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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

28 March 1983

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Prime Minister

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

Rolls-Royce loss of

£133m - £20m worse

than forecast.

ms 29/3

Dear Michael

ROLLS-ROYCE LIMITED

Jonathan Spencer wrote to you on 25 November 1982 to let you know of some developments in Rolls-Royce's financial position. We have now heard that the company's preliminary results for 1982 will be announced on Wednesday next, 30 March and my Secretary of State thinks the Prime Minister will wish to know the main points of this announcement.

... 2 I attach a copy of the draft Profit and Loss Account, which shows an overall net loss of £133 million. Net restructuring costs were £38 million, but this figure is net of that part of the costs which can be recovered on MOD contracts; the gross restructuring costs were in fact £58 million. The pre-tax loss (£129 million) is some £20 million worse than forecast in Jonathan's earlier letter. There have been, as one might expect, a number of changes from earlier predictions. The main adverse variances are: increased provision for surplus stock following reductions in planned production (£12 million); other effects of declining workload, eg suppliers' cancellation charges (£20 million); increased exchange rate losses on dollar borrowings (£10 million) and non-realisation of launch aid requested for the RB211-535E4 engine (£10 million). These are offset by a number of favourable variances, for example improved gross margins (£5 million), lower warranty payments and reduced tooling costs (£10 million).

3 The company's cash outflow for the year was £85 million, against a cash limit of £100 million. Within this total \$65 million of short term dollar borrowings were repaid. The company's manpower at the end of the year was 7,580 lower than at end 1981, and a further reduction of some 5,500 is planned for 1983.



COMMERCIAL IN CONFIDENCE

4 My Secretary of State hopes to write to colleagues shortly about Rolls-Royce's financial targets for 1983 and 1984. However, the Prime Minister may wish to know that the company's operating plan and budget shows a pre-tax loss of £56 million in 1983 and a profit of £3 million in 1984 after restructuring costs of £60 million and £41 million respectively. Because of the strenuous efforts it is making to reduce working capital the company expects a positive cash flow in each year. The Government's target that Rolls-Royce should be independent of public funding except for launch aid and R&D support is thus likely to be met.

5 Sir William Duncan formally takes up the Chairmanship on 1 April. In his early months, he intends to undertake a thorough review of the company's strategy and organisation. On the basis of this, my Secretary of State expects that a clearer view of the company's policy and prospects in the medium-term will be possible than hitherto.

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 Secretaries of State for Defence and Trade, Sir Robert Armstrong and John Sparrow.

Yours sincerely

Steve Nicklen

STEPHEN NICKLEN
Private Secretary

Encl

Profit and Loss Account

for the year ended December 31, 1982

Consolidated

	1982	1981
	£m	£m
Turnover	<u>1493</u>	<u>1443</u>
Operating profit	87	128
Research and development (net)	(131)	(64)
Financial expenses	<u>(47)</u>	<u>(46)</u>
Profit (loss) before taxation	(91)	18
Taxation	(3)	(3)
Profit (loss) after taxation	<u>(94)</u>	<u>15</u>
Attributable to minority shareholders	(1)	(1)
Extraordinary item - net restructuring costs	<u>(38)</u>	<u>(17)</u>
Net profit (loss) attributable to Rolls-Royce Limited	<u>(133)</u>	<u>(3)</u>

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