being offered by GE and Pratt and Witney for service on wide bodied twin jets and possible later generations of Boeing 747s. No doubt Sir Francis would not be so obvious as to press this claim overtly on this issue. But he may well seek to prepare the ground with you as a Minister who will have a key input in the launch aid decision.

3. There is also the question of the 15% limit on foreign shareholding in Rolls Royce. This limit has now been reached and it is possible, but I would have thought very unlikely, that Sir Francis may want to sound out your views on whether the Government would be prepared to consider some easing in that limit in future. (BAe, who are also up against the 15% foreign shareholding limit, are pressing for the limit to be increased to 20-25%.)

4. There is one other issue which might come up. In his capacity as chairman of the Advisory Council on Science and Technology (successor to ACARD), Sir Francis may wish to air his and his committee's strongly felt view that the Government should be committing more resources to supporting R&D in both basic science and technology. No date has been suggested so far for the dinner but, assuming it will take place some time well before the autumn statement, Sir Francis might seek to influence yourself and the Chief Secretary to take a less restrictive line in this year's Survey to bids from, for example, Lord Young and Mr Baker for higher R&D spending. More likely, however, is that Sir Francis might press the general case for increased spending in this area in advance of the deliberations of EST over the coming months.

*M A Waller*  
M A WALLER

9/12

FROM : HM ROBERTS

DATE : 4 DECEMBER 1987

1. MR WALLER *9/12.*

cc. Mr Monck  
Mr Burgner

2. CHANCELLOR (copy attached for  
PS/Chief Secretary

**CHANCELLOR'S INVITATION TO DINNER WITH SIR FRANCIS TOMBS**

You and the Chief Secretary are to join Sir Francis Tombs for dinner on Wednesday 9 December. Sir Francis has, of course, 2 main areas of interest as Chairman of Rolls-Royce and Chairman of the Advisory Committee on Science and Technology (ACOST). His entry in Who's Who is attached at Annex A for reference.

2. His wide scope of interests across science and technology make it difficult to predict which issues he will wish to raise. Accordingly the briefing covers both Rolls Royce and ACOST interests, noting areas which might be raised.

**ROLLS-ROYCE ISSUES**

Summary of privatisation

3. The Rolls-Royce privatisation offered 801m shares for sale at 170p, 85p payable on application ( 20 May) and the balance by 23 September. HMG, as part of the arrangements for the offer, subscribed additional shares to the value of £283m ie equal to the net borrowings of the Company and its subsidiaries. HMG raised £1080 million in total on the sale.

4. The Government retains one special share in the company which allows it to place a number of restrictions including

- the number of foreign-held shares may not exceed 15% of the issued shares entitled to vote at general meetings;

- until January 1989 no one person may have an interest in over 15% of the voting shares;

- the chief executive must be a British citizen <sup>and then one</sup> restrictions on the disposal of the whole or a material part (25%) of the assets of the group.

5. Share Price : The offer was oversubscribed 9 times and shares allotted to about 2m applicants on a sliding scale basis. The share price was 143p on the day after issue ie a premium of nearly 70%. The share price held up over the summer and following the payment of the second and final instalment on 23 September it rose to 210p by early October. After Black Monday the price fell sharply to 144p and has continued to fall through the intervening period to 119p in mid-November and to 99p yesterday.

## Progress since privatisation

6. Before privatisation operating profits rose from £74m in 1983 to £273m in 1986 with corresponding PBT figures of -£115m and £120m. Rolls-Royce estimated that, had the additional share capital made available on privatisation been available throughout 1986, PBT would have been £148m.

7. Interim mid-year figures for 1987 are attached at Annex B. These show £60m profit before tax for the first 24 weeks of the year which seems a decrease on the full year equivalent figure of £148m for 1986; turnover up 15% to £899m compared with the equivalent period for 1986 and operating profit up 28% to £152m. On R+D policy, 1986 figures show that 7.3% of turnover was devoted to R+D while interim figures for 1987 indicate 9.3%. Rolls-Royce's dividend was 1.75p.

## Orders

8. On privatisation, the total value of orders outstanding was £3.11bn. Though we do not have a detailed update, this seems likely to have held steady: a Japanese Airlines order which RR lost has been offset by an additional order from Qantas in August.

## POSSIBLE ISSUES FOR DISCUSSION

### Shareholdings

9. As noted above, foreign shareholdings in Rolls-Royce are subject to a limit of 15%. Between May and September this proportion gradually rose until after the final payment on 23 September it had risen to nearly 22%. This did not present a problem because the shares do not have voting rights until the completion of the share register. Following its completion in late November Rolls-Royce were in a position to identify foreign shareholders and have required the excess shareholders to sell their shares to British nationals by early January (on a last in, first out basis). Failing this the Company will divest the shares on their behalf. Such disposals at the current market price of 99p represent a significant loss compared with the Offer price of 170p. The company have not suggested any measures to ameliorate these losses or requested some easement in the foreign shareholding limit.

10. On a related point British Aerospace are also subject to a limit on foreign shareholdings of 15%. They are pressing for this to be raised to 25% on the grounds that the limit is depressing their share price; DTI Ministers are unsympathetic but there has been no formal submission. Sir Francis may test your reaction to a similar move for Rolls Royce but our understanding is that he is unlikely to press the issue so soon after privatisation.

Line to take: Make it clear that the Government would be unsympathetic to any change in the foreign shareholding limit.

### Possible Launch Aid Application

11. Sir Francis might wish to discuss the prospects for a possible Rolls-Royce application for launch aid under the Civil Aviation Act 1982 for the development of a new engine. The Act places a duty on the Secretary of State to encourage measures for the development of civil aviation. This engine is to be a more powerful version of the RB-211 to be known as RB-211-L. Planned to be in service by 1992 it will be suitable for large planes such as the McDonnell Douglas MD 11, the Boeing 747 and the Airbus A330/A340. Development costs are likely to be £660m over 10 years and Rolls-Royce's application may be for half of this but the company could be expected to settle for £150m. Although the civil aviation sector has a right to apply for launch aid under the Act, there is some doubt at least about whether Rolls-Royce will do so.

Line to take : Make ~~it~~ clear that you would be unsympathetic to such a bid, particularly so soon after the Government's capital injection on privatisation.

### ACOST ISSUES

#### Background

12. In 1985 Sir Francis was appointed Chairman of the Advisory Committee on Research and Development, the forerunner of ACOST. The new body was announced on 20 July in the Government Response to the House of Lords Report on Civil R+D and advises the Government across the whole range of science and technology endeavour. It also has periodic meetings with the Prime Minister. Its establishment was one element of the Government's strengthening of management of S+T at the centre. ACOST's work is in 2 main areas : to prepare annual advice on national priorities for S+T : and to look in greater depth at topics and specific areas of S+T and to provide advice.

#### Centre for Exploitation of Science and Technology

13. This completely independent body was set up last month aiming to improve exploitation of scientific research and development. It is based in Manchester and funded to the tune of £5m by industry with a contribution of £1m from Government. The establishment of such a centre was recommended by ACARD in 1986. The issue which Sir Francis might raise is the difficulty experienced in identifying a full time Chief Executive of the right quality from industry.

#### ACOST Views on General R+D

X 14. Sir Francis wrote to the Prime Minister on 30 September making clear that in ACOST's view the priority was to increase total UK expenditure on civil R+D over the next 5 years. The Government was able to agree with this to the extent that it implied increasing industry's contribution. ACOST's other concerns on R+D policy reflect those of ACARD; in particular they are concerned that Government expenditure is set to decline in real terms; they are also concerned



about plans to reduce DTI support for industrial R+D.

Line to take ; The Autumn Statement announced increases of £100m a year in civil R+D; DTI policy for R+D support is subject to the outcome of their review of innovation.

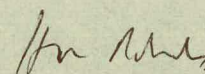
#### ACOST on Space

15. An ACOST discussion group on space recommended to the Prime Minister that while the Government's general policy line on space was satisfactory, efforts should be made to reform ESA, that the British National Space Centre should be more independent of Government, and that more work should be done on defining priorities for space. Mr Kenneth Clarke attempted at the last Ministerial meeting of ESA to promote an agreement to appraise ESA and its programmes but our partners were not amenable. There is a slim possibility that Sir Francis will wish to raise questions on the future of space policy.

Line to take : DTI will be looking at this following its review of innovation. In particular whether UK companies will increase their contribution to the space projects. We will want to continue with efforts to make ESA more conscious of value for money in its programmes.

#### Other Issues Before ACOST

16. Other issues presently before ACOST include : ACOST study of barriers to growth of small firms; setting a strategy for the science base including selectivity for research; how to identify emerging technologies; international aspects of R+D; policies for energy R+D.



MS HM ROBERTS

**TOMBS, Sir Francis (Leonard)**, Kt 1978; FEng 1977; Chairman: Turner & Newall, since 1982; Rolls-Royce, since 1985 (Director, since 1982); Director: N. M. Rothschild & Sons, since 1981; Celltech, since 1983; Shell-UK, since 1983; *b* 17 May 1924; *s* of Joseph and Jane Tombs; *m* 1949, Marjorie Evans; three *d. Educ*: Elmore Green Sch., Walsall; Birmingham Coll. of Technology. BSc (Econ); FIMechE, FIEE; FBIM. GEC, 1939-45; Birmingham Corp., 1946-47; British Electricity Authority, Midlands, then Central Electricity Authority, Merseyside and N Wales, 1947-57; GEC, Erith, 1957-65; C. A. Parsons, Erith, 1965-68; James Howden & Godfrey Ltd, 1968-69; successively Dir of Engrg, Dep. Chm., Chm., South of Scotland Electricity Bd, 1969-77; Chm., Electricity Council, 1977-80. Chm., Weir Group, 1981-83. Member: Nature Conservancy Council, 1978-; Standing Commn on Energy and the Environment, 1978-; SERC, 1982-; ACARD, 1984- (Chm., 1985-); Chm., Engrg Council, 1985-. Pres., IEE, 1981-. Vice-Pres., YHA, 1981-; Chm., Assoc. of British Orchestras, 1982-. Hon. LLD Strathclyde,

1976; Hon. D(Tech) Loughborough, 1979; Hon. DSc: Aston, 1979; Lodz, Poland, 1980; Cranfield, 1985. *Recreations*: music, golf, sailing. *Address*: Honington Lodge, Honington, Shipston-upon-Stour, Warwickshire CV36 5AA. *Club*: Athenæum.

ROLLS-ROYCE PLC

UNAUDITED GROUP PROFIT AND LOSS ACCOUNT

For the 24 weeks to 13th June 1987

ANNEX B

	24 weeks to 13th June 1987	24 weeks to 14th June 1986	Year to 31st December 1986
	<u>Unaudited</u>	<u>Unaudited</u>	<u>Audited</u>
	£m	£m	£m
Turnover	<u>899</u>	<u>784</u>	<u>1,802</u>
Operating profit	152	119	273
Research and development (net)	(84)	(56)	(132)
Interest payable and similar charges	<u>(8)</u>	<u>(10)</u>	<u>(21)</u>
Profit before taxation	60	53	120
Taxation (including 1987 ACT £5m)	<u>(8)</u>	<u>1</u>	<u>1</u>
Profit after taxation	52	54	121
Minority interests	-	<u>(1)</u>	<u>(1)</u>
Profit attributable to shareholders	52	53	120
Dividends - Interim proposed	<u>(14)</u>	<u>-</u>	<u>-</u>
Retained profit	38	53	120
Earnings per ordinary share			
Nil distribution basis	8.6p	8.3p	18.9p
Net basis (if different)	7.9p	-	-

Turnover	%		%		%	
Civil Aero	405	45	341	43	757	42
Military Aero	367	41	313	40	740	41
Industrial and Marine	54	6	62	8	153	9
Other activities	<u>73</u>	<u>8</u>	<u>68</u>	<u>9</u>	<u>152</u>	<u>8</u>
	<u>899</u>	<u>100</u>	<u>784</u>	<u>100</u>	<u>1,802</u>	<u>100</u>

Operating Profit	% on Turnover		% on Turnover		% on Turnover	
Civil Aero	85	21	62	18	137	18
Military Aero	58	16	50	16	118	16
Industrial and Marine	5	10	4	7	10	7
Other Activities	<u>4</u>	<u>5</u>	<u>3</u>	<u>5</u>	<u>8</u>	<u>5</u>
	<u>152</u>	<u>17</u>	<u>119</u>	<u>15</u>	<u>273</u>	<u>15</u>

*ply*

FROM: A C S ALLAN

DATE: 15 December 1987

MISS H M ROBERTS

cc PS/Chief Secretary  
Mr Monck  
Mr Burgner  
Mr D Moore  
Mr Waller  
PS/IR**DINNER WITH ROLLS ROYCE**

Thank you for your brief of 4 December. Discussion at the dinner was primarily about Rolls Royce; ACOST topics were not raised at all.

## 2. On Rolls Royce, the main points made were

- (i) General satisfaction with the way the company was doing, though some concern about the current level of the \$/£ exchange rate. They could live with \$1.80 for perhaps a year at most, but would be seriously concerned if it persisted beyond that. Of their competitors, GE were definitely the more potent threat; Pratt and Whitney had proved much less effective recently.
- (ii) There was some chiding about the difficulties Rolls Royce face because of the limit on foreign shareholdings; but no real pressure for action. They put the blame on DTI for having failed to listen to advice when the privatisation was being put together.
- (iii) A keen interest among their workforce in what was happening on the Rolls Royce share price; this was felt to be a helpful development, even though their workforce was naturally concerned about why the share price had fallen so fast. Sir Francis Tombs noted that many Rolls Royce workers who had bought priority shares at a 10 per cent discount on the public offer price were now receiving Inland Revenue assessments or coding changes to



recover tax on this "benefit", even though the present share price was well below even the discounted price the employees had paid. (Please could the Revenue confirm this tax treatment is correct.) But he was not pressing for any change (and certainly not a retrospective one to help Rolls Royce workers).

- (iv) There was a general pressure for more launch aid, on the basis that this was a good investment for the Government; and that Rolls Royce would certainly not want to get involved in deals where they themselves did not believe a return would be forthcoming.

3. There was also - inevitably - some discussion about electricity privatisation, largely on the lines that everything would have been much easier if the Government had followed Sir Francis Tombs' prescription and set up several regional, vertically integrated companies, on the SSEB model!

ACSA

A C S ALLAN .