



Managing Director

File
Lloyds Merchant Bank Limited
40-66 Queen Victoria Street
London EC4P 4EL
Telephone 01-248 2244
Telex 888421/2

31st December 1985.

The Directors,
Westland plc,
4 Carlton Gardens,
London, S.W.1.

Dear Sirs,

At the request of your financial advisers, we are writing to summarise in one letter, as briefly as practicable, our proposals to assist in the reconstruction of Westland plc ("Westland"), which were set out in more detail in our letters to you of 2nd, 9th, 13th, 20th and 27th December 1985. The proposals, which are included as an Appendix, have been formulated to be financially attractive to Westland, its shareholders and its creditors and also to provide Westland with a substantial amount of guaranteed work for the period 1987 to 1989, which you have consistently said is a key factor. In other respects the proposals accord with the share capital reconstruction recommended to shareholders in your letter of 21st December 1985 containing details of the proposals put forward by UTC/Fiat ("the UTC/Fiat proposals"). Since we understand that it is your intention to copy this letter to Westland shareholders, we confirm that it is in order for you to do this.

In the view of the Consortium, its proposals are significantly better than the UTC/Fiat proposals for existing shareholders and for the employees of Westland.

1. Existing shareholders will only pay 55p per share under the rights issue, as opposed to 60p per share - in total existing shareholders will pay approximately £1.2 million less for the same number of shares.
2. Existing shareholders who take up their rights will receive at no additional cost warrants to subscribe for additional shares, as opposed to UTC receiving options. In our opinion the total value of such warrants/options could be several million pounds.
3. Existing shareholders will, after full conversion and exercise of warrants/options, own approximately 63 per cent. of the increased share capital, as opposed to 50 per cent. under the UTC/Fiat proposals.
4. The Consortium will pay 65p per share for its new shares, as opposed to 60p by UTC/Fiat.

5. The Preference shares to be issued to the Consortium will carry a coupon of only 8 per cent., as opposed to 10 per cent..
6. The Consortium will guarantee 1.5 million direct man hours of work to Westland for the three years 1987 to 1989, as opposed to the UTC commitment, subject to necessary government approvals, of 1 million man hours. In addition, the six Sea Kings, which will be ordered by the Ministry of Defence provided the Consortium's proposals are implemented, should represent a further 300,000 man hours of work.
7. Westland is not required to pay any licence fee to the Consortium. Under the UTC/Fiat proposals Westland will pay to UTC an initial sum of £5 million and certain fixed payments and royalties in respect of the Black Hawk licence.

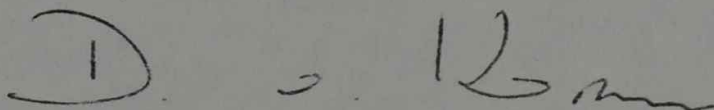
As far as the long-term future of Westland is concerned, our clients wish to repeat that it is their intention to ensure that Westland remains a strong independent U.K. company, participating fully within a European helicopter industry in helicopter design, development, production and sales. Our clients believe that Westland's position on future projects will be more secure within a European helicopter industry. Provided the Consortium's proposals are implemented, Westland would have assured work in the 1990's to the full value of U.K. participation in the three collaborative European projects. We do not see in the alternative proposal a better long-term future for Westland.

We believe that this letter demonstrates clearly the advantages of the Consortium's proposals compared with the UTC/Fiat proposals and that Westland's shareholders should be given the chance to vote on the Consortium's detailed proposals at the earliest opportunity. Accordingly we would hope that you and your financial advisers will withdraw the recommendation made to accept the UTC/Fiat proposals and now recommend the proposals from the Consortium. We respectfully suggest that the Extraordinary General Meeting convened for Tuesday, 14th January 1986, be adjourned after the passing of the Resolution numbered 1 and that a new Extraordinary General Meeting be called for a later date, at which resolutions will be put to approve the Consortium's proposals.

We are authorised to confirm that these proposals are considered by each member of the Consortium to be severally binding upon it in respect of its commitment as described in the Appendix.

We and our clients remain available for meetings with you in order to progress this matter as quickly as possible.

Yours faithfully,
For LLOYDS MERCHANT BANK LIMITED



Managing Director

The Consortium's Proposal

Societe Nationale Aerospatiale of France ("Aerospatiale"), Agusta S.p.A. of Italy ("Agusta"), British Aerospace PLC ("British Aerospace"), The General Electric Company, p.l.c. ("GEC") and Messerschmitt-Boelkow-Blohm GmbH of Germany ("MBB"), together called the "Consortium", are prepared, subject to the conditions set out below, to participate in a reconstruction of Westland on the following terms (the UTC/Fiat proposals are shown for comparison in brackets):-

1. Westland to make a rights issue to existing shareholders of 2 'A' Ordinary shares of 2½p each for every 5 Ordinary shares held, at 55p (60p) per share to raise approximately £13.05 million before expenses. This rights issue will be underwritten by Lloyds Merchant Bank Limited.
2. As part of the rights issue, existing shareholders who take up their rights will receive warrants to subscribe at 85p per share for 2 new 'A' Ordinary shares for every 5 Ordinary shares presently held until December 1996 (UTC alone to receive an option to subscribe for 22.5 million shares at 85p per share).
3. The Consortium to subscribe, equally between them, for a total of 35.5 million Preferred Ordinary shares at 65p (60p) per share at a total cost of £23.1 million (£21.3 million).
4. The Consortium to subscribe, equally between them, for a total of 9 million 8 per cent. (10 per cent.) Cumulative Redeemable 'B' Preference shares of £1 each, at par.
5. In addition, British Aerospace and GEC each to subscribe for 2.5 million 8 per cent. Cumulative Redeemable 'A' Preference shares of £1 each at par, the proceeds to be used by Westland specifically to reduce bank borrowings.
6. Westland's bankers to convert £23 million of Westland's current debt into 7.5 per cent. Convertible Cumulative Redeemable Preference shares of £1 each at par (£21 million of 7.5 per cent. Convertible Preference shares plus £7 million of 10 per cent. Redeemable Preference shares).
7. A reduction of capital reducing the nominal value of the existing Ordinary shares of Westland from 25p to 2½p per share and reducing the share premium account and other reserves accordingly.

The following conditions are specific to the Consortium's proposals:-



1. Each member of the Consortium to be entitled to appoint one Director to the Board of Westland, and for this purpose British Aerospace and GEC jointly to be regarded as one member.
2. Westland's bankers to agree to participate in the reconstruction on the above terms and to make available on the same terms the borrowing and bonding facilities provided for under the UTC/Fiat proposals.

The above terms, when effected, but before the exercise of the warrants, will increase Westland's share capital by £73.1 million, of which the Consortium is contributing £37.1 million.

In summary, and compared with the UTC/Fiat proposals, the proposals of the Consortium are as follows:-

	<u>Consortium</u>	<u>UTC/Fiat</u>
1. New share capital subscribed by the Consortium or UTC/Fiat	£37.1m	£30.0m
2. New share capital subscribed by existing shareholders	£13.0m	£14.2m
3. Conversion of bank debt into Preference capital	£23.0m	£28.0m
4. Total reconstruction package	£73.1m	£72.2m

In addition, existing shareholders of Westland who take up their rights will receive warrants to subscribe for a total of 23.7 million new 'A' Ordinary shares. Assuming full take-up of rights, conversion and exercise of warrants, existing shareholders would own approximately 63 per cent. (only 50 per cent. available under the UTC/Fiat proposals) of the increased share capital and the Consortium approximately 21 per cent. (UTC/Fiat would own 35 per cent. under their proposals).

The Consortium is prepared in due course to reduce its shareholding by sales to U.K. residents, if it is agreed that this will be beneficial to all parties.

The following additional work will be provided to Westland over the period 1987 to 1989, subject to the proposals of the Consortium being implemented:-

- (a) Current contractual arrangements between Aerospatiale and Westland involve Westland in receiving an annual workload of approximately 350,000 man hours. These contracts are due to expire in 1986 and 1987. Aerospatiale will maintain this level of approximately 350,000 man hours per annum until the end of 1990 by renewing similar contracts subject only to negotiating price and delivery schedules.

Aerospatiale will guarantee an additional 35,000 man hours per annum for the years 1987 to 1990, again subject only to negotiations on price and delivery schedules.

Aerospatiale has been informed by the French Government that orders for the Super Puma are being brought forward which will result in a guaranteed extra 33,000 man hours per annum.

- (b) Agusta will guarantee 300,000 engineering man hours over the three years 1987 to 1989 subject only to negotiations on price and delivery schedules.
- (c) Subject to the Consortium's proposals being implemented, the Ministry of Defence will place orders with Westland for six Sea Kings for expected delivery early 1990. We are informed that this order represents approximately 300,000 man hours of work in the period 1987 to 1989.

In summary, Westland would receive guaranteed work for the years 1987 to 1989 as follows:-

	<u>Direct man hours - '000</u>		
	1987	1988	1989
Aerospatiale			
Existing work	350	350	350
Additional work	35	35	35
French Army order	-	33	33
Agusta			
Engineering work	100	100	100
Ministry of Defence			
Sea Kings, say	85	130	85
	<u>570</u>	<u>648</u>	<u>603</u>
	<u>570</u>	<u>648</u>	<u>603</u>
<u>Total:</u>	<u>1,821,000 man hours</u>		

The total amount of guaranteed work for the three years 1987 to 1989 under the Consortium's proposals of 1,821,000 direct man hours compares with 1,000,000 direct man hours under the UTC/Fiat proposals.

In addition to the above, Aerospatiale and Agusta have stated that approximately 150,000 further direct man hours of work per annum are highly probable from 1987 onwards. This work is based on forecasts of future sales.

Participation by UTC in Westland will jeopardise future co-operation between Westland and the other European helicopter manufacturers in at least two out of the three major European collaborative programmes since the future development of the Sikorsky Black Hawk will compete with the NH90 and the American LHX anti-tank helicopter will compete with the European anti-tank helicopter.

In summary, the following table shows that the Consortium's proposals are significantly better in all respects than the UTC/Fiat proposals for Westland, its shareholders, its creditors and employees:-

	<u>Consortium</u>	<u>UTC/Fiat</u>
<u>Financial</u>		
Rights issue price for existing shareholders	55p	60p
Options granted to UTC/Fiat to subscribe for additional shares at 85p	-	22.5 million
Warrants granted to existing shareholders to subscribe for additional Ordinary shares at 85p	23.7 million	None
Subscription price per share for 29.9% stake	65p	60p
Coupon payable by Westland to holders of the Redeemable Preference shares	8 per cent.	10 per cent.
Shareholding of Consortium or UTC/Fiat in Westland following full conversion and exercise of warrants/options	21 per cent.	35 per cent.
Existing shareholders' holding in Westland, following full conversion and exercise of warrants/options	63 per cent.	50 per cent.
<u>Commercial</u>		
Total guaranteed direct man hours for the three years 1987 to 1989	1.8 million	1 million
Initial licence fee	None	£5 million (Black Hawk)

