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COMMERCIAL IN CONFIDENCE



JF2103  
PS/ Secretary of State for Industry

DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB  
TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

25 November 1982

Michael Scholar Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
LONDON  
SW1

Prime Minister

£109m loss for

Rolls.

Dear Michael,

ms 25/11

ROLLS-ROYCE

I am writing to let you know of recent developments in Rolls-Royce's financial position. My Secretary of State thinks the Prime Minister will wish to be aware of the impact of the airline recession on Rolls' sales and finances as well as the steps which the company have been taking to adjust to the situation.

2 The deepening of the world-wide airline recession has inevitably led to significant reductions in Rolls' sales of civil engines and spares. To counter this down-turn, the company is effecting offsetting savings and improvements; in particular manpower will soon be 7200 lower than at end 1981 and further cuts are planned in 1983.

3 At the beginning of 1982 Rolls-Royce budgeted for a loss of £44 million in 1982 (after providing for manpower restructuring costs of £46 million) and this was taken into account in the Government's approval of their operating plan and budget and in the Government's decisions on the funding of the company. Rolls' latest quarterly forecasts indicate a worsening of the loss figure from £44 million to £109 million after making provision for exchange rate losses on dollar borrowings (£27 million) and for manpower restructuring costs (£59 million).

4 The Government set the company a cash limit of £100 million in 1982 and this will still be achieved with a small margin to spare. The Government's other target for the company is that, apart from launch aid, it should be independent of public funding in calendar year 1983. The company's own publicly stated plans have assumed profitability in 1983 and thereafter. With no improvements in prospect in international trading, the company





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will be hard pressed to achieve these targets in 1983. Our quarterly finance monitoring meeting with the company's finance director on 30 November will show whether and how the company propose to achieve the targets.

5 In the light of this appreciation of the company's position in 1983, my Secretary of State intends to obtain Mr Duncan's first assessment of the company's future prospects. (As Chairman-designate, Mr Duncan, is already taking a very close interest in the company's affairs. He is receiving Board and executive committee papers and is visiting all the company's UK sites). He will then report to colleagues on the options open to the company and the implications for the achievement of the targets.

6 I am sending copies of this letter to the Private Secretaries to the Secretary of State for Foreign and Commonwealth Affairs, the Chancellor of the Exchequer, the Secretary of States for Defence and Trade, Sir Robert Armstrong and John Sparrow.

*Yours sincerely,*

*Jonathan Spencer*

J P SPENCER  
Private Secretary



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ok JV



Prime Minister (2)

Ms 7/12

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

6 December 1982

Jonathan Spencer, Esq.,  
Private Secretary to the  
Secretary of State for Industry  
Department of Industry

Dear Jonathan,

ROLLS-ROYCE

The Chancellor has seen your letter of 25 November to Michael Scholar about Rolls-Royce's current financial situation, and is very concerned about developments. He understands that the loss this year could exceed £130 million.

At the same time the company is pursuing an application for further launch aid towards the RB 211-535 E4 project. The disappointing performance of the RB 211 programme is of course the main reason for Rolls' present difficulties and, with the company forecasting even lower RB 211 sales next year, no improvement is in sight.

The Chancellor feels that against this background, it will be difficult to justify further launch aid. He thinks it would be useful if Lord McFadzean and Mr. Duncan could provide a presentation to Ministers on the company's future plans, which might pay special attention to the prospective return on the E4 project and the alternative courses open to the company if the Government were to decide against providing launch aid.

I understand that Treasury officials have raised this possibility with officials in your Department and that an early February date has been provisionally suggested for the presentation. The Chancellor would be grateful if arrangements could be put in hand as soon as possible.

Copies of this letter go to the Private Secretaries to the Prime Minister, the Secretaries of State for Foreign and Commonwealth Affairs, Defence and Trade, and to Sir Robert Armstrong and Mr. Sparrow.

Yours sincerely,

Margaret O'Mara

MISS M. O'MARA

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Rolls Royce

-7 DEC 1982





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cc JV  
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Foreign and Commonwealth Office

London SW1A 2AH

17 December 1982

*mf*

Prime Minister

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Mus 20/12

*Acw Spencer*

ROLLS ROYCE

Mr Rifkind was interested to see Miss O'Mara's letter of 6 December to you about Rolls Royce, reporting recent comments by the Chancellor on the Company's prospects. He agrees that a presentation by Lord McFadzean and Mr Duncan to Ministers in early February would be helpful, and would like to attend if his commitments allow this.

Mr Rifkind has noted the Chancellor's reaction to the probable extent of Rolls Royce's losses this year. He suggests that we should bear in mind that, whatever reservations there may be about the long term future of the Company, it is important not to give any hint of them outside Government. While Rolls Royce are engaged in important collaboration negotiations with Pratt & Whitney and the Japanese, in an attempt to satisfy the requirement of Ministers that they should work with a leading US Company, any implication that the British Government lacks confidence in them could seriously weaken their position and precipitate the damaging effects we want to avoid.

*Yms em*

*John Macgregor*

J M Macgregor  
Private Secretary to  
Malcolm Rifkind MP

Jonathan Spencer Esq  
Private Secretary to the  
Secretary of State for Industry  
Department of Industry

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PS/ Secretary of State for Industry

Prime Minister (2)

Ms 1571

DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

12 January 1983

Miss M O'Mara  
Private Secretary to the  
Chancellor of the Exchequer  
HM Treasury  
Treasury Chambers  
Parliament Street  
LONDON  
SW1P 3AG

Dear Margaret

ROLLS-ROYCE

Thank you for your letter of 6 December. My Secretary of State is much in favour of a presentation by Rolls-Royce. The idea had already been floated with the company and we are now seeking to fix a date in the second half of February.

2 The Company's Corporate Strategic Plan 1982-91 was only received in the Department on 17 December and the Operating Plan and Budget 1983/84 is not expected before the middle of this month. The Company's various project proposals also need careful scrutiny. A presentation in the second half of the month therefore looks to be a realistic objective and I will be in touch with you shortly (and with the offices of other Ministers who have expressed an interest in the presentation) about a precise date.

3 My Secretary of State would not propose to comment at this stage on your references to the loss which Rolls-Royce is expected to make this year, nor indeed to comment about the level of current RB211 sales. The Chancellor might however care to see the enclosed copy of the letter which Lord McFadzean sent to the Secretary of State covering the company's Corporate Strategic Plan. It shows how the company's own latest estimate of its 1982 loss as £114m has been arrived at.

4 Copies of this letter go to recipients of yours.

*Yours sincerely*  
David Saunders  
DAVID SAUNDERS  
Private Secretary



# ROLLS-ROYCE LIMITED



Chairman's Office

65 Buckingham Gate, LONDON SW1E 6AT  
 Telex: 918091 Telephone: 01-222 9020

The Rt. Hon. Patrick Jenkin, M.P.,  
 Secretary of State for Industry,  
 Ashdown House,  
 123 Victoria Street,  
 LONDON SW1H 0ET.

RECEIVED IN  
 17 DEC 1982  
 SECRETARY OF STATE  
 FOR INDUSTRY'S OFFICE

*Mr Baker W/oe/c*  
 PS/NI  
 PS/JSB  
 PS/Sec  
*Mr Craft*  
*Mr Hudson*  
 PLEASE BY:  
 6/1/83  
 17th December 1982

*Dear Patrick,*

Attached is the Company's corporate strategic assessment for 1982-91. It has been approved by the Board.

Currently Rolls-Royce is meeting, and expects to continue to meet, its cash but, in the short run, not its profit, target. On the latter our latest estimate for 1982 is as follows:-

	1982 <u>£m</u>	1981 <u>£m</u>
Turnover	1,524	1,443
Profit before research and development and financial expenses	99	128
Research and development charge	(119)	(64)
Financial expenses	(46)	(46)
Profit (loss) before taxation	(66)	18
Taxation	(4)	(3)
Profit (loss) after taxation	(70)	15
Attributable to minority shareholders	(1)	(1)
Extraordinary item (net restructuring costs)	(43)	(17)
Net (loss) attributable to Rolls-Royce Limited	(114)	(3)

The main factors contributing to the adverse change are:-

- (i) The severe recession in the civil aerospace industry is expected to result in sales of engines, modules and spares being £84m. below budget with a further decline anticipated in 1983;

.../...



- (ii) Research and Development charges at £119m. will be £55m. above last year. This is a combination of higher expenditure on development - mainly the 535 - and a lower contribution from Government. Although charged to revenue, this expenditure represents investment in the development of new and improved engines;
- (iii) Net restructuring costs at £43m. will be some £26m. higher than in 1981. Manpower reduction programmes will have decreased the workforce by 13,000 (23%) in two years; just over 7,000 of this total will have left in the current year. A further reduction of 5/6,000 is planned for 1983. By 1984 the savings in costs as a result of these reductions, and changes in working practices, should be of the order of £175m. per annum.

Military business, which is over half the Company's turnover, remains satisfactory in the short to medium term but in the longer term will be heavily dependent on the launch of the ACA. On the civil side, the RB211-524 engine will be adversely affected by the termination of the Lockheed L1011 programme. The only other outlet is on the 747, where the 524 is still the most fuel efficient engine in service, and an attempt is being made to establish it also on one of the wide bodied twins. However, the success of the newer RB211-535 engine is fundamental for the future of Rolls-Royce in the civil engine market.

The Company plans to continue tight cost control and efficiency improvements, including the additional manpower reductions. New production methods, including multi-machine manning and the robotisation of turbine blade manufacture, are being introduced.

A number of scenarios are put forward. Unless the recovery of the market warrants more optimistic targets, the Company proposes to adopt the most conservative scenario. This postulates the maintenance of the Company's resource base and investment in R & D at the minimum level judged necessary to enable the Company to meet its commitments in the near term and to meet demand when this picks up again.

Extended collaboration is a feature of the strategy and in the case of civil engines we shall continue to seek a suitable arrangement with Pratt & Whitney or, failing that, with General Electric. However, the current market scene makes it less likely that the proposed RJ500 collaboration will proceed in the short term. Plans for other collaborative projects, including the RTM322 for the EH101 helicopter, are described in the document.



Find Pol  
Rolls Royce, AZ

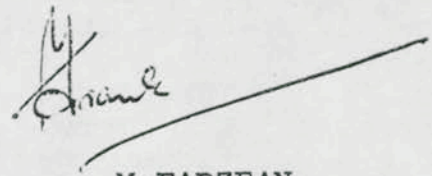
The Company seeks:-

- (i) Your general acceptance of the objectives set out in the attached document;
- (ii) Early acceptance by HMG of the request for further Civil Aviation Act funding to complete development of the -535 engine to the E4 standard, a committed development which is of crucial importance to the future of the Company;
- (iii) Confirmation of the availability of funding for suitable new civil engine projects with an estimated return on investment in excess of 5% in real terms.

The document is unavoidably somewhat lengthy but we hope you will find time to study it, particularly the summary section I, section III and the key financial projections in section IV.

Following preliminary detailed analysis with your officials, we look forward to discussing the main issues with you and with any of your colleagues whom you may wish to participate.

Yours ever,



MCFADZEAN

13 JAN 1967

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With the Compliments of

CENTRAL POLICY REVIEW  
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CABINET OFFICE  
Central Policy Review Staff

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Qa 06219

From: John Sparrow

D Saunders Esq  
Private Secretary  
Department of Industry  
Ashdown House  
123 Victoria Street  
LONDON  
SW1E 6RB

18 January 1983

*Dear David*

Rolls-Royce

Mr Sparrow has read a copy of your letter of 12 January to Margaret O'Mara and asked me to let you know he would like to attend the presentation by Rolls-Royce you are currently trying to arrange.

Copies of this letter go to the recipients of yours.

*Yours sincerely*  
*Gerry Spence*

G B Spence  
Private Secretary

*Encl Ref  
cc 50*

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*ms 181*



Ind Pol,  
Rolls Royce pt 2

18 JAN 1988

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