N E W S   R E L E A S E

Rolls-Royce

July 29 2010

ROLLS-ROYCE GROUP plc
2010 HALF-YEARLY RESULTS

Group Highlights

- Order book remains strong at £58.4bn (2009 year-end £58.3bn).
- Group revenues increased to £5,421m (2009 first-half £5,142m). Revenues on an underlying basis* increased by seven per cent to £5,259m. Services revenues increased by eight per cent to £2,615m on an underlying basis.
- Profit before financing was £594m (2009 first-half £593m).
- Underlying profit before taxation* increased by four per cent to £465m (2009 first-half £445m).
- Strong financial position
  - Average net cash for the period improved by £155m to £915m (2009 first-half £760m).
  - Robust balance sheet with net cash of £1,388m at the period-end (2009 year-end £1,275m) after a cash inflow in the period of £113m.
- Interim payment to shareholders increased 6.7 per cent to 6.40 pence per share.

* see note 2 on page 20

Sir John Rose, Chief Executive, said:

"Rolls-Royce delivered a robust performance despite the continuing uncertainty in the global economy.

"We continue to make progress with our development programmes and new facility construction; these investments are designed to underpin the growth embedded in our order book and achieve productivity improvements.

"We now expect underlying profit for the full-year to be modestly higher than 2009, mainly due to good cost control and a strong trading performance from our Marine business. We expect a modest cash inflow for the year and average net cash balances to remain at a similar level to the first-half.

"We are increasing the first-half payment to shareholders by 6.7 per cent".

Group Overview

An increasingly resilient portfolio:

The Group made progress in the first-half of 2010 despite the economic uncertainty, the disruption caused by volcanic eruptions in Iceland and the costs incurred as we invest for future growth. The order book at £58.4bn, underlying revenues of £5.3bn and underlying profit before tax of £465m all increased. The Group maintained its strong financial position with average net cash balances improving by £155m to £915m compared to the first six months of 2009.

Flight test programmes in Civil and Defence aerospace including the Boeing 787, Airbus A400M and Gulfstream G650, all made good progress in the period. The engine for the Airbus A350 XWB, which is due to enter service in 2013, ran for the first time in June. Sea trials of the Astute class submarine and the Type 45 Destroyer, HMS Daring, continued and the Littoral Combat Ship entered active duty.

In April, the Marine business completed the acquisition of ODIM ASA, acquiring the remaining 67 per cent of shares for a cost of £147m, bringing the total cash investment in ODIM ASA to £218m. ODIM ASA adds capability to our strong marine systems portfolio in target markets such as seismic towing, oceanographic survey and subsea and deep-water installation systems.

Rolls-Royce continues to benefit from its global reach and ability to access the world’s faster growing markets. Our success in winning new customers and orders, the breadth and mix of our product and service portfolio, and the financial performance of the Group, demonstrate the resilience of our business. Our confidence in the long-term growth prospects of the Group is reflected in the decision to increase the first-half payment to shareholders by 6.7 per cent to 6.40 pence per share.

A consistent strategy for long-term growth:

The long-term and disciplined application of our power systems strategy across the four segments has created a portfolio we believe can double revenues in the next decade.

Our success at winning business in the widebody aircraft market means Rolls-Royce expects to more than double the current number of Trent engines being delivered by the middle of this decade. To enable this step change in volume, investments in new facilities, tooling and capability have been made in the first-half of 2010 and will continue as we increase operational capacity and improve productivity.

Elsewhere in the business, the first-half saw the official opening of the new Mechanical Test and Operations Centre at Dahlewitz in Germany, and a new facility to support the Joint Strike Fighter LiftFan capability in Indianapolis, USA. Rolls-Royce also expanded the Civil aerospace repair and overhaul facility in Singapore (SAESL) increasing capacity to 250 large engines per year. Significant progress was made with the construction of new facilities at the Seletar Aerospace Park in Singapore and at Crosspointe in Virginia, USA. We continue to develop our UK footprint with additional nuclear manufacturing capacity being added at our facilities in Derby and a new disc manufacturing plant in Sunderland. In addition, we are giving significant support to the development of six advanced manufacturing research centres, four of which will be based in the UK, to improve manufacturing performance across the supply chain.

Strong financial position:

The Group benefits from a robust financial position which has been further strengthened in the first-half. Average net cash balances were £915m, an improvement of £155m over the same period in 2009, with period-end cash balances improving £113m to almost £1.4bn. The Group's debt maturities are well spread with the debt credit ratings assessed by all major rating agencies remaining strong with a stable outlook.

There were no major changes in the position of the Group's UK pension funds over the first-half. Two smaller UK funds are currently undertaking triennial actuarial valuations, and whilst the results will not be available for several months, the Group does not expect any material changes in funding requirements as a result of these reviews.

Despite challenging financing markets, financial and contingent support to customers remains modest.

Trading Summary – 2010 first-half:

Whilst order activity in many markets remains subdued, we secured orders worth £5.9bn in the first-half of 2010, increasing the Group's total order book to a record £58.4bn. Approximately £17.9bn of the order book relates to service contracts. A further £1.1bn of orders were announced at the Farnborough Airshow.

Revenues increased by five per cent to £5.4bn. Underlying revenues improved by seven per cent, with good growth in service revenues from all businesses and an especially strong performance from original equipment sales in the Energy business.

The Group maintained its foreign exchange hedging policy and increased the hedge book over the period to $20.8bn, with an average rate of $1.60. Better rates locked into the hedge book provide visibility of improving rates over the next few years. Underlying profits in the first-half benefited by £37m from improving exchange rates. This consisted of £28m from a seven cent improvement in the USD achieved rate, and a further £9m from translation benefits on overseas businesses, mainly in the Marine segment. For the full-year, USD achieved rates are expected to improve by between six and nine cents contributing between £50m and £75m to underlying profit, compared to 2009.

Investment in research and development was £436m (2009 first-half £440m), of which the Group funded 55 per cent (£238m). The charge to the income statement reduced slightly, by £8m to £192m; primarily as a function of lower cash spend. For the full-year, the charge to the income statement is expected to increase by between £40m and £50m as more engineering time focuses on early stage programmes, such as the Trent XWB, where research and development spending is charged in the income statement as incurred.

The Group has benefited from improved cost control and a strong trading performance in the Marine segment. This has helped mitigate the reduction in profitability in the Civil business, resulting in a modest growth in underlying Group profits.

Underlying profit before tax, which excludes the non-cash impact of the hedge book and other financial instruments, increased by four per cent to £465m (2009 first-half £445m). This growth in profit reflected a six per cent increase in original equipment revenue, eight per cent growth in service revenue, reduced R&D charges, lower restructuring charges and improved foreign exchange rates. These more than offset headwinds due to weaker revenue mix and the non-recurrence of one-off benefits in 2009.

The Group's reported loss before tax of £(475)m, compared with a first-half profit of £2,515m in 2009, includes the effects of the "mark-to-market" of its financial instruments, for which hedge accounting is not adopted. The impact of mark-to-market is included within net financing in the income statement (see note 3 on page 22).

The underlying tax charge of £116m increased £31m from 2009 as the effective rate rose to 25 per cent for the period, from 19 per cent in the first-half of 2009. The 2009 effective rate benefited from a one-off £21m credit following the successful completion of overseas tax audits and changes in legislation. The full-year underlying tax rate is expected to remain at around 25 per cent.

Underlying earnings per share reduced by five per cent to 18.72p (2009 first-half 19.64p), primarily reflecting higher effective tax rate in the first-half of 2010. Basic earnings per share were a loss of 18.07p (2009 first-half - earnings of 100.87p), reflecting the mark-to-market adjustments described above.

The Group reported a good first-half cash performance. Net cash inflow was £113m for the period reflecting an increase in underlying profitability, improved working capital performance, the receipts of inventory disposals under the Aviall distribution services agreement and after the acquisition of ODIM ASA.

Group prospects:

Our power systems strategy has broadened and provided a better balance to our portfolio and has also created a strong financial foundation from which to support long-term growth.

Group prospects are underpinned by access to growing markets, participation in a record number of major programmes and expanding aftermarket service activity. We expect these factors to support a doubling of revenues over the next ten years. We continue to invest in technology, product development and operational facilities to support this growth.

In the short term, the Group expects the global economic environment to remain uncertain. The Group expects underlying revenues to grow by approaching ten per cent in 2010. This includes the benefit of ODIM ASA, which is expected to contribute approximately £200m to Group revenues in 2010.

For the full-year, underlying profits are expected to be modestly higher than 2009, benefitting from a strong trading performance in the Marine segment and improving cost control.

Average cash balances are expected to remain at similar levels to those achieved in the first-half of the year and there will be a modest cash inflow in 2010.

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A copy of this report in Portable Document Format (PDF) can be downloaded from the investors section of the website at www.rolls-royce.com.

This Half-Yearly Results Announcement contains certain forward-looking statements. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. In particular, all statements that express forecasts, expectations and projections with respect to future matters, including trends in results of operations, margins, growth rates, overall market trends, the impact of interest or exchange rates, the availability of financing to the Company, anticipated cost savings or synergies and the completion of the Company's strategic transactions, are forward-looking statements. By their nature, these statements and forecasts involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. The forward-looking statements reflect the knowledge and information available at the date of preparation of this Half-Yearly Results Announcement, and will not be updated during the year. Nothing in this Half-Yearly Results Announcement should be construed as a profit forecast.

REVIEW BY BUSINESS SEGMENT[1 2]

Civil aerospace (First-half)

	2010	2009
Order book (£bn)	**47.3**	47.0
Engine deliveries	**416**	424
Underlying revenues (£m)	**2,294**	2,280
Underlying OE revenues (£m)	**858**	943
Underlying services revenues (£m)	**1,436**	1,337
Underlying profit before financing (£m)	**210**	257

The Civil portfolio benefits from having a large, broad-based and relatively young fleet of engines, which helped to mitigate some of the consequences of the global downturn. The business continued to make progress in the first-half of 2010 with a number of major development and commercial milestones achieved. However, trading conditions remained subdued. This, combined with changes in revenue mix, held back the first-half trading result as expected.

Major milestones achieved on flight test programmes included the Boeing 787, Gulfstream G650 and the Embraer Legacy 650. Development schedules remain on target for these programmes to enter service over the next two years, further expanding the Group's portfolio and market share and underpinning long-term growth. Following the first running of the Trent XWB, development testing will now progress to support its scheduled entry to service in 2013.

Orders totalling £3.3bn were received during the first-half, including orders for 50 Trent and 190 V2500 engines, ensuring the order book remained resilient over the period. A further £1bn of orders were announced during the recent Farnborough Airshow.

The order book includes more than 5,100 engines. This is equivalent to more than 35 per cent of today's installed fleet which was delivered over more than 25 years.

The trading environment remained difficult throughout the first-half, reflecting the ongoing uncertainty in the global economy, specifically the airline industry. Overall deliveries of new engines remained broadly stable, but with a greater emphasis on engines for new aircraft types. The industrial and commercial costs associated with the early phases of these new programmes, combined with subdued aftermarket activity, were the main cause of weaker margins.

A distribution services agreement with Aviall Services Inc. was completed in the first-half. This covers logistics, marketing and customer management on the RB211-524 engine powering the Boeing 747 and 767 aircraft. It will also support spares sales on this programme in 2010 and beyond.

While the airline industry showed some improvement, the impact on services revenues remains modest. Continued capacity discipline by airlines, the impact of the volcanic ash disruption and subdued economic activity in Europe and the USA constrained services revenues growth, which improved by seven per cent in the first-half.

Increased fee income from Risk and Revenue Sharing Partners (RRSPs) and favourable foreign exchange effects were more than offset by weaker original equipment mix in the period, and one-off benefits in 2009 which did not recur. This resulted in lower reported profits in the first-half.

[1] Commentaries relate to underlying revenues and profits unless specifically noted
[2] 2009 order book data relates to 31 December 2009

Civil aerospace outlook

Air travel and air freight have shown signs of recovery but the extent of the improvement varies by region and future trends remain uncertain.

The second half of 2010 will see further mix changes in original equipment revenues resulting from deliveries for new programmes with associated pressure on margins. Services revenues are expected to increase by around ten to twelve per cent in the full-year 2010, benefiting from improved foreign exchange achieved rates, an increasing installed fleet and the Aviall Services Inc. distribution agreement. R&D charges are expected to be £40m to £45m higher than 2009 because of increased activity associated with early phase programmes, such as the Trent XWB. Improved GBP~USD achieved rates will help mitigate some of these effects.

As a result of these factors underlying profits are expected to be modestly lower in 2010 than in 2009.

Defence aerospace (First-half)

	2010	2009
Order book (£bn)	**6.6**	6.5
Engine deliveries	**373**	284
Underlying revenues (£m)	**1,018**	969
Underlying OE revenues (£m)	**510**	473
Underlying services revenues (£m)	**508**	496
Underlying profit before financing (£m)	**158**	136

The Defence aerospace portfolio is characterised by its large installed fleet of engines across a broad range of applications and geographies, supporting more than 160 customers in 103 countries.

A significant number of new Rolls-Royce powered helicopter, transport and combat aircraft programmes continue to make good progress. Development and certification testing in the first-half included the A400M and the F-35 Lightning II Joint Strike Fighter (JSF) LiftSystem™. Good technical progress is also being made with the F136 engine for the JSF.

The TP400 engine has achieved more than 1,500 engine flight test hours on the three aircraft involved in the flight test programme. While there remains continuing uncertainty about the A400M programme, we believe that the future cost of the remaining phases of this development programme have been appropriately provided for.

Total orders in the period reached £1.2bn, of which £0.8bn related to service contracts, including the contract for the UK's Royal Air Force's fleet of RB199 powered Tornado aircraft. This strong performance supported a resilient order book which ended the period at £6.6bn.

Engine deliveries for the transport sector including the C-130J and V-22 Osprey continue to grow, supporting a five per cent improvement in first-half revenues.

Lower restructuring spend, lower R&D charges, improving operational performance and mix helped deliver particularly strong first-half margins and a 16 per cent improvement in underlying profits.

Defence aerospace outlook

The expansion of the portfolio, the strong positions in military transport and access to a global customer base leaves the defence portfolio well positioned to access growing markets. These factors provide resilience in an uncertain budgetary environment.

The business is well positioned to deliver another good performance in 2010. Revenues are expected to grow by mid single digits and, although second half profits will be weaker than the first due to the phasing of costs, we expect strong full-year profit growth.

Marine (First-half)

	2010	2009
Order book (£bn)	**3.2**	3.5
Underlying revenues (£m)	**1,357**	1,227
Underlying OE revenues (£m)	**928**	851
Underlying services revenues (£m)	**429**	376
Underlying profit before financing (£m)	**171**	110

The Marine business provides complex integrated power systems for a range of applications in the offshore oil and gas, specialist vessel and naval markets. It has more than 2,000 customers with equipment installed on more than thirty thousand vessels worldwide.

The Marine business performed particularly strongly in the first-half of 2010 delivering double-digit revenue growth and a 55 per cent improvement in profits despite a challenging trading environment. Cancellations of existing orders have slowed and there are early signs of a recovery in demand. While £1bn of new orders were booked in the period, these did not make up for the completion of existing orders and as a result the order book weakened to £3.2bn at the end of the first-half.

The market for specialist vessels continues to offer good opportunities, and demand from the offshore oil and gas sector remains encouraging, with continued deepwater developments in a number of major offshore locations including Brazil, West Africa and Russia. The completion of the ODIM ASA acquisition in April adds significantly to our capability. We acquired the remaining 67 per cent of the business in April, an investment of £147m in cash (£218m including the 2009 investment), bringing significant seismic, oceanographic and offshore deck handling capabilities.

New programmes achieved a number of important milestones. These included the Littoral Combat Ship (LCS) entering active duty. We now expect the selection between the competing LCS designs, which will move forward to production, to be announced by the end of 2010. Sea trials for the nuclear powered Astute class submarine and the Type 45 Destroyer, HMS Daring, are progressing well.

New service facilities around the world supported good aftermarket growth of 14 per cent in the period, a trend expected to continue through the remainder of the year.

The combination of improving revenue mix, strong operational performance, more favourable contract pricing and the non-recurrence of a number of one-off charges in 2009 contributed to strong improvement in margins and profitability.

Marine outlook

Whilst there are some improving signs for future orders, the environment remains uncertain. However, visibility of the trading profile over the second half remains good. Overall, revenue for the full-year is expected to be modestly below 2009 reflecting weaker original equipment revenues, partly offset by the contribution from ODIM ASA. Full-year profits are expected to be well ahead of 2009 with second half profits slightly lower than those achieved in the first-half of 2010.

Energy (First-half)

	2010	2009
Order book (£bn)	**1.3**	1.3
Engine deliveries	**28**	27
Underlying revenues (£m)	**590**	447
Underlying OE revenues (£m)	**348**	236
Underlying services revenues (£m)	**242**	211
Underlying (loss)/profit before financing (£m)	**(19)**	1

The Energy business is a world-leading provider of power systems for onshore and offshore oil and gas applications with a growing presence in the electric power generation sector. It supplies customers in more than 120 countries. We are building a portfolio of power systems including large gas turbines, diesel and gas reciprocating engines, renewables and civil nuclear power capability.

Energy made solid progress in the period with strong revenue growth and improved operational performance. Against this, a £26m one-off charge relating to retrofit costs across the industrial Trent fleet of Dry Low Emissions (DLE) engines caused a loss for the period of £19m.

Order intake of £0.4bn kept the order book stable at £1.3bn with orders for eight industrial Trent units received in the period.

The oil and gas sector continued to move ahead with substantial investment plans, especially in Brazil, West Africa and Asia. It is too early to judge whether the Macondo well leak in the Gulf of Mexico will have implications for our business, but we have seen no significant changes in customer behaviour to date.

We reported exceptional growth of 47 per cent in original equipment revenues and double-digit service revenue growth in the period.

The Group continues to focus on improving operating performance. Investments in new assembly facilities and testbeds have helped support both improved execution and load growth.

In low carbon technology programmes, the tidal power demonstrator project in the Pentland Firth, Scotland, is expected to commence trials within the next few months. Ongoing development of the fuel cell technology programme continued with investment at a lower level than in prior years.

The Group made good progress in the civil nuclear area with the announcement of a memorandum of understanding with Larsen & Toubro in India focusing on light water reactors in India, and internationally.

Energy outlook

Further revenue growth in the second half of 2010, improving operational performance and reduced investment in new programmes will more than offset the £26m one-off charge, and we expect profits to grow strongly in 2010.

Financial Review – 2010 First-half performance

Foreign exchange:

The pace and extent of currency movements had a material effect on the Group's reported financial performance in 2010, with the GBP exchange rates against the USD, EUR and the NOK having the largest effect. These movements have influenced the reported income statement, the cash flow and the closing net cash position (as set out in the cash flow statement) in the following ways:

1. Income statement – the most significant impact was the period-end mark-to-market of outstanding financial instruments (foreign exchange contracts, interest rate, commodity and jet fuel swaps). The principal adjustments related to the GBP~USD hedge book.

The principal spot rate movements in the period were as follows:

	Dec 31 2009	**June 30 2010**
GBP ~ USD	£1~$1.62	£1~$1.50
GBP ~ Euro	£1~€1.13	£1~€1.22
GBP ~ NOK	£1~NOK9.33	£1~NOK9.73

The average rates throughout the first-half-year were:

	H1 2009	**H1 2010**
GBP ~ USD	£1~$1.49	£1~$1.52
GBP ~ Euro	£1~€1.12	£1~€1.15
GBP ~ NOK	£1~NOK9.96	£1~NOK9.21

The impact of the period-end mark-to-market on all of the outstanding financial instruments is the principal element included within net financing costs in the income statement of £1,069m (2009 £1,922m net financing income), contributing to a published loss before tax of £475m (compared to a profit before tax of £2,515m in the first-half of 2009). These adjustments are non-cash accounting adjustments required under IAS 39 and do not, therefore, reflect the underlying trading performance of the Group for the period.

Underlying profit before tax of £465m benefited from £37m of foreign exchange benefits compared to 2009. The achieved rate on selling net USD income was around seven cents better in 2010 than the same period of 2009, contributing £28m of transactional benefits. In addition translation benefits, mainly from the Norwegian Krone, contributed £9m to underlying profit before tax in the first-half.

2. Balance sheet and cash flow – The Group maintains a number of currency cash balances which vary throughout the financial year. These were impacted by the movements in exchange rates during the period, causing a small improvement of £6m in the periodic cash flow and hence the closing balance sheet cash position.

Income statement:

The firm and announced order book, at constant exchange rates, was £58.4bn (2009 year-end £58.3bn) after reflecting new order intake of £5.9bn in the period. Aftermarket services included in the order book totalled £17.9bn (2009 year-end £16.5bn).

Revenues increased by five per cent compared with 2009 to £5,421m. Revenues on an underlying basis grew by seven per cent. Payments to industrial RRSPs, charged in cost of sales, amounted to £127m (2009 first-half £134m).

Gross research and development investment was £436m (2009 first-half £440m). Net research and development investment, charged to the income statement, was £192m (2009 first-half £200m) after net capitalisation of £46m (2009 first-half £46m) on development programmes in the period. Receipts from RRSPs in respect of new programme developments, shown as other operating income, were £82m (2009 first-half £68m), as key partners joined major new programmes, primarily the Trent XWB.

Restructuring costs of £24m (2009 first-half £37m) were charged, reflecting the ongoing improvement programmes designed to improve future operational performance.

Underlying profit margins before financing fell by approximately 0.3 per cent to 9.4 per cent in the period, impacted specifically by strong growth in lower margin original equipment revenues and retrofit charges within the Energy business, partially offset by both transactional and translational foreign exchange benefits of £37m.

Net financing costs were £1,069m (2009 first-half income £1,922m) including the effects of mark-to-market revaluations. Underlying finance costs were £29m (2009 first-half £33m), reflecting lower interest rates on cash deposits offset by reduced financing charges on financial RRSP arrangements.

Underlying profit before tax was £465m (2009 first-half £445m). Underlying earnings per share reduced by five per cent, to 18.72p (2009 first-half 19.64p) (see note 5 on page 23), reflecting an increase in the effective rate of underlying tax compared to 2009.

The income statement tax credit was £144m (2009 first-half charge £658m), reflecting the large mark-to-market loss caused by the revaluation of various financial instruments at the period-end. The taxation charge on an underlying basis was £116m (2009 £85m), representing 24.9 per cent of underlying profit before tax. The 2010 full-year underlying tax rate is expected to be around 25 per cent.

Balance sheet:

Investment in intangibles during the period was £181m (2009 first-half £167m) and included £69m (2009 first-half £75m) for recoverable engine costs, £60m (2009 first-half £61m) for capitalised development costs and a further £38m (2009 first-half £26m) for certification costs and participation fees. In addition a total of £211m of goodwill and other intangibles were recognised on the acquisition of ODIM ASA.

The continued development and replacement of operational facilities contributed to a total investment in property, plant and equipment of £139m (2009 first-half £106m). Overall, 2010 investment in tangible and intangible assets, excluding those related to the ODIM acquisition, are expected to be slightly above the 2009 level of £633m.

The overall net position of assets and liabilities for TotalCare packages on the balance sheet was an asset of £998m (2009 year-end £970m). The movements reflect new agreements, timing of overhauls and changes in foreign exchange rates.

Provisions were £489m (2009 year-end £442m), including increased provisions against warranties and guarantees reflecting higher volumes. Provisions carried forward in respect of potential customer financing exposure were £83m (2009 year-end £71m).

Cash flow:

Overall working capital reduced by £279m in the period.

The cash inflow in the period of £113m (2009 first-half outflow £428m) included a £6m benefit (2009 first-half £194m outflow) relating to the period-end revaluation of foreign currency cash balances.

Excluding the effects of period-end revaluations, cash flow for the period was £341m higher than 2009. The improvement from 2009 primarily reflected a better performance on deposits and other financial working capital.

Average net cash for the period was £915m (2009 first-half £760m). The net cash balance at the period-end was £1,388m (2009 first-half £1,030m).

There were no material changes to the Group's gross and net contingent liabilities in the period. Contingent liabilities include commitments made to Civil aerospace customers in the form of asset value guarantees (AVGs) and credit guarantees. At the end of June 2010, the gross level of commitments on delivered aircraft was $1,129m (£699m), comprising $641m for AVGs and $488m for credit guarantees. The net exposure after reflecting the level of security was $207m (£128m).

The payment to shareholders will, as before, be made in the form of redeemable C Shares which shareholders may either choose to retain or redeem for a cash equivalent. The Registrar, on behalf of the Company, operates a C Share Reinvestment Plan (CRIP) and can, on behalf of shareholders, purchase ordinary shares from the market rather than delivering a cash payment. The interim payment to shareholders is equivalent to 6.40 pence per ordinary share (2009 6.00 pence), a 6.7 per cent increase over the first-half of 2009.

The interim payment is payable on January 5, 2011 to shareholders on the register on October 29, 2010. The final day of trading with entitlement to C Shares is October 26, 2010.

Condensed consolidated income statement

For the half-year-ended June 30, 2010

	Notes	**Half-year to June 30, 2010 £m**	Half-year to June 30, 2009 £m	Year to December 31, 2009 £m
Revenue	2	**5,421**	5,142	10,414
Cost of sales		**(4,316)**	(4,054)	(8,303)
Gross profit		**1,105**	1,088	2,111
Other operating income		**82**	68	89
Commercial and administrative costs		**(433)**	(407)	(740)
Research and development costs		**(192)**	(200)	(379)
Share of profit of joint ventures and associates		**32**	47	93
Operating profit		**594**	596	1,174
Loss on sale or termination of businesses		**-**	(3)	(2)
Profit before financing		**594**	593	1,172
Financing income	3	**221**	2,170	2,276
Financing costs	3	**(1,290)**	(248)	(491)
Net financing		**(1,069)**	1,922	1,785
(Loss)/profit before taxation [1]		**(475)**	2,515	2,957
Taxation		**144**	(658)	(740)
(Loss)/profit for the period		**(331)**	1,857	2,217
Attributable to:				
Equity holders of the parent		**(334)**	1,859	2,221
Non-controlling interests		**3**	(2)	(4)
(Loss)/profit for the period		**(331)**	1,857	2,217
Earnings per ordinary share [2]				
Basic	5	**(18.07p)**	100.87p	120.38p
Diluted	5	**(18.07p)**	99.95p	119.09p
Payments to shareholders in respect of the period				
Per share	6	**6.40p**	6.00p	15.00p
Total (£m)	6	**119**	111	278
[1] Underlying profit before taxation	2	**465**	445	915

[2] Underlying earnings per ordinary share are shown in note 5.

Condensed consolidated statement of comprehensive income

For the half-year-ended June 30, 2010

	Half-year to June 30, 2010 £m	Half-year to June 30, 2009 £m	Year to December 31, 2009 £m
(Loss)/profit for the period	**(331)**	1,857	2,217
Other comprehensive income			
Foreign exchange translation differences from foreign operations	**(39)**	(288)	(158)
Net actuarial losses	**(63)**	-	(1,148)
Movement in unrecognised post-retirement surplus	**(91)**	(24)	707
Movement in post-retirement minimum funding liability	**27**	25	40
Transfers from transition hedging reserve	**-**	(27)	(27)
Net movements on cash flow hedging reserve in respect of joint ventures and associates	**(22)**	12	22
Related tax movements	**29**	(1)	141
Total comprehensive income for the period	**(490)**	1,554	1,794
Attributable to:			
Equity holders of the parent	**(493)**	1,557	1,799
Non-controlling interests	**3**	(3)	(5)
Total comprehensive income for the period	**(490)**	1,554	1,794

Condensed consolidated balance sheet

At June 30, 2010

	Notes	**June 30, 2010 £m**	June 30, 2009 £m	December 31, 2009 £m
ASSETS				
Non-current assets				
Intangible assets	7	**2,737**	2,286	2,472
Property, plant and equipment		**2,058**	1,916	2,009
Investments – joint ventures and associates		**360**	336	437
Other investments		**10**	55	58
Other financial assets	8	**222**	707	637
Deferred tax assets		**627**	170	360
Post-retirement scheme surpluses	9	**83**	455	75
		6,097	5,925	6,048
Current assets				
Inventory		**2,526**	2,589	2,432
Trade and other receivables		**4,162**	3,802	3,877
Taxation recoverable		**8**	9	12
Other financial assets	8	**196**	69	80
Short-term investments		**326**	1	2
Cash and cash equivalents		**2,808**	2,716	2,962
Assets held for sale		**9**	9	9
		10,035	9,195	9,374
Total assets		**16,132**	15,120	15,422
LIABILITIES				
Current liabilities				
Borrowings		**(820)**	(6)	(126)
Other financial liabilities	8	**(188)**	(743)	(181)
Trade and other payables		**(6,343)**	(5,301)	(5,628)
Current tax liabilities		**(159)**	(153)	(167)
Provisions		**(230)**	(204)	(210)
		(7,740)	(6,407)	(6,312)
Non-current liabilities				
Borrowings		**(1,146)**	(1,879)	(1,787)
Other financial liabilities	8	**(1,388)**	(424)	(868)
Trade and other payables		**(993)**	(1,306)	(1,145)
Non-current tax liabilities		**-**	(1)	-
Deferred tax liabilities		**(410)**	(309)	(366)
Provisions		**(259)**	(173)	(232)
Post-retirement scheme deficits	9	**(1,053)**	(930)	(930)
		(5,249)	(5,022)	(5,328)
Total liabilities		**(12,989)**	(11,429)	(11,640)
Net assets		**3,143**	3,691	3,782
EQUITY				
Capital and reserves				
Called-up share capital		**371**	371	371
Share premium account		**98**	97	98
Capital redemption reserves		**188**	200	191
Hedging reserves		**(41)**	(29)	(19)
Other reserves		**463**	368	506
Retained earnings		**2,061**	2,677	2,635
Equity attributable to equity holders of the parent		**3,140**	3,684	3,782
Non-controlling interests		**3**	7	-
Total equity		**3,143**	3,691	3,782

Condensed consolidated cash flow statement

For the half-year-ended June 30, 2010

	Notes	**Half-year to June 30, 2010 £m**	Half-year to June 30, 2009 £m	Year to December 31, 2009 £m
Reconciliation of cash flows from operating activities				
(Loss)/profit before taxation		**(475)**	2,515	2,957
Share of profit of joint ventures and associates		**(32)**	(47)	(93)
Loss on sale or termination of businesses		**-**	3	2
Loss/(profit) on sale of property, plant and equipment		**1**	(16)	(40)
Net financing	3	**1,069**	(1,922)	(1,785)
Taxation paid		**(69)**	(50)	(119)
Amortisation and impairment of intangible assets	7	**64**	57	121
Depreciation and impairment of property, plant and equipment		**103**	93	194
Impairment of unlisted investments		**2**	-	-
Increase in provisions		**45**	30	81
(Increase)/decrease in inventories		**(79)**	(123)	119
Increase in trade and other receivables		**(240)**	(97)	(14)
Increase/(decrease) in trade and other payables		**598**	(67)	(183)
Increase in other financial assets and liabilities		**(195)**	(184)	(303)
Additional cash funding of post-retirement schemes		**(53)**	(73)	(159)
Share-based payments charge		**8**	15	31
Transfers of hedging reserves to income statement		**-**	(27)	(27)
Dividends received from joint ventures and associates		**36**	30	77
Net cash inflow from operating activities		**783**	137	859
Cash flows from investing activities				
Additions of unlisted investments		**(1)**	(3)	(2)
Disposals of unlisted investments		**46**	-	-
Additions of intangible assets		**(181)**	(167)	(339)
Disposals of intangible assets		**-**	-	2
Purchases of property, plant and equipment		**(175)**	(109)	(258)
Disposals of property, plant and equipment		**10**	29	82
Acquisitions of businesses		**(147)**	-	(7)
Disposals of businesses		**-**	-	3
Investments in joint ventures and associates		**(14)**	(5)	(87)
Disposals of joint ventures and associates		**-**	2	-
Net cash outflow from investing activities		**(462)**	(253)	(606)
Cash flows from financing activities				
Current borrowings – repayment of loans		**-**	(10)	(10)
Current borrowings – increase in loans		**56**	-	-
Non-current borrowings – increase in loans		**-**	692	693
Capital element of finance lease payments		**-**	(1)	(3)
Cash inflow from net increase in borrowings		**56**	681	680
Interest received		**20**	30	24
Interest paid		**(68)**	(48)	(66)
Interest element of finance lease payments		**-**	-	(1)
Increase in government securities and corporate bonds		**(324)**	-	(1)
Issue of ordinary shares		**-**	17	18
Purchase of ordinary shares		**(58)**	(16)	(17)
Other transactions in ordinary shares		**-**	-	(3)
Redemption of C Shares		**(107)**	(101)	(250)
Net cash (outflow)/inflow from financing activities		**(481)**	563	384
(Decrease)/increase in cash and cash equivalents		**(160)**	447	637
Cash and cash equivalents at January 1		**2,958**	2,462	2,462
Foreign exchange		**6**	(195)	(141)
Cash and cash equivalents at period-end		**2,804**	2,714	2,958

	Half-year to June 30, 2010 £m	Half-year to June 30, 2009 £m	Year to December 31, 2009 £m
Reconciliation of movements in cash and cash equivalents to movements in net funds			
(Decrease)/increase in cash and cash equivalents	**(160)**	447	637
Cash outflow from increase in government securities and corporate bonds	**324**	-	1
Cash inflow from net increase in borrowings	**(56)**	(681)	(680)
Change in net funds resulting from cash flows	**108**	(234)	(42)
Net funds (excluding cash and cash equivalents) of businesses acquired	**(1)**	-	-
Exchange adjustments	**6**	(194)	(141)
Fair value adjustments	**4**	136	110
Movement in net funds	**117**	(292)	(73)
Net funds at January 1 excluding the fair value of swaps	**1,051**	1,124	1,124
Net funds at period-end excluding the fair value of swaps	**1,168**	832	1,051
Fair value of swaps hedging fixed rate borrowings	**220**	198	224
Net funds at period-end	**1,388**	1,030	1,275

The movement in net funds (defined by the Group as including the items shown below) is as follows:

	At January 1, 2010 £m	Funds flow £m	Net funds of businesses acquired £m	Non cash flow £m	Exchange £m	Fair value £m	At June 30, 2010 £m
Cash at bank and in hand	1,240	(453)	3	-	22	-	812
Overdrafts	(4)	-	-	-	-	-	(4)
Short-term deposits	1,722	281	9	-	(16)	-	1,996
Cash and cash equivalents	2,958	(172)	12	-	6	-	2,804
Investments	2	324	-	-	-	-	326
Other current borrowings	(122)	(56)	-	(688)	-	50	(816)
Non-current borrowings	(1,786)	-	(1)	688	-	(46)	(1,145)
Finance leases	(1)	-	-	-	-	-	(1)
	1,051	96	11	-	6	4	1,168
Fair value of swaps hedging fixed rate borrowings	224					(4)	220
	1,275	96	11	-	6	-	1,388

Condensed consolidated statement of changes in equity

For the half-year-ended June 30, 2010

	Attributable to equity holders of the parent								
	Share capital £m	Share premium £m	Capital redemption reserves £m	Hedging reserves £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At January 1, 2009	**369**	**82**	**204**	**(22)**	**663**	**920**	**2,216**	**9**	**2,225**
Profit for the period	-	-	-	-	-	1,859	1,859	(2)	1,857
Foreign exchange translation differences on foreign operations	-	-	-	-	(287)	-	(287)	(1)	(288)
Movement in unrecognised post-retirement surplus	-	-	-	-	-	(24)	(24)	-	(24)
Movement in post-retirement minimum funding liability	-	-	-	-	-	25	25	-	25
Transfers from transition hedging reserve	-	-	-	(27)	-	-	(27)	-	(27)
Transfers to cash flow hedging reserve	-	-	-	12	-	-	12	-	12
Related tax movements – deferred tax	-	-	-	8	(8)	(1)	(1)	-	(1)
Total comprehensive income	**-**	**-**	**-**	**(7)**	**(295)**	**1,859**	**1,557**	**(3)**	**1,554**
Arising on issue of ordinary shares	2	15	-	-	-	-	17	-	17
Issue of C Shares	-	-	(105)	-	-	-	(105)	-	(105)
Redemption of C Shares	-	-	101	-	-	(101)	-	-	-
Ordinary shares purchased	-	-	-	-	-	(16)	(16)	-	(16)
Share-based payments adjustment	-	-	-	-	-	15	15	-	15
Transactions with non-controlling interests	-	-	-	-	-	-	-	1	1
Other changes in equity in the period	**2**	**15**	**(4)**	**-**	**-**	**(102)**	**(89)**	**1**	**(88)**
At June 30, 2009	**371**	**97**	**200**	**(29)**	**368**	**2,677**	**3,684**	**7**	**3,691**
Profit for the period	-	-	-	-	-	362	362	(2)	360
Foreign exchange translation differences on foreign operations	-	-	-	-	130	-	130	-	130
Net actuarial losses	-	-	-	-	-	(1,148)	(1,148)		(1,148)
Movement in unrecognised post-retirement surplus	-	-	-	-	-	731	731	-	731
Movement in post-retirement minimum funding liability	-	-	-	-	-	15	15	-	15
Transfers to cash flow hedging reserve	-	-	-	10	-	-	10	-	10
Related tax movements – deferred tax	-	-	-	-	8	134	142	-	142
Total comprehensive income	**-**	**-**	**-**	**10**	**138**	**94**	**242**	**(2)**	**240**
Arising on issue of ordinary shares	-	1	-	-	-	-	1	-	1
Issue of C Shares	-	-	(159)	-	-	1	(158)	-	(158)
Redemption of C Shares	-	-	150	-	-	(150)	-	-	-
Ordinary shares purchased	-	-	-	-	-	(1)	(1)	-	(1)
Share-based payments adjustment	-	-	-	-	-	13	13	-	13
Transactions with non-controlling interests	-	-	-	-	-	-	-	(5)	(5)
Related tax movements – deferred tax	-	-	-	-	-	1	1	-	1
Other changes in equity in the period	**-**	**1**	**(9)**	**-**	**-**	**(136)**	**(144)**	**(5)**	**(149)**
At December 31, 2009	**371**	**98**	**191**	**(19)**	**506**	**2,635**	**3,782**	**-**	**3,782**
Loss for the period	-	-	-	-	-	(334)	(334)	3	(331)
Foreign exchange translation differences on foreign operations	-	-	-	-	(39)	-	(39)	-	(39)
Net actuarial losses	-	-	-	-	-	(63)	(63)	-	(63)
Movement in unrecognised post-retirement surplus	-	-	-	-	-	(91)	(91)	-	(91)
Movement in post-retirement minimum funding liability	-	-	-	-	-	27	27	-	27
Transfers from cash flow hedging reserve	-	-	-	(22)	-	-	(22)	-	(22)
Related tax movements – deferred tax	-	-	-	-	(4)	33	29	-	29
Total comprehensive income	**-**	**-**	**-**	**(22)**	**(43)**	**(428)**	**(493)**	**3**	**(490)**
Issue of C Shares	-	-	(111)	-	-	1	(110)	-	(110)
Redemption of C Shares	-	-	108	-	-	(108)	-	-	-
Ordinary shares purchased	-	-	-	-	-	(58)	(58)	-	(58)
Share-based payments adjustment	-	-	-	-	-	16	16	-	16
Related tax movements – deferred tax	-	-	-	-	-	3	3	-	3
Other changes in equity in the period	**-**	**-**	**(3)**	**-**	**-**	**(146)**	**(149)**	**-**	**(149)**
At June 30, 2010	**371**	**98**	**188**	**(41)**	**463**	**2,061**	**3,140**	**3**	**3,143**

Notes to the condensed consolidated financial statements

1 Basis of preparation and accounting policies

Reporting entity

Rolls-Royce Group plc is a company domiciled in the UK. These condensed consolidated half-year financial statements of the Company as at and for the six months ended June 30, 2010 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in joint ventures and associates.

The consolidated financial statements of the Group as at and for the year-ended December 31, 2009 (2009 Annual report) are available upon request from the Company Secretary, Rolls-Royce Group plc, 65 Buckingham Gate, London SW1E 6AT.

Statement of compliance

These condensed consolidated half-year financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union. They do not include all of the information required for full annual statements, and should be read in conjunction with the 2009 Annual report.

The comparative figures for the financial year December 31, 2009 are not the Group's statutory accounts for that financial year. Those accounts have been reported on by the Group's auditors and delivered to the registrar of companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The Board of directors approved the condensed consolidated half-year financial statements on July 28, 2010.

Significant accounting policies

The accounting policies applied by the Group in these condensed consolidated half-year financial statements are the same as those that applied to the consolidated financial statements of the Group for the year-ended December 31, 2009 (International Financial Reporting Standards issued by the International Accounting Standards Board, as adopted for use in the EU effective at December 31, 2009), with the following exceptions:

- Revised IFRS 3 *Business Combinations* and amendments to IAS 27 *Consolidated and Separate Financial Statements* have been adopted. These standards affect the accounting for acquisitions and transactions with non-controlling interests, in particular, the acquisition of ODIM ASA. There is no retrospective impact.
- IFRIC 18 *Transfers of Assets from Customers* has been adopted. This interpretation confirms the Group's existing policies for the recognition of assets received from customers and there is no significant impact.
- Amendments to IFRS 2 *Group Cash-settled Share-based Payment Transactions* has been adopted. These amendments apply to the International ShareSave Scheme, but the impact is not significant.

Key sources of estimation uncertainty

In applying the accounting policies, management has made appropriate estimates in many areas, and the actual outcome may differ from those calculated. The key sources of estimation uncertainty at the balance sheet date were the same as those that applied to the consolidated financial statements of the Group for the year-ended December 31, 2009.

2 Analysis by business segment

The analysis by business segment is presented in accordance with the basis set out in IFRS 8 *Operating segments*.

The operating results are prepared on an underlying basis that excludes items considered to be non-underlying in nature. The principles adopted are:

Underlying revenues – Where revenues are denominated in a currency other than the functional currency of the Group undertaking, these reflect the achieved exchange rates arising on settled derivative contracts and exclude the release of the foreign exchange transition hedging reserve, which was fully utilised in 2009.

Underlying profit before financing – Where transactions are denominated in a currency other than the functional currency of the Group undertaking, this reflects the transactions at the achieved exchange rates on settled derivative contracts and excludes the release of the foreign exchange transition hedging reserve.

Underlying profit before taxation – In addition to those adjustments in underlying profit before financing, this:

- Includes amounts realised from settled derivative contracts and revaluation of relevant assets and liabilities to exchange rates forecast to be achieved from future settlement of derivative contracts; and
- Excludes unrealised amounts arising from revaluations required by IAS 39 *Financial Instruments: Recognition and Measurement*, changes in value of financial RRSP contracts arising from changes in forecast payments and the net impact of financing costs related to post-retirement scheme benefits.

This analysis also includes a reconciliation of the underlying results to those reported in the consolidated income statement.

	Half-year to June 30, 2010			Half-year to June 30, 2009			Year to December 31, 2009		
	Original equipment £m	**Aftermarket £m**	**Total £m**	Original equipment £m	Aftermarket £m	Total £m	Original equipment £m	Aftermarket £m	Total £m
Underlying revenues									
Civil aerospace	**858**	**1,436**	**2,294**	943	1,337	2,280	1,855	2,626	4,481
Defence aerospace	**510**	**508**	**1,018**	473	496	969	964	1,046	2,010
Marine	**928**	**429**	**1,357**	851	376	1,227	1,804	785	2,589
Energy	**348**	**242**	**590**	236	211	447	558	470	1,028
	2,644	**2,615**	**5,259**	2,503	2,420	4,923	5,181	4,927	10,108

	Half-year to June 30, 2010 £m	Half-year to June 30, 2009 £m	Year to December 31, 2009 £m
Underlying profit before financing			
Civil aerospace	**210**	257	493
Defence aerospace	**158**	136	253
Marine	**171**	110	263
Energy	**(19)**	1	24
Reportable segments	**520**	504	1,033
Underlying central items	**(26)**	(26)	(50)
Underlying profit before financing	**494**	478	983
Underlying net financing	**(29)**	(33)	(68)
Underlying profit before taxation	**465**	445	915
Underlying taxation	**(116)**	(85)	(187)
Underlying profit for the period	**349**	360	728

Net assets/(liabilities)

	Total assets			Total liabilities			Net assets/(liabilities)		
	June 30, 2010	June 30, 2009	December 31, 2009	**June 30, 2010**	June 30, 2009	December 31, 2009	**June 30, 2010**	June 30, 2009	December 31, 2009
Civil aerospace	**7,665**	7,835	7,612	**(5,822)**	(5,164)	(4,918)	**1,843**	2,671	2,694
Defence aerospace	**1,343**	1,102	1,228	**(1,675)**	(1,390)	(1,573)	**(332)**	(288)	(345)
Marine	**2,498**	2,375	2,379	**(1,763)**	(1,845)	(1,738)	**735**	530	641
Energy	**1,060**	922	1,025	**(647)**	(415)	(492)	**413**	507	533
Reportable segments	**12,566**	12,234	12,244	**(9,907)**	(8,814)	(8,721)	**2,659**	3,420	3,523
Eliminations	**(506)**	(663)	(457)	**506**	663	457	**-**	-	-
Net funds	**3,354**	2,915	3,188	**(1,966)**	(1,885)	(1,913)	**1,388**	1,030	1,275
Tax assets/(liabilities)	**635**	179	372	**(569)**	(463)	(533)	**66**	(284)	(161)
Post-retirement scheme surpluses/(deficits)	**83**	455	75	**(1,053)**	(930)	(930)	**(970)**	(475)	(855)
	16,132	15,120	15,422	**(12,989)**	(11,429)	(11,640)	**3,143**	3,691	3,782

Group employees at period-end

	June 30, 2010	June 30, 2009	December 31, 2009
Civil aerospace	**21,100**	21,700	21,500
Defence aerospace	**5,500**	5,500	5,500
Marine	**9,400**	8,600	8,700
Energy	**2,900**	2,500	2,600
	38,900	38,300	38,300

Underlying revenue adjustments

	Half-year to June 30, 2010 £m	Half-year to June 30, 2009 £m	Year to December 31, 2009 £m
Underlying revenue	**5,259**	4,923	10,108
Exclude achieved rate of settled derivative contracts	**162**	192	279
Release of transition hedging reserve	**-**	27	27
Revenue per consolidated income statement	**5,421**	5,142	10,414

Underlying profit adjustments

	Half-year to June 30, 2010			Half-year to June 30, 2009			Year to December 31, 2009		
	Profit before financing £m	Net financing £m	Taxation £m	Profit before financing £m	Net financing £m	Taxation £m	Profit before financing £m	Net financing £m	Taxation £m
Underlying performance	**494**	**(29)**	**(116)**	478	(33)	(85)	983	(68)	(187)
Release of transition hedging reserve	**-**	**-**	**-**	27	-	-	27	-	-
Realised losses on settled derivative contracts[1]	**121**	**5**	**-**	182	66	-	274	60	-
Net unrealised fair value changes to derivative contracts[2]	**(12)**	**(1,018)**	**-**	10	1,939	-	14	1,835	-
Effect of currency on contract accounting	**(9)**	**-**	**-**	(104)	-	-	(126)	-	-
Revaluation of trading assets and liabilities	**-**	**5**	**-**	-	(8)	-	-	(17)	-
Financial RRSPs – exchange differences and changes in forecast payments	**-**	**(19)**	**-**	-	8	-	-	72	-
Net post-retirement scheme financing	**-**	**(13)**	**-**	-	(50)	-	-	(97)	-
Related tax effect	**-**	**-**	**260**	-	-	(573)	-	-	(553)
Total underlying adjustments	**100**	**(1,040)**	**260**	115	1,955	(573)	189	1,853	(553)
Reported per consolidated income statement	**594**	**(1,069)**	**144**	593	1,922	(658)	1,172	1,785	(740)

[1] Realised losses on settled derivative contracts included in profit before tax:
- includes £1m of realised losses (2009: half-year £10m, full-year £15m) deferred from prior periods;
- excludes £7m of losses (2009: half-year nil, full-year gains of £6m) realised in the period on derivative contracts settled in respect of cash flows that will occur after the period-end;
- excludes £6m of realised losses (2009: half and full-year nil) recognised in prior periods when the related trading contracts were cancelled; and
- excludes nil (2009: half-year nil, full-year £14m) realised in respect of derivatives held in net investment hedges.

[2] The adjustment for unrealised fair value changes included in profit before financing includes the reversal of £11m of unrealised losses (2009: half-year £1m unrealised losses, full-year £5m unrealised gains) in respect of derivative contracts held by joint ventures and £1m (2009: half-year £9m, full-year £9m) of unrealised losses for which the related trading contracts have been cancelled and consequently the fair value loss has been recognised immediately in underlying profit.

3 Net financing

	Half-year to June 30, 2010		Half-year to June 30, 2009		Year to December 31, 2009	
	Per consolidated income statement £m	***Underlying net financing £m***	Per consolidated income statement £m	*Underlying net financing £m*	Per consolidated income statement £m	*Underlying net financing £m*
Financing income						
Interest receivable	**8**	***8***	13	*13*	21	*21*
Fair value gains on foreign currency contracts	**-**	**-**	1,909	-	1,783	-
Financial RRSPs – foreign exchange differences and changes in forecast payments	**-**	**-**	8	-	72	-
Fair value gains on commodity derivatives	**-**	**-**	30	-	52	-
Expected return on post-retirement scheme assets	**201**	**-**	152	-	305	-
Net foreign exchange gains	**10**	**-**	58	-	43	-
Other financing income	**2**	***2***	-	-	-	-
	221	***10***	2,170	*13*	2,276	*21*
Financing costs						
Interest payable	**(30)**	***(30)***	(31)	*(31)*	(64)	*(64)*
Fair value losses on foreign currency contracts	**(1,017)**	**-**	-	-	-	-
Financial RRSPs – foreign exchange differences and changes in forecast payments	**(19)**	**-**	-	-	-	-
Financial charge relating to financial RRSPs	**(9)**	***(9)***	(14)	*(14)*	(25)	*(25)*
Fair value losses on commodity derivatives	**(1)**	**-**	-	-	-	-
Interest on post-retirement scheme liabilities	**(214)**	**-**	(202)	-	(402)	-
Other financing charges	**-**	**-**	(1)	*(1)*	-	-
	(1,290)	***(39)***	(248)	*(46)*	(491)	*(89)*
Net financing	**(1,069)**	***(29)***	1,922	*(33)*	1,785	*(68)*
Analysed as:						
Net interest payable	**(22)**	***(22)***	(18)	*(18)*	(43)	*(43)*
Net post-retirement scheme financing	**(13)**	**-**	(50)	-	(97)	-
Net other financing	**(1,034)**	***(7)***	1,990	*(15)*	1,925	*(25)*
Net financing	**(1,069)**	***(29)***	1,922	*(33)*	1,785	*(68)*

4 Taxation

The effective tax rate for the half-year is 30.3% (2009: half-year 26.2%, full-year 25%). In accordance with IAS 12 *Income Taxes* the effective rate does not take into account the impact in 2010 of the proposed reduction in the UK corporation tax rate from 28% to 27% as the legislation had not been substantively enacted by the balance sheet date. (Similarly, proposed future reductions in the rate to 24% will be reflected when the relevant legislation is substantively enacted.) The impact of the reduction in the rate on the underlying effective tax rate for the full-year is not expected to be significant.

5 Earnings per ordinary share (EPS)

Basic EPS is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares held under trust, which have been treated as if they had been cancelled.

Diluted EPS is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period as above, adjusted by the bonus element of share options.

	Half-year to June 30, 2010			Half-year to June 30, 2009			Year to December 31, 2009		
	Basic	**Potentially dilutive share options [1]**	**Diluted**	Basic	Potentially dilutive share options	Diluted	Basic	Potentially dilutive share options	Diluted
(Loss)/profit (£m)	**(334)**	**-**	**(334)**	1,859	-	1,859	2,221	-	2,221
Weighted average shares (millions)	**1,848**	**-**	**1,848**	1,843	17	1,860	1,845	20	1,865
EPS (pence)	**(18.07)**	**-**	**(18.07)**	100.87	(0.92)	99.95	120.38	(1.29)	119.09

[1] As the basic EPS is negative, in accordance with IAS 33 *Earnings per Share*, share options are not considered dilutive. For diluted underlying EPS, the weighted average number of shares was 1,874m.

The reconciliation between underlying EPS and basic EPS is as follows:

	Half-year to June 30, 2010		Half-year to June 30, 2009		Year to December 31, 2009	
	Pence	**£m**	Pence	£m	Pence	£m
Underlying EPS / Underlying profit attributable to equity holders of the parent	**18.72**	**346**	19.64	362	39.67	732
Total underlying adjustments to (loss)/profit before tax (note 2)	**(50.86)**	**(940)**	112.32	2,070	110.68	2,042
Related tax effects	**14.07**	**260**	(31.09)	(573)	(29.97)	(553)
Basic EPS / (Loss)/profit attributable to equity holders of the parent	**(18.07)**	**(334)**	100.87	1,859	120.38	2,221
Diluted underlying EPS	**18.46**		19.46		39.25	

6 Payments to shareholders in respect of the period

Payments to shareholders in respect of the period represent the value of C Shares to be issued in respect of the results for the period. Issues of C Shares were declared as follows:

	Half-year to June 30, 2010		Year to December 31, 2009	
	Pence per share	**£m**	Pence per share	£m
Interim	6.40	119	6.00	111
Final			9.00	167
	6.40	119	15.00	278

7 Intangible assets

	Goodwill £m	Certification costs and participation fees £m	Development expenditure £m	Recoverable engine costs £m	Software and other £m	Total £m
Cost:						
At January 1, 2010	**991**	**631**	**751**	**586**	**273**	**3,232**
Exchange adjustments	**(51)**	**(5)**	**-**	**-**	**(8)**	**(64)**
Additions	**-**	**38**	**60**	**69**	**14**	**181**
On acquisition of businesses	**115**	**-**	**-**	**-**	**96**	**211**
At June 30, 2010	**1,055**	**664**	**811**	**655**	**375**	**3,560**
Accumulated amortisation and impairment:						
At January 1, 2010	**7**	**177**	**205**	**296**	**75**	**760**
Exchange adjustments	**-**	**(1)**	**-**	**-**	**-**	**(1)**
Provided during the period	**-**	**6**	**14**	**28**	**16**	**64**
At June 30, 2010	**7**	**182**	**219**	**324**	**91**	**823**
Net book value at June 30, 2010	**1,048**	**482**	**592**	**331**	**284**	**2,737**
Net book value at January 1, 2010	984	454	546	290	198	2,472

8 Other financial assets and liabilities

	Half-year to June 30, 2010			Half-year to June 30, 2009			Year to December 31, 2009		
	Assets £m	**Liabilities £m**	**Net £m**	Assets £m	Liabilities £m	Net £m	Assets £m	Liabilities £m	Net £m
Foreign exchange contracts	**229**	**(1,232)**	**(1,003)**	596	(680)	(84)	501	(645)	(144)
Commodity contracts	**14**	**(23)**	**(9)**	-	(42)	(42)	15	(26)	(11)
	243	**(1,255)**	**(1,012)**	596	(722)	(126)	516	(671)	(155)
Interest rate contracts	**175**	**(2)**	**173**	180	(3)	177	201	(2)	199
Financial RRSPs	**-**	**(303)**	**(303)**	-	(438)	(438)	-	(363)	(363)
C Shares	**-**	**(16)**	**(16)**	-	(4)	(4)	-	(13)	(13)
	418	**(1,576)**	**(1,158)**	776	(1,167)	(391)	717	(1,049)	(332)
Current	**196**	**(188)**		69	(743)		80	(181)	
Non-current	**222**	**(1,388)**		707	(424)		637	(868)	
	418	**(1,576)**		776	(1,167)		717	(1,049)	

Foreign exchange and commodity financial instruments

	Half-year to June 30, 2010			Half-year to June 30, 2009	Year to December 31, 2009
	Foreign exchange £m	**Commodity £m**	**Total £m**	Total £m	Total £m
At January 1	**(144)**	**(11)**	**(155)**	(2,270)	(2,270)
Fair value changes to fair value hedges	**23**	**-**	**23**	(39)	(33)
Fair value changes to net investment hedges	**-**	**-**	**-**	6	(14)
Fair value changes to other derivative contracts	**(1,017)**	**(1)**	**(1,018)**	1,939	1,835
Fair value of contracts settled	**135**	**3**	**138**	238	327
At period-end	**(1,003)**	**(9)**	**(1,012)**	(126)	(155)

Financial risk and revenue sharing partnerships (financial RRSPs)

	Half-year to June 30, 2010 £m	Half-year to June 30, 2009 £m	Year to December 31, 2009 £m
At January 1	**(363)**	(455)	(455)
Cash paid to partners	**82**	17	55
Addition	**-**	(15)	(15)
Exchange adjustments direct to reserves	**6**	21	6
Financing charge [1]	**(9)**	(14)	(26)
Excluded from underlying profit: [1]			
Exchange adjustments	**(19)**	12	45
Changes in forecast payments	**-**	(4)	27
At period-end	**(303)**	(438)	(363)

[1] Amounts included in net financing in the income statement. The financing charge for 2009 full-year excluded £1m (2009 half-year nil) of financing charge capitalised in intangible assets.

9 Pensions and other post-retirement benefits

The net post-retirement scheme deficit as at June 30, 2010 is calculated on a year to date basis, using the latest valuation as at December 31, 2009, updated to June 30, 2010 for the principal schemes. This update does not take account of the proposal, announced by the UK government on July 8, 2010, to limit the rate of increases in pensions to the Consumer Prices Index rather than the Retail Price Index. The impact of this proposal will depend, inter alia, on the rules of the relevant schemes and the detailed legislation supporting the proposal, which will be assessed during the second half of 2010. In 2009, there were no significant fluctuations or one-time events during the first-half that required adjustment to the actuarial assumptions made at December 31, 2008 and the net post-retirement deficit was calculated on a year-to-date basis, using the valuation as at December 31, 2008.

Movements in the net post-retirement position recognised in the balance sheet were as follows:

	UK schemes £m	Overseas schemes £m	Total £m
At January 1, 2010	**(380)**	**(475)**	**(855)**
Exchange adjustments	**-**	**(29)**	**(29)**
Current service cost	**(58)**	**(16)**	**(74)**
Interest on post-retirement scheme liabilities	**(189)**	**(25)**	**(214)**
Expected return on post-retirement scheme assets	**188**	**13**	**201**
Contributions by employer	**106**	**21**	**127**
Actuarial gain/(losses) [1]	**54**	**(116)**	**(62)**
Movement in unrecognised surplus [2]	**(91)**	**-**	**(91)**
Movement on minimum funding liability	**27**	**-**	**27**
At June 30, 2010	**(343)**	**(627)**	**(970)**
Analysed as:			
Post-retirement scheme surpluses - included in non-current assets	**83**	**-**	**83**
Post-retirement scheme deficits - included in non-current liabilities	**(426)**	**(627)**	**(1,053)**
	(343)	**(627)**	**(970)**

[1] In addition to the above, an actuarial loss of £1m in respect of a joint venture has been recognised in other comprehensive income.
[2] Where a surplus has arisen on a scheme, in accordance with IAS 19 *Employee Benefits*, the surplus is recognised as an asset only if it represents an economic benefit available to the Group in the future. Any surplus in excess of this benefit is not recognised in the balance sheet.

10 Contingent liabilities

In connection with the sale of its products the Group will, on some occasions, provide financing support for its customers. The Group's contingent liabilities related to financing arrangements are spread over many years and relate to a number of customers and a broad product portfolio.

During the first-half of 2010, there were no material changes to the maximum gross and net contingent liabilities.

Contingent liabilities exist in respect of guarantees provided by the Group in the ordinary course of business for product delivery, performance and reliability. The Group has, in the normal course of business, entered into arrangements in respect of export finance, performance bonds, countertrade obligations and minor miscellaneous items. Various Group undertakings are parties to legal actions and claims which arise in the ordinary course of business, some of which are for substantial amounts. These include claims received, which are yet to be substantiated, by EPI Europrop International GmbH (EPI) in which the Group is a partner, which is developing the TP400 engine for the Airbus A400M aircraft. The Group has included in provisions the directors' best estimate of the expected loss on this programme. While the outcome of some of these matters cannot precisely be foreseen, the directors do not expect any of these arrangements, legal actions or claims, after allowing for provisions already made, to result in significant loss to the Group.

During the first-half of 2010, Airbus agreed in principle with the Customer Nations to: increase the price of the contract; waive all liquidated damages related to current delays; provide additional funding in exchange for a participation in future export sales; and accelerate pre-delivery payments in the period of 2010 to 2014. Although the impact of this agreement on EPI is not yet certain, at June 30, 2010, the Group balance sheet had no net assets associated with the programme.

11 Related party transactions

Transactions with related parties are shown on page 141 of the Annual report 2009. Significant transactions in the current financial period are as follows:

	Half-year to June 30, 2010 £m	Half-year to June 30, 2009 £m	Year to December 31, 2009 £m
Sales of goods and services to joint ventures and associates	**1,270**	1,086	2,136
Purchases of goods and services from joint ventures and associates	**(1,079)**	(890)	(1,900)

12 Acquisitions

On April 7, 2010, the Group acquired 67 per cent of the issued share capital of ODIM ASA (ODIM). Together with the 33 per cent of the issued share capital already held, this gave the Group control of 100 per cent of ODIM. ODIM is a Norwegian marine technology company which develops and sells advanced automated handling systems for seismic and offshore vessels. ODIM's technology and unique subsea and deepwater capability complement the Group's existing activities. Integrating ODIM's innovative technology and highly skilled people into the Group will optimise the Group's offering and provide the global customer base with a wider range of products and services in this important market segment.

Recognised amounts of identifiable assets acquired and liabilities assumed

	£m
Intangible assets	96
Property, plant and equipment	24
Inventories	16
Trade and other receivables	57
Cash and cash equivalents	12
Trade and other payables	(46)
Current tax liabilities	(3)
Borrowings	(1)
Deferred tax liabilities	(32)
Provisions	(2)
Total identifiable assets and liabilities	121
Goodwill	115
Total consideration	236
Satisfied by:	
Cash	159
Existing 33 per cent shareholding	77
	236
Net cash outflow arising on acquisition:	
Cash consideration	159
Less: cash and cash equivalents acquired	(12)
	147
Identifiable intangible assets comprise:	
Technology, patents and licenses	45
Customer relationships	46
Other	5
	96

The fair value of the Group's 33 per cent interest in ODIM before the acquisition was £77m. The Group recognised a gain of £3m as a result of remeasuring this interest, which is included in the share of profits of joint ventures and associates in the consolidated income statement for the period-ended June 30, 2010.

The goodwill of £115m (which is not tax-deductible) consists of anticipated synergies and the assembled workforce. The synergies principally arise from:

- increases in revenue from the combination of the routes to market; and
- cost savings from the combination of the supply chain and central functions.

The gross contractual value of trade and other receivables acquired is £58m. At the acquisition date it is estimated that contractual cash flows of £1m will not be collected.

Acquisition related costs (included in commercial and administrative costs) in the consolidated income statement for the period-ended June 30, 2010, amounted to £2m.

ODIM contributed £101m revenue and £2m loss before tax (predominantly amortisation of intangible assets arising on acquisition) to the Group's results for the period between the date of acquisition and June 30, 2010.

If the acquisition of ODIM had been completed on January 1, 2010, the Group's revenues and loss before tax would have been £5,469m and £480m respectively.

Principal risks and uncertainties

As described on pages 24 to 26 of the Annual report 2009, the Group continues to be exposed to a number of risks and has an established, structured approach to identifying, assessing and managing those risks. The Group has a consistent strategy and long performance cycles and consequently the risks faced by the Group have not changed significantly over the first six months of 2010.

Rolls-Royce has filed a patent infringement complaint against United Technologies Corporation (UTC) in the Federal Court for the Eastern District of Virginia alleging infringement by UTC of Rolls-Royce's swept fan patent.

The principal risks reflect the global growth of the business, and the competitive and challenging business environment in which it operates. Risks are considered under four broad headings:

Business environment risks
- Cyclical downturn - global recession
- Environmental impact of products and operations

Financial risks
- Movements in foreign currency exchange rates
- Interest rates
- Commodity prices
- Counterparty credit risk
- Regulatory developments

Strategic risks
- Competitive pressures
- Export controls

Operational risks
- Performance of supply chain
- IT security
- Ethics
- Programme risk

Going concern

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the consolidated financial statements. The financial risk management objectives and policies of the Group and the exposure of the Group to price risk, credit risk, liquidity risk and cash flow risk are discussed in the Finance Directors' review of the Annual report 2009 on pages 58 to 65.

Statement of directors' responsibilities

The directors confirm that to the best of their knowledge:

- the condensed financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU;
- the interim management report includes a fair review of the information required by:
  - (a) DTR 4.2.7R of the *Disclosure and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
  - (b) DTR 4.2.8R of the *Disclosure and Transparency Rules*, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

The directors of Rolls-Royce Group plc at February 10, 2010 are listed in the Annual report 2009 on page 66. There have been no changes to the directors since that report.

By order of the Board

Sir John Rose
Chief Executive
July 28, 2010

Andrew Shilston
Finance Director
July 28, 2010

Independent review report to Rolls-Royce Group plc

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended June 30, 2010 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated cash flow statement, the condensed consolidated statement of changes in equity and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Services Authority ("the UK FSA"). Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FSA.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended June 30, 2010 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

AJ Sykes
for and on behalf of KPMG Audit Plc
Chartered Accountants, London
July 28, 2010