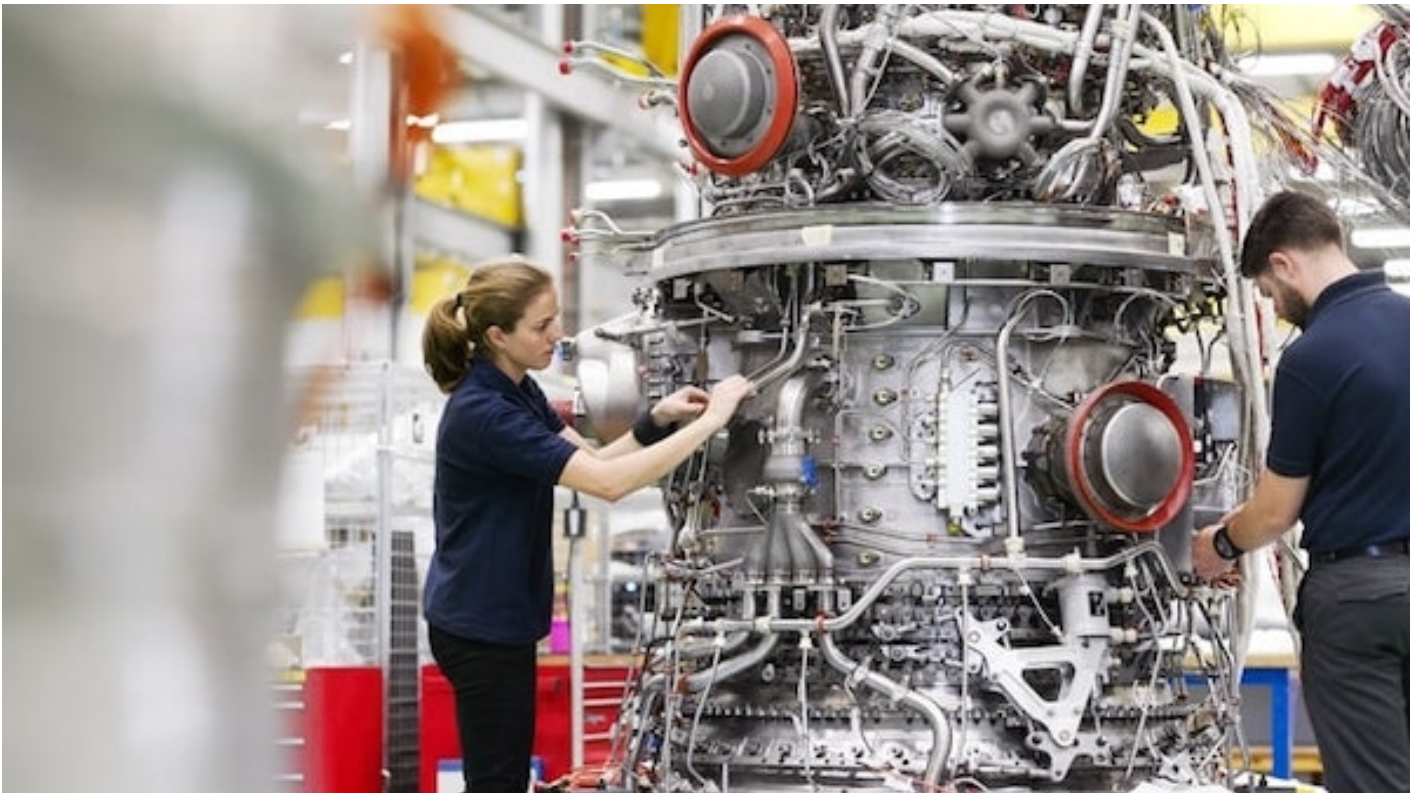




ROLLS-ROYCE MAJOR REORGANISATION - TO ADDRESS MEDIUM-TERM IMPACT OF CORONA CRISIS

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The impact of COVID-19 on Rolls-Royce and the whole of the aviation industry is unprecedented. We have already taken action to strengthen the financial resilience of our business and reduce our cash expenditure in 2020. It is, however, increasingly clear that activity in the commercial aerospace market will take several years to return to the levels seen just a few months ago. We must now address these medium-term structural changes, as demand from customers reduces significantly for our civil aerospace engines and aftermarket services.



Warren East, Rolls-Royce, CEO said: “This is not a crisis of our making. But it is the crisis that we face and we must deal with it. Our airline customers and airframe partners are having to adapt and so must we. Being told that there is no longer a job for you is a terrible prospect and it is especially hard when all of us take so much pride in working for Rolls-Royce. But we must take difficult decisions to see our business through these unprecedented times. Governments across the world are doing what they can to assist businesses in the short-term, but we must respond to market conditions for the medium-term until the world of aviation is flying again at scale, and governments cannot replace sustainable customer demand that is simply not there. We have to do this right, which means we will work closely with our employee and trade union representatives as appropriate, look at any viable alternatives to mitigate the impact, consult with everyone affected and treat our people with dignity and respect. The strategic choices that we have made over the last few years have helped us to respond rapidly to COVID-19 and the synergies between our divisions leave us well placed to capitalise on the long-term potential of our markets. The world on the other side of this pandemic will need the power that we generate to fuel economic recovery. I absolutely believe the call for that power to be more sustainable will be stronger than ever. This plays to our strengths. We must ensure that we are able to continue to innovate and play our leading role in enabling the vital sectors in which we operate achieve net zero carbon emissions. We have emerged from troubled times before, to achieve incredible things. We will do so again.”

We are proposing a major reorganisation of our business to adapt to the new level of demand we are seeing from customers. As a result, we expect the loss of at least 9,000 roles from our global workforce of 52,000. In addition to the savings generated from this headcount reduction, we will also cut expenditure across plant and property, capital and other indirect cost areas. The proposed reorganisation is expected to generate annualised savings of more than £1.3bn, of which we expect headcount to contribute around £700m. The cash restructuring costs related to these actions are likely to be around £800m, with outflows incurred across 2020 to 2022.

The proposed reorganisation will predominantly affect our Civil Aerospace business, where we will carry out a detailed review of our facility footprint. It will also have implications for our central support functions. Our Power Systems business and ITP Aero are currently developing,

negotiating and executing extensive measures to deal with the current situation. Our Defence business, based in the UK and US, has been robust during the pandemic, with an unchanged outlook, and does not need to reduce headcount. As part of the reorganisation, we will ensure that our internal Civil Aerospace supply chain continues to support our defence programmes and explore any opportunities to move people into our Defence business.

Due to the need to consult with the appropriate employee and trade union representatives, we are not providing further details of the impact of the proposed reorganisation on specific sites, or countries, at this stage. The restructuring announced on 14 June 2018 will transition into this wider proposed reorganisation. Focused predominantly on reducing the complexity of our support and management functions, the programme has substantially delivered on its objectives.

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