

06 April 2020

ROLLS-ROYCE HOLDINGS PLC TRADING UPDATE

This update addresses the measures being taken to protect our people and our business in this challenging period and the impact of disruption from COVID-19 on our financial and operational performance.

Warren East, CEO, said: *“We find ourselves in unprecedented times, both as a company and as a key player in vital power markets across the world. Our priority is to do everything we can to safeguard the lives and livelihoods of our people and to play our part in helping our customers, partners and communities. We are taking significant measures to strengthen the operational and financial resilience of our business. I would like to thank all our 52,000 colleagues worldwide for their support, dedication and hard work at this time when difficult decisions are being made.”*

Safeguarding our people, business and communities

To help keep our people safe and minimise operational disruption we have implemented a number of proactive measures, which are aligned with local and national guidelines. This includes introducing remote working practices alongside workplace measures such as social distancing, enhanced hygiene procedures, modified shift systems in our manufacturing facilities and, where necessary, we have temporarily closed certain facilities to all but essential personnel in order to sustain modified operations over a longer period.

The outbreak of COVID-19 is impacting the countries and communities in which we operate and alongside supporting our people through these challenging times, we are providing practical assistance where we can. In the UK, we are part of the VentilatorChallengeUK Consortium which is working to increase the UK's supply of ventilators. Our role in the consortium is to organise a parallel supply chain to feed in materials as quickly as possible to a number of new assembly plants. Working with the Manufacturing Technology Centre in the UK, expert medical consultant practitioners and supported by Innovate UK, we have also prototyped, developed and put into operation within just one week, a fast-make intubation shield for use with ventilators. Our R² Data Labs team, meanwhile, has assembled an alliance of leading companies across commerce, banking, travel, technology and research to use data analytics to find new and practical ways to support the global response to the

virus. With many children around the world now unable to attend school, we are also using our experience in creating and providing STEM (science, technology, engineering and maths) materials to give them something inspiring and educational to do at home. For instance, we have developed – and recently made available on our website – a range of activities based on our all-electric ACCEL plane project.

Financial and liquidity position

Rolls-Royce exited 2019 in a robust liquidity and financial position as our transformation efforts gained momentum. In response to the change in outlook resulting from the global spread of COVID-19 and to ensure cash headroom in the event of a prolonged reduction in trading activity, we took the precautionary decision in March to draw fully on our £2.5 billion revolving credit facility. Including this cash, which has been placed on short-term deposit, our current gross cash balance is £5.2 billion. We have also secured an additional £1.5 billion revolving credit facility commitment with a consortium of banks, which will increase overall liquidity to £6.7 billion.

The underlying reduction in liquidity in the first quarter primarily reflects our normal adverse seasonal working capital movements, with this being the typical low point for our liquidity. The seasonal movement this year is consistent with our original guidance and in line with amounts seen over each of the past few years. The headwind related to COVID-19 was approximately £300 million, before the impact of mitigations, and largely related to the last six weeks of the period.

The Group has only one outstanding debt maturity in 2020, a \$500 million bond due for repayment in the second half of the year. None of our Group borrowing facilities contain any financial covenants nor are they dependent on our public credit rating.

We are executing a number of specific mitigations to reduce our cash expenditure which will have a cash flow benefit of at least £750 million in 2020 in addition to our ongoing transformation plans. These mitigations include minimising discretionary costs such as non-critical capital expenditure projects, consulting, professional fees and sub-contractor costs, ceasing all non-essential travel, postponing external recruitment, and reducing salary costs across our global workforce by at least 10% in 2020, subject to local legal requirements. Salaries for our senior managers and Executive Team will be reduced by 20% for the rest of 2020, comprising a reduction of 10% and a deferral of 10%, with an additional bonus deferral for the CFO and CEO. There will also be a corresponding reduction in fees for Non-Executive Directors of the Board for the remainder of the year.

Notwithstanding the Group's financial and liquidity position, the Board has decided that in light of the uncertain macro outlook they are no longer recommending a final shareholder payment of 7.1 pence per share in respect of 2019, equivalent to a further £137 million.

Year to date trading impact of COVID-19

Due to the limited visibility of the duration and impact of the pandemic, we are withdrawing our previously announced financial guidance for 2020.

To-date, the primary impact from COVID-19 has been on engine flying hours in our Civil Aerospace business. Widebody flying hours fell by approximately 25% in the first quarter, compared to the prior year, and fell approximately 50% in March, with an expected further deterioration in April and beyond as airlines have grounded an increasing proportion of their fleets over the last few weeks. Output of new widebody engines remained broadly stable in the first quarter as airframe customers maintained production levels. However, our airframe and airline customers are facing unprecedented business challenges and we are in close communication with our customers and suppliers as we prepare for an anticipated reduction in engine delivery and MRO (maintenance, repair and overhaul) volumes.

Our actions to reduce the number of aircraft on the ground (AOG) related to the technical issues on the Trent 1000 engines have continued to deliver positive results, with mid-20s AOG at the end of March, down from mid-30s reported at the end of February, and sufficient overhauled engines now delivered to achieve below 20 when all fitted to aircraft. We expect to reduce this to single-digits by the end of the second quarter and to date our MRO facilities are still operating, despite COVID-19 disruptions. Design work remains on schedule to resolve the last remaining technical issue, a new high pressure turbine blade for the Trent 1000 TEN engine, with ground testing of the new blade progressing through the second quarter. We continue to expect the new design to be ready for incorporation into the fleet by the end of H1 2021.

Power Systems delivered a relatively resilient performance in a weaker trading environment in the first quarter, helped by our diverse mix of end markets and geographies. Reduced demand from the Chinese market and from our oil and gas customers was partly offset by demand for critical backup power generation. Looking ahead, we expect the reduction in economic activity to affect full-year performance, particularly in industrial markets.

Defence activity remains in line with our expectations, with no material operational or financial disruption as a result of COVID-19 in the first quarter. In the UK and US, the government has designated Rolls-Royce as a critical supplier and our Defence facilities remain operational, while observing all health and safety guidance. We will continue to supply and support the engines that power military aircraft, naval vessels and other vehicles, many of which are being called upon to assist the relief effort.

Our Annual General Meeting is scheduled for 7 May 2020. Information regarding our AGM will be published on our website: <http://www.rolls-royce.com>.

This announcement has been determined to contain inside information.
Rolls-Royce Holdings plc LEI: 213800EC7997ZBLZJH69

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.

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The merits or suitability of investing in any securities previously issued or issued in future by the Company for any investor's particular situation should be independently determined by such investor. Any such determination should involve, inter alia, an assessment of the legal, tax, accounting, regulatory, financial, credit and other related aspects of the transaction in question.