# ROLLS-ROYCE JET ENGINE MAKER FREEZES MANAGERS' SALARIES

**News / Manufacturer**

**Rolls-Royce Holdings will freeze salaries for 8,000 managers as Europe's biggest aircraft-engine maker deepens cost cuts after earnings fell by almost half in 2016.**

**While raises for managers and executive staff will be announced as usual in March, they won't be implemented until September, with no backdated payments, said the chief executive Warren East in an internal message to staff, which was disclosed to Bloomberg and confirmed by the company.**

**Mr East is extending cost cuts after underlying pretax profit fell 49 per cent to £813 million (Dh3.71 billion), with only a "modest" gain expected in 2017. Mr East, who has also eliminated 700 middle-management posts, opted to delay the raise rather than make a smaller award earlier so that future gains will accrue from a higher base, Rolls-Royce said. Factory workers and engineers are not affected.**

"We have maintained reasonable increases for the last few years and this will enable us to continue to invest in the programme and capabilities that will make us a more resilient business,"

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Rolls said. The salary deferral was included in 2017 cash forecasts, with the company targeting free cash flow similar to last year's £100m.

The move could save about £15m, based on 2016's 2 per cent average wage award, with proceeds helping to fund higher output of engines for Airbus' A350 and A330 jets, as well as other projects.

The pay freeze comes after employees qualified for their first bonus in three years in 2016, with the earnings decline less than Rolls and analysts had forecast. The company will return to its normal payment schedule next year, assuming medium-term expectations do not change.

Mr East has been working to restructure Rolls-Royce as its earnings suffer amid a slump in sales of marine propulsion gear tied to the decline in oil prices, lower sales of engines that power regional and corporate aircraft, and reduced utilisation of some older planes powered by its Trent-series turbines, which has led to a decline in maintenance revenue.

He has also appointed a new executive team and refined reporting lines to make the engineering major more responsive to market shocks. At the same time he is seeking to steer Rolls through an unprecedented production boost as it churns out engines for the A350, on which it is the sole supplier.

Mr East said in last week's earnings presentation that he is also turning to a strategic review of the group's operations that could potentially lead to the sale or restructuring of 20 per cent the business, with conclusions to be announced later this year.

Rolls also faces costs from an agreement last month with the UK serious fraud office and the US department of justice to defer prosecution on allegations of bribery and corruption spanning three decades. The company has agree to pay £671m in fines spread over five years.

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**SOURCE: BLOOMBERG**
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