

07 May 2020

ROLLS-ROYCE HOLDINGS PLC AGM STATEMENT

We are today holding our Annual General Meeting. In his update to shareholders, Chief Executive Warren East will comment: *"In this unprecedented period of uncertainty we have rapidly adapted our business to safeguard its future for all of our stakeholders. We have implemented heightened safety procedures to protect our people and we are providing practical assistance to combat the impact of COVID-19 on the countries in which we operate. In the UK, for instance, we have put our manufacturing and supply chain expertise to use in the drive to increase the supply of ventilators for hospitals. We have also strengthened the financial resilience of the Group to ensure we are well positioned to weather the pandemic. We are working hard to mitigate the near-term disruption caused by COVID-19 and are making stronger than expected progress on our mitigating actions, giving us confidence that we can now deliver up to £1.0 billion of savings this year. However, we must also take the difficult but necessary decisions to ensure the Group emerges from this period with the appropriate cost base for what will be a smaller commercial aerospace market which may take several years to recover. I am proud of the dedication and commitment of my colleagues and thankful for the continuing support of our shareholders and other stakeholders during this challenging time."*

Safeguarding our people, business and communities

Our top priority remains safeguarding the lives and livelihoods of our people. Proactive measures remain in place at our facilities to help keep our people safe and minimise operational disruption, including remote working and modified shifts in our manufacturing facilities, which enable us to continue to serve our customers in these difficult times.

We are supporting our communities with whatever practical help we can offer. In the UK, we are proud to be a member of a consortium producing additional ventilators for hospitals. Across Rolls-Royce, teams are using their manufacturing skills in areas such as 3D printing to produce personal protective equipment (PPE), including over 10,000 face shields, to help protect local healthcare staff. Our R² Data Labs team, meanwhile, has assembled a group of leading companies to collaborate on the Emergent Alliance. This collection of data analytics experts will combine traditional economic data sets with behaviour and sentiment data, to provide insights that will support government decision making through the pandemic.

Update on market conditions and mitigating actions

COVID-19 has caused significant disruption to the global aerospace industry, with an unprecedented reduction in air traffic. In order to mitigate the impact on our 2020 financial performance we immediately implemented a number of actions, as announced on April 6, which were initially expected to deliver a cash flow benefit of at least £750 million in 2020. We have made better than anticipated progress with these actions, and we now expect to deliver up to £1.0 billion of cash savings in 2020. The cancellation of the final 2019 shareholder payment has also conserved an incremental £137 million of cash flow. An additional revolving credit facility of £1.5 billion was secured to bolster the Group's liquidity position and a successful syndication process with a larger group of banks has increased this to £1.9 billion.

Looking ahead, the severity of the disruption caused by COVID-19 is expected to lead to a smaller commercial aerospace market which may take several years to recover. As a result, we are actively pursuing changes to our business, particularly in Civil Aerospace, to better align to medium-term market conditions. We are committed to working with our trade union and employee representatives, as well as our customers and suppliers, as we adjust to the new outlook and establish a more appropriate cost base in order to secure our future for all stakeholders. We have promised to give our people further details of the impact of the current situation on the size of our workforce before the end of this month and will consult with affected employees in due course.

Civil Aerospace widebody engine flying hours were approximately 40% lower than our prior expectations for the first four months of the year. This reflected a fall of 90% in April as airlines around the world have temporarily grounded large proportions of their fleets. As a result of this lower level of activity we are now enacting a significant reduction in the volume of service visits in our maintenance, repair and overhaul (MRO) shops for 2020 versus our original plans and consequently now expect MRO volumes in 2020 to be below 2019 levels. Additionally, our airframe customers have reduced aircraft production rates and as a result we currently expect to deliver around 250 widebody engines in 2020, down from our previous guidance of 450.

We have taken a number of immediate actions to adapt to the current market conditions. These include working with our supply-chain to reduce direct procurement as well as placing over 4,000 of our own employees in the UK on furlough. These actions are not expected to impact the recovery of the Trent 1000, where we remain focused on returning the fleet to full health. We now have enough overhauled and spare engines to reduce aircraft on ground (AOG) to around ten once air traffic resumes, well on the way towards our target to reduce AOG to single-digits by the end of the second quarter.

The diversity of our business units makes us more resilient, with almost half of our sales coming from non-Civil Aerospace end markets. Year to date, our Defence business has been robust, although the impact of social distancing and self-isolation on our operations and those of our suppliers represents a potential risk to activity levels. We are closely monitoring our supply chain and taking actions, where possible, to mitigate the impact on our productivity.

Power Systems, however, has experienced weaker trading since the first quarter due to extended shutdowns in local markets and ongoing travel bans the effects of which have only been partly mitigated by our diverse end market exposure and cost savings. As a result, while we expect a meaningful positive contribution to full year profit and cash flow from Power Systems, its performance in 2020 is likely to show a material deterioration compared to the prior year. The pandemic has particularly impacted our industrial end markets, most notably oil & gas and mining, as well as causing lower services activity and the temporary closure of several yacht production facilities. In PowerGen, delays to construction projects are currently impacting sales of backup power solutions, however looking ahead we continue to anticipate the higher data traffic resulting from COVID-19 to drive greater demand for mission-critical backup power for data centres.

As a Group, we are prepared to endure a prolonged period of uncertainty. Due to the unprecedented reduction in air traffic caused by COVID-19, we are anticipating a significant net cash outflow during the second quarter and it remains too early to guide on the likely outcome for the full year. Meanwhile, our financial position remains robust and our strong liquidity position provides support for our operations. Our strategic choices over the last few years, including streamlining our portfolio, investing in our management systems, and building a culture of agility – have helped us to respond quickly to COVID-19 with actions to mitigate the immediate impact. Once the recovery begins, the shape of our portfolio and the synergies between our divisions will leave us well placed to capitalise on the long-term potential of our markets, and to fulfil our vital role in the world's transition to a low-carbon power future.

Change to scheduled reporting dates

We will provide the market with a post-close update on our first half trading at the start of July. In light of the uncertainty caused by COVID-19 and in order to provide greater clarity on future guidance, our First Half results will now be announced towards the end of August.

About Rolls-Royce Holdings plc

1. Rolls-Royce pioneers cutting-edge technologies that deliver clean, safe and competitive solutions to meet our planet's vital power needs.

2. Rolls-Royce has customers in more than 150 countries, comprising more than 400 airlines and leasing customers, 160 armed forces, 70 navies, and more than 5,000 power and nuclear customers.
3. Annual underlying revenue was £15.3 billion in 2019, around half of which came from the provision of aftermarket services.
4. In 2019, Rolls-Royce invested £1.45 billion on research and development. We also support a global network of 29 University Technology Centres, which position Rolls-Royce engineers at the forefront of scientific research.
5. The Group has a strong commitment to apprentice and graduate recruitment and to further developing employee skills.
6. Rolls-Royce Holdings plc LEI: 213800EC7997ZBLZJH69

For further information, please contact:

Media

Richard Wray
Director of External Communications & Brand
Rolls-Royce plc
Tel +44 (0) 7810 850055
Richard.Wray@Rolls-Royce.com

Investors

Isabel Green
Head of Investor Relations
Rolls-Royce plc
Tel +44 (0) 7880 160976
Isabel.Green@Rolls-Royce.com

Peter Laphorn
Investor Relations Manager
Rolls-Royce plc
Tel. +44 (0) 7717 811 069
Peter.Laphorn@Rolls-Royce.com

www.Rolls-Royce.com

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