

Consolidated income statement

For the half year ended June 30, 2007

	Notes	Half year to June 30, 2007 £m	Half year to June 30, 2006 £m	Year to December 31, 2006 £m
Revenue	1	3,591	3,390	7,156
Cost of sales and other costs		(3,261)	(2,900)	(6,198)
Other operating income		40	38	57
Research and development costs		(195)	(177)	(370)
Share of profit of joint ventures		26	10	47
Operating profit		201	361	692
(Loss)/profit on sale of businesses		(1)	-	1
Profit before financing		200	361	693
Financing income	3	416	753	1,196
Financing costs	3	(239)	(244)	(498)
Net financing *		177	509	698
Profit before taxation **		377	870	1,391
Taxation - UK ***		(28)	(196)	(299)
Taxation - Overseas		(46)	(57)	(98)
Profit for the period		303	617	994
Attributable to:				
Equity holders of the parent		306	619	998
Minority interests		(3)	(2)	(4)
Profit for the period		303	617	994
Earnings per ordinary share				
Basic	2	17.12p	35.86p	57.32p
Diluted	2	16.74p	34.41p	55.14p
Payments to shareholders		(73)	(65)	(172)
* Net interest payable		(6)	(11)	(18)
** Underlying profit before taxation		380	324	705
*** The UK taxation charge is reduced by a credit of £23m as a result of the reduction in the UK corporation tax rate - see note 2.				
Underlying earnings per share is shown in note 2				

Consolidated balance sheet

At June 30, 2007

	Notes	June 30, 2007 £m	June 30, 2006 £m	December 31, 2006 £m
ASSETS				
Non-current assets				
Intangible assets	4	1,492	1,394	1,460
Property, plant and equipment		1,725	1,624	1,706
Investments - joint ventures		258	243	240
Other investments		51	51	51
Deferred tax assets		82	274	141
Post-retirement scheme surpluses	8	94	3	22
		3,702	3,589	3,620
Current assets				
Inventory		1,685	1,423	1,447
Trade and other receivables		2,535	2,128	2,465
Taxation recoverable		3	3	5
Other financial assets	5	603	717	644
Short-term investments		35	36	34
Cash and cash equivalents		1,811	1,837	2,185
Assets held for sale		-	22	-
		6,672	6,166	6,780
Total assets		10,374	9,755	10,400
LIABILITIES				
Current liabilities				
Borrowings		(38)	(388)	(400)
Other financial liabilities	5	(30)	(72)	(37)
Trade and other payables		(3,430)	(2,878)	(3,290)
Current tax liabilities		(189)	(186)	(191)
Provisions		(115)	(152)	(146)
		(3,802)	(3,676)	(4,064)
Non-current liabilities				
Borrowings		(1,003)	(1,052)	(990)
Other financial liabilities	5	(336)	(353)	(336)
Trade and other payables		(873)	(606)	(827)
Deferred tax liabilities		(384)	(191)	(252)
Provisions		(185)	(201)	(189)
Post-retirement scheme deficits	8	(503)	(1,628)	(1,017)
		(3,284)	(4,031)	(3,611)
Total liabilities		(7,086)	(7,707)	(7,675)
Net assets		3,288	2,048	2,725
EQUITY				
Capital and reserves				
Called-up share capital		361	354	356

Share premium account		66	30	43
Capital redemption reserves		198	263	197
Transition hedging reserve		138	280	177
Other reserves		(59)	7	(55)
Retained earnings		2,579	1,105	2,000
Equity attributable to equity holders of the parent	6	3,283	2,039	2,718
Minority interests		5	9	7
Total equity		3,288	2,048	2,725

Consolidated cash flow statement

For the half year ended June 30, 2007

	Notes	Half year to June 30, 2007 £m	Half year to June 30, 2006 £m	Year to December 31, 2006 £m
Reconciliation of cash flows from operating activities				
Profit before taxation		377	870	1,391
Share of profit of joint ventures		(26)	(10)	(47)
Loss/(profit) on sale or termination of businesses		1	-	(1)
Loss/(profit) on sale of property, plant and equipment		2	(9)	(9)
Net interest payable	3	6	11	18
Net post-retirement scheme financing income	3	(15)	(4)	(3)
Net other financing income	3	(168)	(516)	(713)
Taxation paid		(23)	(18)	(25)
Amortisation of intangible assets	4	30	29	60
Depreciation of property, plant and equipment		82	80	161
Decrease in provisions		(35)	(7)	(36)
Increase in inventories		(238)	(112)	(136)
Increase in trade and other receivables		(97)	(89)	(397)
Increase in trade and other payables		235	185	789
Decrease in other financial assets and liabilities		156	69	250
Post-retirement scheme adjustment		(40)	(14)	(21)
Share-based payments charge		17	16	36
Transfers of hedge reserves to income statement		(63)	(141)	(289)
Dividends received from joint ventures		16	11	44
Net cash inflow from operating activities		217	351	1,072
Cash flows from investing activities				
Additions to intangible assets		(58)	(97)	(219)
Disposals of intangible assets		-	-	7
Purchases of property, plant and equipment		(121)	(109)	(298)
Disposals of property, plant and equipment		-	25	55
Acquisition of businesses		(1)	(5)	(5)
Disposals of businesses		1	-	1
Investments in joint ventures		(10)	(10)	(11)
Disposals of joint ventures		1	-	1
Net cash outflow from investing activities		(188)	(196)	(469)

	Half year to June 30, 2007 £m	Half year to June 30, 2006 £m	Year to December 31, 2006 £m
Cash flows from financing activities			
Borrowings due within one year - repayment of loans	(346)	(51)	(53)
Borrowings due after one year - increase in loans	35	-	-
Capital element of finance lease payments	(1)	(5)	(8)
Net cash outflow from decrease in borrowings	(312)	(56)	(61)
Net interest paid	(8)	(15)	(12)
Interest element of finance lease payments	(3)	(1)	(2)
(Increase)/decrease in government securities and corporate bonds	(1)	1	3
Issue of ordinary shares	28	-	9
Purchase of own shares	(78)	(44)	(44)
Other transactions in own shares	27	69	78
Redemption of B Shares	(56)	(21)	(93)
Net cash outflow from financing	(403)	(67)	(122)
(Decrease)/increase in cash and cash equivalents	(374)	88	481
Cash and cash equivalents at January 1	2,171	1,745	1,745
Foreign exchange	(11)	(22)	(60)
Net cash of businesses acquired	-	-	5
Cash and cash equivalents at period end	1,786	1,811	2,171
Reconciliation of increase in cash and cash equivalents to movements in net funds			
(Decrease)/increase in cash and cash equivalents	(374)	88	481
Cash outflow/(inflow) from increase/(decrease) in government securities and corporate bonds	1	(1)	(3)
Net cash outflow from decrease in borrowings	312	56	61
Change in net funds resulting from cash flows	(61)	143	539
Net funds of businesses acquired	-	1	1
Exchange adjustments	(10)	(22)	(49)
Fair value adjustments	47	50	77
Movement in net funds	(24)	172	568
Net funds at January 1	829	261	261
	805	433	829
Fair value of swaps hedging fixed	(50)	24	(3)

rate borrowings			
Net funds at period end	755	457	826

	At January 1, 2007 £m	Cash flow £m	Exchange adjustment s £m	Fair value £m	At June 30, 2007 £m
Analysis of net funds					
Cash at bank and in hand	757	(385)	(4)	-	368
Overdrafts	(14)	(11)	-	-	(25)
Short-term deposits	1,428	22	(7)	-	1,443
Cash and cash equivalents	2,171	(374)	(11)	-	1,786
Investments	34	1	-	-	35
Other borrowings due within one year	(379)	346	-	27	(6)
Borrowings due after one year	(983)	(35)	1	20	(997)
Finance leases	(14)	1	-	-	(13)
	829	(61)	(10)	47	805
Fair value of swaps hedging fixed rate borrowings	(3)			(47)	(50)
	826	(61)	(10)	-	755

Consolidated statement of recognised income and expense

For the half year ended June 30, 2007

	Half year to June 30, 2007 £m	Half year to June 30, 2006 £m	Year to December 31, 2006 £m
Foreign exchange translation differences from foreign operations	(4)	(13)	(75)
Actuarial gains	525	-	602
Transfers from transition hedging reserve	(63)	(141)	(289)
Related tax movements	(132)	42	(91)
Change in UK rate of corporation tax (see note 2)	(9)	-	-
Net income/(expense) recognised directly in equity	317	(112)	147
Profit for the period	303	617	994
Total recognised income and expense for the period	620	505	1,141
Attributable to:			
Equity holders of the parent	623	507	1,145
Minority interests	(3)	(2)	(4)
Total recognised income and expense for the period	620	505	1,141

1 Analysis by business segment

	Half year to June 30, 2007 £m	Half year to June 30, 2006 £m	Year to December 31, 2006 £m
Revenue			
Civil aerospace	1,880	1,789	3,775
Defence aerospace	796	752	1,569
Marine	698	620	1,300
Energy	217	229	512
	3,591	3,390	7,156

The Group seeks to present a measure of underlying performance that excludes items considered to be non-underlying in nature. Underlying profit excludes the net impact of financing costs related to post-retirement schemes as well as unrealised amounts arising from revaluations required by IAS 32 and IAS 39, and includes the realised amounts arising from settled derivative hedging transactions.

	Half year to June 30, 2007			Half year to June 30, 2006			Year to December 31, 2006		
	Underlying adjustments £m	Underlying results £m	Underlying results £m	Underlying adjustments £m	Underlying results £m	Underlying results £m	Underlying adjustments £m	Underlying results £m	Underlying results £m
Profit before financing									
Civil aerospace	112	149	261	265	(22)	243	479	40	519
Defence aerospace	84	22	106	90	5	95	186	7	193
Marine	40	18	58	50	-	50	103	(2)	101
Energy	(10)	9	(1)	(19)	1	(18)	(28)	10	(18)
Central costs	(26)	-	(26)	(25)	-	(25)	(47)	-	(47)
	200	198	398	361	(16)	345	693	55	748
Net financing	177	(195)	(18)	509	(530)	(21)	698	(741)	(43)
							1,39		
Profit before taxation	377	3	380	870	(546)	324	1	(686)	705
Taxation	(74)	(28)	(102)	(253)	162	(91)	(397)	207	(190)
Profit for the period	303	(25)	278	617	(384)	233	994	(479)	515

Underlying profit adjustments:

	Half year to June 30, 2007		Half year to June 30, 2006		Year to December 31, 2006	
	Profit before financing £m	Profit before tax £m	Profit before financing £m	Profit before tax £m	Profit before financing £m	Profit before tax £m
Release of transition hedge reserve	(63)	(63)	(141)	(141)	(289)	(289)
Realised gains on settled derivative contracts	161	171	121	138	343	370
Realised gains carried forward in contract balances	(45)	(45)	(7)	(7)	(27)	(27)
Net unrealised fair value changes to derivative contracts	-	(162)	-	(509)	-	(730)
Unrealised gains recognised in contract balances	15	15	11	11	28	28
Revaluation of trading assets and liabilities	-	(16)	-	(5)	-	4
Financial RRSPs - foreign exchange differences and changes in forecast payments	-	(12)	-	(29)	-	(39)
Net post-retirement scheme financing income	-	(15)	-	(4)	-	(3)
Post-retirement schemes - past service costs *	130	130	-	-	-	-
	198	3	(16)	(546)	55	(686)

* As part of its ongoing discussions with the Trustees of its UK pension schemes, the Group agreed to reflect changes in HM Revenue & Customs practice and increase the size of the lump sum payment retirees are able to receive by commuting part of the pension. Like many other employers, the Group has also increased the amount of the lump sum payment for the pension commuted. Updating the commutation arrangements to reflect these factors increases the post-retirement liability by £100 million.

The Group has also agreed a 2% discretionary increase applicable to pensions that do not benefit from any guaranteed increase, which increases the liability by £30 million. In the six months to June 30, 2007, the Group funded £132 million in respect of the increase in liabilities (funding was based on the actuarial funding valuations, which differ in certain respects from the IAS 19 valuations used for accounting purposes).

	June 30, 2007 £m	June 30, 2006 £m	December 31, 2006 £m
Net assets/(liabilities)			
Civil aerospace	2,497	2,216	2,165
Defence aerospace	(49)	(30)	20
Marine	616	706	619
Energy	366	424	387
Net tax liabilities	(488)	(100)	(297)
Unallocated post-retirement obligations	(409)	(1,625)	(995)
Net funds	755	457	826
	3,288	2,048	2,725

	June 30, 2007	June 30, 2006	December 31, 2006
Group employees at period end			
Civil aerospace	22,700	21,950	22,300
Defence aerospace	5,600	5,400	5,500
Marine	7,700	7,400	7,600
Energy	2,500	2,750	2,600
	38,500	37,500	38,000

2 Earnings per ordinary share (EPS)

Basic EPS is calculated by dividing the profit attributable to ordinary shareholders of £306m (2006 half year £619m, full year £998m) by 1,787m (2006 half year 1,726 million, full year 1,741m) ordinary shares, being the average number of ordinary shares in issue during the period, excluding own shares held under trust, which have been treated as if they had been cancelled.

Underlying EPS has been calculated as follows:

	Half year to June 30, 2007		Half year to June 30, 2006		Year to December 31, 2006	
	Pence	£m	Pence	£m	Pence	£m
EPS / Profit attributable to equity holders of the parent	17.12	306	35.86	619	57.32	998
Release of transition hedge reserve	(3.52)	(63)	(8.17)	(141)	()	(289)
Realised gains on settled derivative contracts	9.57	171	8.00	138	21.25	370
Realised gains carried forward in contract balances	(2.52)	(45)	(0.41)	(7)	(1.55)	(27)
Net unrealised fair value changes to derivative contracts	(9.06)	(162)	(29.49)	(509)	(41.93)	(730)
Unrealised gains recognised in contract balances	0.84	15	0.64	11	1.61	28
Revaluation of trading assets and liabilities	(0.90)	(16)	(0.29)	(5)	0.23	4
Financial RRSPs - foreign exchange differences and changes in forecast payments	(0.67)	(12)	(1.68)	(29)	(2.24)	(39)
Net post-retirement scheme financing	(0.84)	(15)	(0.23)	(4)	(0.17)	(3)
Post-retirement schemes - past service costs (note 1)	7.27	130	-	-	-	-
Related tax effect	(0.28)	(5)	9.39	162	11.89	207
Change in UK rate of corporation tax *	(1.29)	(23)	-	-	-	-
Underlying EPS / Underlying profit attributable to equity holders of the parent	15.72	281	13.62	235	29.81	519

* On June 26, 2007, the change in the UK corporation tax rate from 30% to 28%, announced in March 2007, became substantively enacted. The above adjustment represents the reduction in deferred tax liabilities reflected in the income statement as a result of this change. Where deferred tax has previously been charged or credited to the statement of recognised income and expense or directly to equity, the related deferred tax adjustments have been included in those statements respectively.

Diluted EPS is calculated by dividing the profit attributable to ordinary shareholders of £306m (2006 half year £619m, full year £998m) by 1,828m (2006 half year 1,799m, full year 1,810m) ordinary shares, being 1,787m (2006 half year 1,726m, full year 1,741m) as above, adjusted by the bonus element of existing share options of 41m (2006 half year 73m, full year 69m).

3 Net financing

	Half year to June 30, 2007		Half year to June 30, 2006		Year to December 31, 2006	
	Underlying net financing		Underlying net financing		Underlying net financing	
	£m	£m	£m	£m	£m	£m
Financing income						
Interest receivable	44	44	38	38	82	82
Fair value gains on foreign currency contracts	137	-	478	-	696	-
Financial RRSPs - foreign exchange differences and changes in forecast payments	12	-	29	-	39	-
Fair value gains on commodity derivatives	25	-	31	-	34	-
Expected return on post-retirement scheme assets	191	-	173	-	343	-
Net foreign exchange gains	6	-	-	-	-	-
Other financing income	1	1	4	4	2	2
	416	45	753	42	1,196	84
Financing costs						
Interest payable	(50)	(50)	(49)	(49)	(100)	(100)
Financial charge relating to financial RRSPs	(13)	(13)	(14)	(14)	(27)	(27)
Interest on post-retirement scheme liabilities	(176)	-	(169)	-	(340)	-
Net foreign exchange losses	-	-	(12)	-	(31)	-
	(239)	(63)	(244)	(63)	(498)	(127)
Net financing	177	(18)	509	(21)	698	(43)
Net financing analysed as:						
Net interest payable	(6)	(6)	(11)	(11)	(18)	(18)
Net post-retirement scheme financing	15	-	4	-	3	-
Net other financing	168	(12)	516	(10)	713	(25)
Net financing	177	(18)	509	(21)	698	(43)

4 Intangible assets

	Goodwill	Certification and participation fees	Development expenditure	Recoverable engine costs	Other	Total
	£m	£m	£m	£m	£m	£m
Cost:						
At January 1, 2007	735	374	422	329	70	1,930
Exchange adjustments	2	-	-	-	-	2
Additions	-	9	17	24	10	60
On acquisition of business	-	-	1	-	-	1
Disposals	-	-	-	-	(1)	(1)
						1,992
At June 30, 2007	737	383	440	353	79	2
Accumulated amortisation and impairment:						
At January 1, 2007	-	143	132	176	19	470
Provided during the year (charged to cost of sales)	-	3	8	13	6	30
At June 30, 2007	-	146	140	189	25	500
						1,492
Net book value at June 30, 2007	737	237	300	164	54	2
Net book value at December 31, 2006	735	231	290	153	51	0

5 Other financial assets and liabilities

	June 30, 2007			June 30, 2006			December 31, 2006		
	Assets £m	Liabilities £m	Net amount £m	Assets £m	Liabilities £m	Net amount £m	Assets £m	Liabilities £m	Net amount £m
Foreign exchange contracts	557	(23)	534	634	(65)	569	578	(24)	554
Commodity contracts	46	-	46	49	-	49	39	-	39
	603	(23)	580	683	(65)	618	617	(24)	593
Financial RRSPs	-	(306)	(306)	-	(350)	(350)	-	(324)	(324)
Interest rate contracts	-	(25)	(25)	34	(3)	31	27	(12)	15
B Shares	-	(12)	(12)	-	(7)	(7)	-	(13)	(13)
	603	(366)	237	717	(425)	292	644	(373)	271

Foreign exchange and commodity financial instruments

Movements in the fair value of foreign exchange and commodity contracts are as follows:

	Half year to June 30, 2007			Half year to June 30, 2006	Year to December 31, 2006
	Foreign exchange £m	Commodity £m	Total £m	Total £m	Total £m
At beginning of the period	554	39	593	259	259
Fair value changes to fair value hedges	(4)	-	(4)	(12)	(26)
Fair value changes to derivative contracts	137	25	162	509	730
Fair value relating to contracts settled	(153)	(18)	(171)	(138)	(370)
At period end	534	46	580	618	593

Financial risk and revenue sharing partnerships (RRSPs)

Movements in the recognised value of RRSPs are as follows:

	Half year to June 30, 2007 £m	Half year to June 30, 2006 £m	Year to December 31, 2006 £m
At beginning of the period	(324)	(423)	(423)
Cash paid to partners	19	58	87
Financing charge *	(13)	(14)	(27)
Excluded from underlying profit *			
Exchange adjustments	7	22	42
Restructuring of financial RRSP agreements and changes in forecast payments	5	7	(3)
At period end	(306)	(350)	(324)

* Total amounts included within finance in the income statement are £1m charge (2006 half year £15m credit, full year £12m credit).

6 Share capital and reserves

	Half year to June 30, 2007 £m	Half year to June 30, 2006 £m	Year to December 31, 2006 £m
Equity attributable to equity holders of the parent			
At beginning of the period	2,718	1,499	1,499
Total recognised income and expense attributable to equity holders of the parent	623	507	1,145
Arising on issue of ordinary shares	28	-	14
Issue of B shares	(65)	(59)	(154)
Conversion of B shares into ordinary shares	10	38	55
Other transactions in ordinary shares	7	83	96
Share-based payments adjustment	(41)	(29)	(13)
Related tax movements			
- current tax	-	-	18
- deferred tax	8	-	58
Change in UK rate of corporation tax (see note 2)	(5)	-	-
At period end	3,283	2,039	2,718

7 Sales financing 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 2007 there were no material changes to the maximum gross and net contingent liabilities.

8 Pensions and other post-retirement benefits

On May 4, 2007, the Group announced that it had reached an understanding with employee representatives and was making substantial progress with Trustees over the future of UK pension arrangements as described in note 1.

As a result of these changes and taking account of the significant changes to market conditions since December 31, 2006, the Group has updated the IAS 19 valuation of its post-retirement scheme assets and liabilities as at June 30, 2007. No update to the valuation was undertaken at June 30, 2006. The principal change in assumptions is an increase in the UK discount rate to 5.8% (December 31, 2006: 5.1%). The following table summarises the results of the June 30, 2007 valuation.

Amounts recognised in the balance sheet:

	UK schemes £m	Overseas schemes £m	Total £m
At January 1, 2007	(665)	(330)	(995)
Exchange adjustments	-	6	6
Current service cost	(50)	(13)	(63)
Past service cost	(130)	-	(130)
Interest on scheme liabilities	(160)	(16)	(176)
Expected return on scheme assets	182	9	191
Contributions by employer	220	13	233
Actuarial gains	483	42	525
At June 30, 2007	(120)	(289)	(409)

Analysed as:

Post-retirement scheme surpluses - included in non-current assets	92	2	94
Post-retirement scheme deficits - included in non-current liabilities	(212)	(291)	(503)
	(120)	(289)	(409)

9 Share-based payments

In accordance with IFRS 2, a charge of £17m (2006 half year £16m, full year £36m), relating to the fair value of share-based schemes granted since November 7, 2002, is included in the income statement.

10 Basis of preparation

Reporting entity

Rolls-Royce Group plc is a company domiciled in the UK. These consolidated interim financial statements of the Company as at and for the six months ended June 30, 2007 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in joint ventures. They have been prepared on the basis of the recognition and measurement requirements of IFRS applied to the financial statements at December 31, 2006 and those standards that have been endorsed and will be applied at December 31, 2007.

The consolidated financial statements of the Group as at and for the year ended December 31, 2006 are available upon request from the Company Secretary, Rolls-Royce Group plc, 65 Buckingham Gate, London SW1E 6AT.

Section 240 Statement

The results for each half-year are unaudited. The comparative figures for the year to December 31, 2006 have been abridged from the Group's financial statements for that year, which have been delivered to the Registrar of Companies. The auditors have reported on those financial statements; their report was unqualified and did not contain statements under section 237(2) or (3) of the Companies Act 1985.