



12 February 2009

ROLLS-ROYCE GROUP plc PRELIMINARY RESULTS 2008

Group Highlights

- Order book increased by £9.6bn or 21 per cent to a record £55.5bn (2007 £45.9bn), with strong growth in all businesses.
- Group sales increased to £9,082m (2007 £7,435m). Sales on an underlying basis* increased by 17 per cent to £9,147m.
- Services sales increased by 11 per cent to £4,755m on an underlying basis.
- Profit before financing was £862m (2007 £512m).
- Underlying profit before taxation* increased by ten per cent to £880m (2007 £800m).
- Net cash inflow was £570m (2007 £62m) with average net cash of £375m (2007 £350m).
- Robust balance sheet with net cash of £1,458m (2007 £888m) at the year end.
- Final payment to shareholders 8.58 pence per share, making 14.30p per share, an increase of 10 per cent for the full year.

* see note 3

Sir John Rose, Chief Executive, said:

“We have delivered a good set of results, with strong order intake, cash flow and underlying profit growth achieved in challenging conditions.

“2009 will be a very difficult year for the global economy. Our well diversified portfolio, the scale of our installed base and the strength of our balance sheet give us confidence that Rolls-Royce will respond successfully to current challenges and develop the business for the longer term.

“Our current view is that in 2009 underlying revenues will continue to grow, with underlying profits remaining broadly similar to those achieved in 2008. Average net cash is expected to increase despite a cash outflow in the year”.

Short term resilience and long term growth

Rolls-Royce's performance in 2008 was characterised by strong order intake, cash inflow and underlying profit growth. The current economic crisis will have an impact on the Group, its customers and suppliers, but it is too early to be precise about the scale and duration of these effects.

The Board fully recognises the unprecedented nature of the challenges that lie ahead, but is confident that the Group is better positioned than in the past and that its financial and portfolio strengths will enable it, in the short term, to respond to current uncertainties and continue to develop the business.

Over the next ten years, the longevity of the Group's programmes and its technological leadership, the scale of the order book and the increasing importance of services suggest that Rolls-Royce has the capability to double its revenues through organic growth.

The Group is well placed to respond effectively to the current challenging external environment for a number of reasons:

- It is a global leader in growing markets with very high barriers to entry and the assurance of long-term, worldwide demand for its power systems;
- Its portfolio is broad and well balanced, in terms of the geographical spread of its markets, the balance between its businesses and the relationship between the aftermarket and original equipment;
- Rolls-Royce is rich in technology, understands its customers' requirements and has the ability to apply its system integration skills to meet those requirements. It is also well positioned to exploit its technological strengths in adjacent markets such as civil nuclear and develop its existing businesses through partnerships and acquisitions;
- The Group has continuously focussed on strengthening operational efficiency and flexibility, with early action taken to restructure and reduce the costs of support functions, improve the performance of the external supply chain and reduce discretionary costs;
- The balance sheet is robust, with a positive cash balance, a strong credit rating and no material refinancing until 2011. Early action has been taken to reduce the volatility and funding requirements of the Group's pension schemes. The currency headwind of the past four years has abated; and
- The Group successfully responded to previous setbacks in the external environment over the last decade. Its markets have been impacted by the events of 9/11, the Gulf War and the SARS epidemic and by other negative developments such as the weakening dollar, high oil and commodity prices and delays in major aircraft programmes.

The Board is proposing a total shareholder payment for the year of 14.30p per share, a 10 per cent increase.

2008 Trading summary

Group overview

Rolls-Royce delivered strong underlying revenues, cash flow and growth in underlying profits in 2008.

Despite some weakening demand towards the end of the year, the Group's global presence has enabled it to secure orders worth £21.5bn, increasing the order book by 21 per cent to a record £55.5bn.

Sales increased by 22 per cent to £9,082m relative to 2007 and underlying sales grew by 17 per cent, with a 24 per cent growth in original equipment and an 11 per cent increase in services revenues. This growth was achieved despite delays on major airframe programmes that reduced civil engine deliveries from the original programme assumptions.

We have continued to invest in the acquisition and development of technology. In 2008 investment in research and development totalled £885m (2007 £824m), of which the Group funded around 55 per cent, representing 5.4 per cent of underlying sales. We expect investment in research and development to account for a similar proportion of underlying sales in 2009.

Underlying profit before tax, which adjusts primarily for the non-cash impact of the hedge book, increased by ten per cent to £880m (2007 £800m). This reflected strong growth in original equipment and service revenues and was despite an eight cent deterioration in the achieved US dollar rate, which reduced profit by £104m (2007 £92m), and a four per cent increase in unit costs.

The Group's published loss before tax of £1,892m includes the effects of marking to market the Group's financial instruments, for which hedge accounting is not adopted. These consist mostly of the book of foreign exchange contracts outstanding at 31 December 2008. The impact of the mark to market is included within net financing in the income statement (see note 4). The net adjustments caused a net £2.8bn reduction in published profits. The majority of these adjustments are non-cash, accounting adjustments required under IAS 39 for financial instruments that the Group holds to provide stability of future trading cash flows and do not reflect the underlying trading performance of the Group in 2008.

The balance sheet is robust, with Rolls-Royce enjoying a strong cash position, credit rating and no material refinancing until 2011. Net cash inflow in 2008 was £570m after a £151m investment in joint ventures and acquisitions and the positive effect of £439m of translation benefits. This resulted in a net cash balance of £1,458m at the year-end.

Changes to the UK pension schemes in 2007 have significantly reduced volatility and will enable Rolls-Royce to plan future funding requirements more precisely. The Group made a special £500m injection into the UK pension funds in 2007 and changed the investment strategy so that less priority was given to equity investments, thereby reducing the volatility inherent in the schemes' asset mix. On an accounting basis the funds overall are in surplus. Funding on more conservative actuarial assumptions will be considerably less volatile in future.

Basic earnings per share were (73.63)p (2007 33.67p), reflecting the mark to market adjustments above, with underlying earnings per share increasing by eight per cent to 36.70p (2007 34.06p).

Further details of the Group's trading performance are contained in the Financial Review.

Group and Business sector underlying trading results 2008

| | Civil Aerospace | Defence Aerospace | Marine | Energy | Group | |
|-------------------------|--------------------|----------------------|---------|--------|----------------|--------------|
| Order Book | | | | | | |
| 2008 | £43.5bn | £5.5bn | £5.2bn | £1.3bn | £55.5bn | |
| 2007 | £35.9bn | £4.4bn | £4.7bn | £0.9bn | £45.9bn | |
| % change | 21% | 25% | 11% | 44% | 21% | |
| Revenue | | | | | | |
| 2008 | £4,502m | £1,686m | £2,204m | £755m | £9,147m | |
| 2007 | £4,038m | £1,673m | £1,548m | £558m | £7,817m | |
| % change | 11% | 1% | 42% | 35% | 17% | |
| Services Revenue | | | | | | |
| 2008 | £2,726m | £947m | £712m | £370m | £4,755m | |
| 2007 | £2,554m | £877m | £545m | £289m | £4,265m | |
| % change | 7% | 8% | 31% | 28% | 11% | |
| UPBFCT | | | | | | |
| | Civil Aerospace | Defence Aerospace | Marine | Energy | Central | Group |
| 2008 | £566m | £223m | £183m | £(2)m | £(51)m | £919m |
| 2007 | £564m | £199m | £113m | £5m | £(49)m | £832m |
| % change | 0% | 12% | 62% | n/a | 4% | 10% |

Major developments in 2008

The Group continued to expand its capability in 2008, forming a new business unit to address the increased global demand for civil nuclear power and establishing strategic joint ventures with GKN plc, to develop composite materials for fan blades, and with Goodrich Corporation, to develop and manufacture engine controls.

Good progress has been made with strengthening the Group's operational performance and restructuring support functions. The programme to upgrade our UK facilities is largely complete. The opening of the new large engine assembly and test facility in Singapore and the advanced manufacturing, assembly and test facility at Crosspointe in the US have been put back to reflect the timing of major new programmes.

In January 2008, Rolls-Royce announced a 2,300 reduction in the number of people working in support functions, a programme which was completed by the end of the year at no incremental cost. In November 2008, the Group announced a further proposed

reduction of 1,500-2,000 jobs, reflecting a more cautious approach to the planning of factory load and delivery expectations for 2009.

Civil Aerospace made significant progress in 2008 despite increasingly challenging conditions. New engine deliveries, at 987, were at their highest level since 2001, increasing the installed thrust of the fleet by some 21m lbs, net of retirements. Service revenues grew by seven per cent relative to 2007, accounting for 61 per cent of civil aerospace revenues.

In the widebody sector, the Trent received orders for 408 engines, the second highest level of Trent orders on record. The Airbus A350 XWB continued to attract strong interest and the Trent XWB will power all 400 aircraft confirmed to date.

In the narrowbody market, the V2500 made strong progress with a record 351 engines delivered for the Airbus A320. In the corporate and regional sector, the 3000th AE3007 engine was delivered, while the BR725 for the new Gulfstream G650 corporate aircraft achieved first engine run on time.

Defence Aerospace continued to strengthen its business in 2008. Significant contracts awarded during the year included a \$915m contract from Alenia Aeronautica for the AE2100 engine on the C-27J military transporter, a £700m PFI contract from the UK Ministry of Defence for the Future Strategic Tanker Aircraft and a number of important service contracts worth more than £770m.

Other highlights included the first flight of the F-35 STOVL (Short Take Off and Vertical Landing) version of the Joint Strike Fighter. The F136 engine, developed with GE for all F-35 variants, secured funding for 2009 and passed all test milestones.

Defence Aerospace's other major collaborative programme – the TP400 engine for the A400M military transport aircraft made progress in the year. It has completed more than 2,000 hours of ground testing and has successfully undertaken its first flights on the flying testbed.

Marine enjoyed very strong revenue growth in 2008 and is now the second largest Rolls-Royce business in revenue terms. Underlying service revenues grew significantly in the year, up 31 per cent from 2007.

The offshore sector was central to Marine's 2008 performance, based on the success of its specialist UT design and integrated systems capability.

Other highlights included the entry into service of the MT30, a derivative of the Trent 800, on the USS Freedom, the first vessel of the US Littoral Combat Ship programme, and an order for four MT30s from the UK Ministry of Defence for its new aircraft carriers.

Energy won a record level of new business in 2008 with the industrial Trent securing orders and reservations for 37 units in the oil and gas and power generation sectors. Underlying revenues increased by 35 per cent, driven by strong demand in the oil and gas sector and increasing activity in power generation markets.

The Group's fuel cell testing programme continued. However, the decision was taken to focus future activity on the development of the technology in order to match product readiness with market demand. As a result, annual investment in the programme will reduce in 2009.

Further details on the performance of the businesses and the outlook for 2009 are contained in the Review by Business Sectors section below.

Looking beyond 2008

The current economic crisis is widely expected to be unprecedented in terms of its severity, duration and global impact. It is inevitable that companies will be affected to varying degrees, regardless of the business strategies they pursue or the markets they serve.

Rolls-Royce will not be immune from this deterioration in the global economy but the Board believes that the Group will be resilient in these challenging conditions, and approaches the current uncertainty from a position of much greater strength than in previous recessions.

Falling global growth rates, coupled with shortages of customer finance, are expected to cause a softening in some of the Group's markets, in particular in the narrowbody and corporate and regional sectors where there is already evidence of reducing demand. Credit shortages may also create difficulties for some of the Group's suppliers. However, the consistent strategy pursued by the Group over many years has created a strong and broadly based business which is well placed to deal with these challenges as they arise.

The Board believes the following factors will help the Group to mitigate the impact of the global economic slowdown:

- Rolls-Royce is a global leader, operating in growing markets with high barriers to entry and the assurance of long-term demand for its power systems. It is rich in technology, understands its customers' requirements and can apply its system integration skills to meet those requirements.
- The Group has a broad spread of businesses addressing a wide range of geographical markets and with revenues evenly balanced between the aftermarket and original equipment. Service revenues have grown by 10 per cent compound over the last ten years, accounting for 52 per cent of Group revenue in 2008. All four businesses saw their service revenues grow significantly in 2008 and are well placed to expand their aftermarket on the back of growth in original equipment deliveries as they arise.
- The Group has considerable visibility of future revenues, due to the scale of its order book, the longevity of its programmes and its aftermarket business.
- The Group is benefiting from recent exchange rate movements. The average achieved rate in the hedge book is starting to reduce, improving from £~\$1.87 in June 2008 to £~\$1.72 at the end of the year, with increased hedging in the second half of 2008 capturing improving forward rates and leading to a year end hedge book of \$17.1bn. The Group expects the achieved rate in 2009 to be similar to that in 2008. As a consequence, the £104m foreign exchange headwind experienced in 2008 is not expected to reoccur in 2009.
- Early action has been taken to reduce overheads and strengthen operational performance. The headcount reduction achieved in 2008 will provide annual cost savings of £100m. It is expected that the proposed headcount reduction for 2009 will be achieved at no net cost to the Group and will generate further annual cost savings of a similar level from 2010 onwards. Recruitment is continuing in

selected growth areas of the business and also in support of the Group's apprentice and graduate schemes.

- The Group has a robust balance sheet with a positive cash balance and a strong credit rating. Changes to the Group's pension schemes in 2007 have significantly reduced volatility and will provide greater visibility of future funding requirements.

Prospects

The Group expects that in 2009 its global markets will be affected by reducing demand and the impact of financing constraints. We will continue to manage the consequences of airframe programme slippages.

Cash generation will be affected by the reduction in new orders and associated deposit intake and the impact on inventory of any delays or cancellations. There are also likely to be requests for customer and supplier financial support which will be considered by the Group on a case by case basis. In the current environment it is expected that in 2009 despite a cash outflow, the average net cash balance of the Group will increase. The Group's current view is that underlying revenues will continue to grow and underlying profits for the year will be broadly similar to those achieved in 2008.

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An interview on the results with Rolls-Royce Chief Executive, Sir John Rose, is available on video, audio and text on www.rolls-royce.com and www.cantos.com. For news desks requiring visual material, photographs are available at www.newscast.co.uk and news broadcasters requiring broadcast-standard video can visit www.thenewsmarket.com/rolls-royce. If you are a first-time user, please take a moment to register. In case you have any questions, please email journalisthelp@thenewsmarket.com.

This Annual 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 Annual Results Announcement, and will not be updated during the year. Nothing in this Annual Results Announcement should be construed as a profit forecast.

REVIEW BY BUSINESS SEGMENT¹

Civil Aerospace

| | 2008 | 2007 |
|--|--------------|-------|
| Order book (£bn) | 43.5 | 35.9 |
| Engine deliveries | 987 | 851 |
| Underlying revenues (£m) | 4,502 | 4,038 |
| Underlying services revenues (£m) | 2,726 | 2,554 |
| Underlying profit before financing (£m) | 566 | 564 |

The Civil Aerospace portfolio continues to expand, covering a broad range of aircraft across all sectors from corporate and regional to the largest widebody aircraft. New engine deliveries, at 987, were at their highest level since 2001, increasing the installed thrust of the fleet by some 21m lbs, net of retirements.

In the widebody sector, the division secured its second highest level of Trent orders, for 408 Trent engines, supporting another strong increase in the order book.

The Trent 1000 for the Boeing 787 completed further successful endurance testing, equivalent to two years of service. The Trent 900 for the Airbus A380 demonstrated excellent reliability during its first full year in service with Singapore Airlines (SIA) and engines are now installed on nine SIA and Qantas aircraft. The outlook for the Trent XWB, the sole engine on the Airbus A350 XWB, is positive; orders for engines for 400 aircraft are now confirmed, while risk and revenue sharing partnerships for 40 per cent of the programme were agreed in 2008.

In the narrow body market, the V2500 programme performed strongly, with orders for more than 600 engines and a record 351 engines delivered for the Airbus A320. The V2500 SelectOne upgrade entered service on time, offering reduced fuel burn and increased time on wing between overhauls, enhancing its leading position as the most environmentally friendly engine for this application.

In the corporate and regional market, the 3000th AE3007 engine was delivered. Meanwhile the BR725, the sole engine for the new Gulfstream G650 corporate aircraft, achieved first engine run on time. The G650 has enjoyed unprecedented market interest, reinforcing the Group's leading position in the corporate market.

Services revenues grew by seven per cent relative to 2007, representing 61 per cent of Civil Aerospace revenues. Around 80 per cent of in-service Trent and corporate engines are now covered by TotalCare® and CorporateCare® contracts respectively, reflecting the continued interest in these long-term service arrangements.

Outlook

Global air travel and air freight is already being affected by the economic downturn. The scale of the future impact is unclear, with airframe delays and concerns about customer financing adding to the uncertainties surrounding engine volumes.

The Group expects engine deliveries to fall in 2009 with an increasing risk of deferrals and cancellations. Weaker volumes in the narrowbody and the corporate and regional sectors and stable Trent deliveries for widebody aircraft.

Growth in services revenues will be modest in 2009, held back by lower utilisation levels, the impact of parked aircraft and some softening of uncontracted "Time and Material" service revenues. As a consequence, underlying profits will be lower in 2009.

¹ Commentaries relate to underlying revenues and profits unless specifically noted

Defence Aerospace

| | 2008 | 2007 |
|--|--------------|-------|
| Order book (£bn) | 5.5 | 4.4 |
| Engine deliveries | 517 | 495 |
| Underlying revenues (£m) | 1,686 | 1,673 |
| Underlying services revenues (£m) | 947 | 877 |
| Underlying profit before financing (£m) | 223 | 199 |

The Defence Aerospace business provides engines and support across all the major sectors of the defence market to 160 customers in 103 countries. With over 18,000 engines in service worldwide on fixed-wing applications, it has the broadest customer base of any of its peers.

2008 was a year of significant progress for the business. Considerable opportunities exist in the global defence market, particularly in the transport and helicopter sectors where Defence Aerospace made strong progress in 2008. The business continues to develop innovative aftermarket support, with services now generating over 56 per cent of revenues.

A \$915m agreement was signed with Alenia Aeronautica for the AE 2100 engine on the C-27J, which reinforced the business' market leading position in the military transport market. Engine deliveries for transport aircraft including the C-130J and V22-Osprey, will support a strong increase in revenues in 2009.

As part of the AirTanker consortium, the business secured a 27-year engine and support contract worth over £700m from the UK Ministry of Defence (MoD), for Trent 700 engines for the Future Strategic Tanker Aircraft programme.

Good progress was made on both engine programmes for the Joint Strike Fighter. First flight of the F-35 STOVL (Short Take Off and Vertical Landing) version, fitted with the Rolls-Royce LiftSystem®, took place and the first LiftSystem production contract was secured at a value of \$131m. The F136 engine, jointly developed with GE for all F-35 variants, achieved funding for 2009 and passed all its test milestones prior to delivery of the first production standard engine in early 2009.

Defence Aerospace's other major collaborative programme – the TP400 engine for the A400M military transport aircraft made progress in the year. It has completed more than 2,000 hours of ground testing and has successfully undertaken its first flights on the flying testbed.

A number of major new service contracts totalling more than £770m were signed during the year. These included agreements with the US Department of Defense to support the T-45 for the US Navy Goshawk trainer and with the UK MoD, to support the Gnome for the Sea King helicopter and the Pegasus for the UK Harrier fleet.

Outlook

Further strong growth in engine deliveries for the military transport sector is expected to support another year of profit growth in 2009.

Marine

| | 2008 | 2007 |
|--|--------------|-------|
| Order book (£bn) | 5.2 | 4.7 |
| Underlying revenues (£m) | 2,204 | 1,548 |
| Underlying services revenues (£m) | 712 | 545 |
| Underlying profit before financing (£m) | 183 | 113 |

Marine is now the second largest Rolls-Royce business in revenue terms. It is a world leader in the provision of integrated marine propulsion systems, offering a unique set of products and services for the naval and commercial sectors. It has an installed equipment base of over 30,000 vessels, creating a major opportunity for services growth.

The business made strong progress in 2008. The order book increased by 11 per cent to £5.2bn, underpinned by substantial order flow for vessels and power propulsion for the offshore sector. The offshore oil and gas market remained robust, with revenues growing by 57 per cent to £901m in 2008, accounting for 41 per cent of total revenues in the year.

Demand from the merchant sector for specialist vessels was also strong, with revenues accounting for 24 per cent of 2008 revenues. Total underlying revenues increased by 42 per cent to £2.2bn and an improved mix helped strengthen margins, supporting a very strong improvement in profitability.

The naval segment of Marine represented 28 per cent of 2008 revenues and continued to perform well. The MT30, a derivative of the Trent 800, entered service on the USS Freedom, the US Navy's first Littoral Combat Ship. In addition, a £96m order for four MT30s plus propulsion equipment was placed by the UK MoD to power its two new aircraft carriers. 2008 also marked 50 years of the Group's relationship with the UK Government on the design, production and support of nuclear plant for the Royal Navy's Submarine fleet.

The division's capability in the design and supply of power electric systems was further extended with the acquisition of Scandinavian Electric Holdings AS, enabling it to supply systems for offshore vessels.

Underlying services revenues grew strongly in the year, up 31 per cent from 2007. The investment in, and expansion of, the global services network continued throughout 2008, supporting long-term growth opportunities in the Marine services sector.

Outlook

There were some modest cancellations in 2008 but a record order book, market leading positions in the offshore sector and demand for high specification vessels provide good visibility of revenues in 2009 and support continuing strong growth in profitability over the year.

Energy

| | 2008 | 2007 |
|--|------------|------|
| Order book (£bn) | 1.3 | 0.9 |
| Engine deliveries | 64 | 32 |
| Underlying revenues (£m) | 755 | 558 |
| Underlying services revenues (£m) | 370 | 289 |
| Underlying profit before financing (£m) | (2) | 5 |

The Energy business supplies a wide range of gas turbine packages and compressors to the global oil and gas and power generation markets, with equipment operating in more than 120 countries. It continues to invest in product development for power generation including tidal power, fuel cells and civil nuclear.

The Energy business won record levels of new business in 2008, securing orders and reservations for 37 new industrial Trent units in the oil and gas and power generation sectors, both of which remained robust. This supported a further strong increase in the order book to £1.3bn, providing good visibility of activity in 2009.

Underlying revenues in 2008 increased by 35 per cent. This was driven by increasing demand for original equipment in the power generation sector and demand in oil and gas for both new equipment and support services. The £7m reduction in underlying profits from 2007 was the result of increased spend on the fuel cells development programme and a one-off benefit from technology fees in 2007 that was not repeated in 2008.

In 2008 underlying services revenues grew by 28 per cent, representing 49 per cent of divisional revenues. This growth was accounted for by strong oil and gas activity and an expanding footprint in power generation. By the end of the year long-term support agreements extended to more than 200 packages supplied by the business.

The Group's fuel cell testing programme continued. However, the decision was taken to focus future activity on the development of the technology rather than production and manufacturing verification, in order to match product readiness with market demand. As a result, annual investment in the programme is expected to reduce in 2009.

Outlook

In 2009, further growth in original equipment revenues, particularly in the power generation sector, combined with increased services activity and lower investment in fuel cells, is expected to deliver a modest level of profit for the business.

FINANCIAL REVIEW – 2008 PERFORMANCE

Foreign exchange

The pace and extent of currency movements have had a significant effect on the Group's financial reporting in 2008, with the Sterling exchange rates against the USD and the Euro having the biggest impact. These movements have influenced both the reported income statement and the cash flow and closing net cash position (as set out in the cash flow statement) in the following ways:

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

The principal movements in 2008 were as follows:

| | Open | Close |
|------------------|------------|------------|
| GBP ~ USD | £1~\$1.991 | £1~\$1.438 |
| GBP ~ Euro | £1~€1.362 | £1~€1.034 |
| Oil – Spot Brent | \$93/bbl | \$49/bbl |

The impact of this mark to market is included within net financing in the income statement and caused a net £2.5bn cost, contributing to a published loss before tax of £1,892m. These adjustments are non-cash, accounting adjustments required under IAS 39 and do not, therefore, reflect the underlying trading performance of the Group in 2008.

The achieved rate on selling net USD income will be similar in 2009 to that in 2008 and will gradually improve thereafter as the Group is able to absorb the lower value of Sterling in its hedge books into the achieved rate. The revaluation costs, which are measured at a point in time, do not, therefore, represent additional currency headwinds. The improving average rate in the hedge book will lead to improving achieved rates over time.

2. Cash flow and balance sheet – The Group maintains a number of currency cash balances which vary throughout the financial year. Given the significant movements in foreign exchange rates in 2008, a number of these cash balances were inflated by the effects of retranslation at the period end causing an increase of £439m in the 2008 cash flow and hence the closing balance sheet cash position.

Income statement

The firm and announced order book, at constant exchange rates, was £55.5bn (2007 £45.9bn) with good growth from all businesses. Aftermarket services included in the order book totalled £14.5bn (2007 £13.1 bn).

Revenues increased by 22 per cent, compared with 2007, to £9,082m. Revenues on an underlying basis grew by 17 per cent. Payments to industrial risk and revenue sharing partners (RRSPs), charged in cost of sales, amounted to £268m (2007 £199m).

Gross research and development investment was £885m (2007 £824m). Net research and development investment, charged to the income statement, was £403m (2007

£381m) after net capitalisation of £87m (2007 £73m) on development programmes in 2008. Receipts from RRSPs in respect of new programme developments, shown as other operating income, were £79m (2007 £50m), as key partners joined major new programmes.

Restructuring costs of £82m (2007 £52m) were charged, the increase reflecting additional costs incurred in the year relating to the Group's programme to reduce the number of people working in support functions.

Underlying profit before financing margins fell by approximately 0.6 per cent in the period, reflecting strong growth in lower margin original equipment, further increases in the foreign exchange headwind and an increase in unit costs of four per cent relative to 2007, partially offset by improved productivity and efficiency.

The income statement recognised a tax credit of £547m (2007 £133m charge), reflecting the large mark to market loss caused by the revaluation of various financial instruments at the year end. The taxation charge on an underlying basis was £217m (2007 £193m), representing 24.7 per cent of underlying profit before tax. The underlying rate is affected by the geographical mix of profits, changes in legislation and the benefit of research and development tax credits. The 2009 underlying tax rate is expected to increase to around 26 per cent.

Underlying profit before tax was £880m (2007 £800m). Underlying earnings per share increased by eight per cent, to 36.70p (2007 34.06p) (see note 5).

Balance Sheet

Investment in intangibles during the year was £393m (2007 £296m) and included £97m (2007 £37m) for recoverable engine costs, £113m (2007 £91m) for capitalised development costs, £93m (2007 nil) relating to investments in new joint venture arrangements and a further £55m (2007 £129m) for certification costs and participation fees.

The continued development and replacement of operational facilities contributed to a total investment in property, plant and equipment of £283m (2007 £304m). Investment in 2009 is anticipated to be slightly reduced from the 2008 level as the investments in the new facilities in the USA and Singapore are rephased to reflect the timing of major new airframe programmes.

Working capital increased by £38m during the year with increased inventory of £208m offset by reduced financial working capital of £170m. Inventory increased in the year to support growth across all businesses and to minimise disruption during the transition to new operational facilities. Some reductions in deposits are expected in 2009.

Cash inflow during the year was £570m (2007 £562m, before the special injection of £500m into the UK pension schemes). Continued growth in underlying profits and good cash conversion were supported by increases in customer deposits and progress payments of £400m and the benefit of £439m from year-end currency revaluations. Cash investments of £675m in plant and equipment and intangible assets and payments to shareholders of £200m represented the major cash outflows in the period. Tax payments increased in the year to £117m (2007 £71m). As a consequence average net cash was £375m (2007 £350m). The net cash balance at the year-end was £1,458m (2007 £888m).

The Group's cash flow in 2009 is expected to be affected by higher pension contributions, reduced deposits and progress payments and increased payments to shareholders. In addition, it is likely that the Group may be asked to provide financial support to some customers and suppliers which will be considered on a case by case basis. As a result, it is expected that there will be a cash outflow in 2009. However, the average net cash balance is anticipated to increase in 2009.

Provisions were £369m (2007 £301m). Provisions carried forward in respect of potential customer financing exposure amounted to £73m at the year-end (2007 £44m).

The overall net position of assets and liabilities on the balance sheet for TotalCare packages was an asset of £848m (2007 £550m), which includes new agreements, timing of overhauls and changes in foreign exchange rates.

There were no material changes to the Group's gross and net contingent liabilities in 2008 (see note 11).

On an accounting basis, the UK pension schemes were £1.4bn in surplus, caused primarily by unusually high AA corporate bond rates applied to value the schemes' future liabilities. A total of £408m of the UK surplus has been recognised as an asset on the balance sheet which together with a £550m deficit on the international pension and healthcare schemes caused a net post-retirement benefit deficit recognised on the balance sheet of £142m (2007 £123m). After taking account of deferred taxation, net post-retirement benefit deficits were £93m (2007 £88m) (see note 9).

The proposed final payment to shareholders is equivalent to 8.58 pence per ordinary share (2007 final payment 8.96p), making a total payment for the year of 14.30 pence (2007 13.00p), a ten per cent increase for the full year. 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 Group, 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 final payment is payable on 2 July 2009 to shareholders on the register on 24 April 2009. The final day of trading with entitlement to C shares is 21 April 2009.

Condensed consolidated financial statements

Consolidated income statement

For the year-ended December 31, 2008

| | Notes | 2008 £m | 2007 £m |
|---|-------|-----------------|------------|
| Revenue | 2 | 9,082 | 7,435 |
| Cost of sales | | (7,311) | (6,003) |
| Gross profit | | 1,771 | 1,432 |
| Other operating income | | 79 | 50 |
| Commercial and administrative costs | | (666) | (653) |
| Research and development costs | | (403) | (381) |
| Share of profit of joint ventures | | 74 | 66 |
| Operating profit | | 855 | 514 |
| Profit/(loss) on sale or termination of businesses | | 7 | (2) |
| Profit before financing | 2 | 862 | 512 |
| Financing income | 4 | 432 | 718 |
| Financing costs | 4 | (3,186) | (497) |
| Net financing | 4 | (2,754) | 221 |
| (Loss)/profit before taxation¹ | 2 | (1,892) | 733 |
| Taxation | | 547 | (133) |
| (Loss)/profit for the year | | (1,345) | 600 |
| Attributable to: | | | |
| Equity holders of the parent | | (1,340) | 606 |
| Minority interests | | (5) | (6) |
| (Loss)/profit for the year | | (1,345) | 600 |
| Earnings per ordinary share² | | | |
| Basic | 5 | (73.63p) | 33.67p |
| Diluted | 5 | (73.63p) | 32.97p |
| Payments to shareholders in respect of the year | 6 | (263) | (237) |
| ¹ Underlying profit before taxation | 3 | 880 | 800 |
| ² Underlying earnings per share are shown in note 5. | | | |

Consolidated balance sheet

At December 31, 2008

| | Notes | 2008 £m | 2007 £m |
|--|-------|-----------------|----------------|
| ASSETS | | | |
| Non-current assets | | | |
| Intangible assets | 7 | 2,286 | 1,761 |
| Property, plant and equipment | | 1,995 | 1,813 |
| Investments - joint ventures | | 345 | 284 |
| Other investments | | 53 | 57 |
| Deferred tax assets | | 685 | 81 |
| Post-retirement scheme surpluses | 9 | 453 | 210 |
| | | 5,817 | 4,206 |
| Current assets | | | |
| Inventory | | 2,600 | 2,203 |
| Trade and other receivables | | 3,929 | 2,585 |
| Taxation recoverable | | 9 | 7 |
| Other financial assets | 8 | 390 | 514 |
| Short-term investments | | 1 | 40 |
| Cash and cash equivalents | | 2,471 | 1,897 |
| Assets held for sale | | 12 | 7 |
| | | 9,412 | 7,253 |
| Total assets | | 15,229 | 11,459 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Borrowings | | (23) | (34) |
| Other financial liabilities | 8 | (2,450) | (85) |
| Trade and other payables | | (5,735) | (4,326) |
| Current tax liabilities | | (184) | (188) |
| Provisions | | (181) | (121) |
| | | (8,573) | (4,754) |
| Non-current liabilities | | | |
| Borrowings | | (1,325) | (1,030) |
| Other financial liabilities | 8 | (391) | (303) |
| Trade and other payables | | (1,318) | (965) |
| Non-current tax liabilities | | (1) | - |
| Deferred tax liabilities | | (307) | (345) |
| Provisions | | (188) | (180) |
| Post-retirement scheme deficits | 9 | (595) | (333) |
| | | (4,125) | (3,156) |
| Total liabilities | | (12,698) | (7,910) |
| Net assets | | 2,531 | 3,549 |
| EQUITY | | | |
| Capital and reserves | | | |
| Called-up share capital | | 369 | 364 |
| Share premium account | | 82 | 67 |
| Capital redemption reserves | | 204 | 191 |
| Hedging reserves | | (22) | 77 |
| Other reserves | | 663 | 62 |
| Retained earnings | | 1,226 | 2,776 |
| Equity attributable to equity holders of the parent | 10 | 2,522 | 3,537 |
| Minority interests | | 9 | 12 |
| Total equity | | 2,531 | 3,549 |

Consolidated cash flow statement

For the year-ended December 31, 2008

| | Notes | 2008 £m | 2007 £m |
|--|-------|--------------|--------------|
| Reconciliation of cash flows from operating activities | | | |
| (Loss)/profit before taxation | | (1,892) | 733 |
| Share of profit of joint ventures | | (74) | (66) |
| (Profit)/loss on sale or termination of businesses | | (7) | 2 |
| (Profit)/loss on sale of property, plant and equipment | | (11) | 1 |
| Net interest payable | 4 | 10 | 6 |
| Net post-retirement scheme financing | 4 | 22 | (30) |
| Net other financing | 4 | 2,722 | (197) |
| Taxation paid | | (117) | (71) |
| Amortisation of intangible assets | 7 | 107 | 63 |
| Depreciation of property, plant and equipment | | 208 | 170 |
| Increase/(decrease) in provisions | | 39 | (42) |
| Increase in inventories | | (208) | (359) |
| Increase in trade and other receivables | | (1,072) | (128) |
| Increase in trade and other payables | | 1,242 | 778 |
| Decrease in other financial assets and liabilities | | 144 | 357 |
| Additional cash funding of post-retirement schemes | | (117) | (441) |
| Share-based payments charge | | 40 | 36 |
| Transfers of hedge reserves to income statement | | (80) | (149) |
| Dividends received from joint ventures | | 59 | 42 |
| Net cash inflow from operating activities | | 1,015 | 705 |
| Cash flows from investing activities | | | |
| Additions of unlisted investments | | (1) | (5) |
| Disposals of unlisted investments | | 6 | - |
| Additions to intangible assets | | (389) | (294) |
| Purchases of property, plant and equipment | | (286) | (304) |
| Disposals of property, plant and equipment | | 68 | 47 |
| Acquisitions of businesses | | (50) | (6) |
| Disposals of businesses | | 6 | 3 |
| Investments in joint ventures | | (32) | (13) |
| Disposals of joint ventures | | 30 | - |
| Net cash outflow from investing activities | | (648) | (572) |
| Cash flows from financing activities | | | |
| Borrowings due within one year - repayment of loans | | (1) | (350) |
| Borrowings due after one year – repayment of loans | | (22) | - |
| Capital element of finance lease payments | | (4) | (5) |
| Net cash outflow from decrease in borrowings | | (27) | (355) |
| Interest received | | 52 | 95 |
| Interest paid | | (53) | (93) |
| Interest element of finance lease payments | | (1) | (3) |
| Decrease/(increase) in government securities and corporate bonds | | 39 | (6) |
| Issue of ordinary shares | | 17 | 29 |
| Purchase of ordinary shares | | (44) | (77) |
| Other transactions in ordinary shares | | (4) | 34 |
| Redemption of B Shares | | (200) | (97) |
| Net cash outflow from financing activities | | (221) | (473) |
| Increase/(decrease) in cash and cash equivalents | | | |
| | | 146 | (340) |
| Cash and cash equivalents at January 1 | | 1,872 | 2,171 |
| Foreign exchange | | 441 | 41 |
| Net cash of businesses acquired/disposed | | 3 | - |
| Cash and cash equivalents at December 31 | | 2,462 | 1,872 |

| Notes | 2008 £m | 2007 £m |
|---|--------------|------------|
| Reconciliation of movement in cash and cash equivalents to movements in net funds | | |
| Increase/(decrease) in cash and cash equivalents | 146 | (340) |
| Net cash outflow from decrease in borrowings | 27 | 355 |
| Cash (inflow)/outflow from (decrease)/increase in government securities and corporate bonds | (39) | 6 |
| Change in net funds resulting from cash flows | 134 | 21 |
| Net funds of businesses acquired/disposed | (3) | - |
| Exchange adjustments | 439 | 41 |
| Fair value adjustments | (319) | (18) |
| Movement in net funds | 251 | 44 |
| Net funds at January 1 excluding the fair value of swaps | 873 | 829 |
| Net funds at December 31 excluding the fair value of swaps | 1,124 | 873 |
| Fair value of swaps hedging fixed rate borrowings | 334 | 15 |
| Net funds at December 31 | 1,458 | 888 |

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

| | At January 1, 2008 £m | Funds flow £m | Net funds of businesses acquired/ disposed £m | Exchange adjustments £m | Fair value adjustments £m | Other non-cash changes £m | At December 31, 2008 £m |
|---|--------------------------------|---------------------|---|-------------------------------|---------------------------------|------------------------------------|----------------------------------|
| Cash at bank and in hand | 1,265 | (550) | 1 | 224 | - | - | 940 |
| Overdrafts | (25) | 18 | - | (2) | - | - | (9) |
| Short-term deposits | 632 | 678 | 2 | 219 | - | - | 1,531 |
| Cash and cash equivalents | 1,872 | 146 | 3 | 441 | - | - | 2,462 |
| Investments | 40 | (39) | - | - | - | - | 1 |
| Other borrowings due within one year | (4) | 1 | (6) | - | - | (2) | (11) |
| Borrowings due after one year | (1,026) | 22 | - | (3) | (319) | 2 | (1,324) |
| Finance leases | (9) | 4 | - | 1 | - | - | (4) |
| | 873 | 134 | (3) | 439 | (319) | - | 1,124 |
| Fair value of swaps hedging fixed rate borrowings | 15 | - | - | - | 319 | - | 334 |
| | 888 | 134 | (3) | 439 | - | - | 1,458 |

Consolidated statement of recognised income and expense

For the year-ended December 31, 2008

| | 2008 £m | 2007 £m |
|--|--------------|------------|
| Foreign exchange translation differences from foreign operations | 603 | 117 |
| Net actuarial gains | 944 | 511 |
| Movements in unrecognised pension surpluses | (928) | (112) |
| Transfers from transition hedging reserve | (80) | (149) |
| Transfer to cash flow hedging reserve | (41) | - |
| Related tax movements | 15 | (86) |
| Change in rates of corporation tax | - | (9) |
| Net income recognised directly in equity | 513 | 272 |
| (Loss)/profit for the year | (1,345) | 600 |
| Total recognised income and expense for the year | (832) | 872 |
| Attributable to: | | |
| Equity holders of the parent | (829) | 878 |
| Minority interests | (3) | (6) |
| Total recognised income and expense for the year | (832) | 872 |

Notes to the condensed financial statements

1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the EU in accordance with EU law (IAS Regulation EC 1606/2002).

The financial information set out above does not constitute the Company's statutory accounts for the years ended December 31, 2008 or 2007. Statutory accounts for 2007 have been delivered to the registrar of companies, and those for 2008 will be delivered in due course. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports and (iii) did not contain statements under section 237(2) or (3) of the Companies Act 1985.

The accounting policies used in these financial statements are the same as those set out in the 2007 Annual Report.

2 Analysis by business segment

| | 2008 £m | 2007 £m |
|-------------------|--------------|--------------|
| Revenue | | |
| Civil aerospace | 4,437 | 3,718 |
| Defence aerospace | 1,688 | 1,636 |
| Marine | 2,200 | 1,542 |
| Energy | 757 | 539 |
| | 9,082 | 7,435 |

| | 2008 | | | | 2007 | |
|--------------------------------------|----------------|--|-----------------------------|------------|--|-----------------------------|
| | £m | Underlying adjustments ¹ £m | Underlying results £m | £m | Underlying adjustments ¹ £m | Underlying results £m |
| Profit before financing | | | | | | |
| Civil aerospace | 501 | 65 | 566 | 308 | 256 | 564 |
| Defence aerospace | 232 | (9) | 223 | 170 | 29 | 199 |
| Marine | 176 | 7 | 183 | 91 | 22 | 113 |
| Energy | 4 | (6) | (2) | (8) | 13 | 5 |
| Central items | (51) | - | (51) | (49) | - | (49) |
| | 862 | 57 | 919 | 512 | 320 | 832 |
| Net financing | (2,754) | 2,715 | (39) | 221 | (253) | (32) |
| (Loss)/profit before taxation | (1,892) | 2,772 | 880 | 733 | 67 | 800 |
| Taxation | 547 | (764) | (217) | (133) | (60) | (193) |
| (Loss)/profit for the year | (1,345) | 2,008 | 663 | 600 | 7 | 607 |

1. See note 3

| | 2008 £m | 2007 £m |
|---|--------------|--------------|
| Net assets/(liabilities) | | |
| Civil aerospace | 330 | 2,468 |
| Defence aerospace | (197) | (172) |
| Marine | 488 | 563 |
| Energy | 392 | 370 |
| Net tax liabilities | 202 | (445) |
| Net unallocated post-retirement scheme deficits | (142) | (123) |
| Net funds | 1,458 | 888 |
| Net assets | 2,531 | 3,549 |

| | Number | Number |
|------------------------------|--------|--------|
| Employees at year-end | | |
| Civil aerospace | 22,600 | 23,200 |
| Defence aerospace | 5,700 | 5,700 |
| Marine | 8,300 | 8,000 |
| Energy | 2,300 | 2,600 |
| | 38,900 | 39,500 |

3 Underlying performance

The Group seeks to present a measure of underlying performance 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 exclude the release of the foreign exchange transition hedging reserve and reflect the achieved exchange rates arising on settled derivative contracts.

Underlying profit before financing - Where transactions are denominated in a currency other than the functional currency of the group undertaking, this excludes the release of the foreign exchange transition hedging reserve and reflects the transactions at the achieved exchange rates on settled derivative contracts. In 2007, it also excluded £130m of past service post-retirement costs.

Underlying profit before taxation - In addition to those adjustments in underlying profit before financing:

- 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.
- Excludes unrealised amounts arising from revaluations required by IAS 39 Financial Instruments: Recognition and Measurement, changes in value of financial RRSF contracts arising from changes in forecast payments and the net impact of financing costs related to post-retirement scheme benefits.

| | 2008 | | 2007 | |
|--|-------------------------------------|------------------------------------|-------------------------------------|------------------------------------|
| | Profit before financing £m | Profit before taxation £m | Profit before financing £m | Profit before taxation £m |
| Profit/(loss) per consolidated income statement | 862 | (1,892) | 512 | 733 |
| Release of transition hedging reserve | (80) | (80) | (149) | (149) |
| Realised gains on settled derivative contracts ¹ | 185 | 292 | 415 | 420 |
| Net unrealised fair value changes to derivative contracts ² | (4) | 2,475 | - | (251) |
| Effect of currency on contract accounting | (44) | (44) | (76) | (76) |
| Revaluation of trading assets and liabilities | - | (14) | - | 10 |
| Financial RRSPs - foreign exchange differences and changes in forecast payments | - | 121 | - | 13 |
| Net post-retirement scheme financing | - | 22 | - | (30) |
| Post-retirement schemes - past service costs ³ | - | - | 130 | 130 |
| Total underlying adjustments | 57 | 2,772 | 320 | 67 |
| Underlying profit | 919 | 880 | 832 | 800 |

¹ Excludes £24m of realised losses (2007 nil) on derivative contracts in respect of trading cash flows that will occur after the year-end.

² Includes £4m (2007 nil) in respect of derivative contracts held by joint venture companies (included in profit before financing).

³ During 2007, the Group, as part of its ongoing discussions with the Trustees of its UK pension schemes, 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 increased the post-retirement liability by £100m. The Group also agreed a 2 per cent discretionary increase applicable to pensions that do not benefit from any guaranteed increase, which increased the liability by £30m.

4 Net financing

| | 2008 | | 2007 | |
|--|----------------|--------------------------------------|-------|--------------------------------------|
| | £m | Underlying net financing £m | £m | Underlying net financing £m |
| Financing income | | | | |
| Interest receivable | 59 | 59 | 83 | 83 |
| Fair value gains on foreign currency contracts | - | - | 215 | - |
| Fair value gains on commodity derivatives | - | - | 36 | - |
| Expected return on post-retirement scheme assets | 373 | - | 384 | - |
| | 432 | 59 | 718 | 83 |
| Financing costs | | | | |
| Interest payable | (69) | (69) | (89) | (89) |
| Fair value losses on foreign currency contracts | (2,383) | - | - | - |
| Financial RRSPs - foreign exchange differences and changes in forecast payments | (121) | - | (13) | - |
| Financial charge relating to financial RRSPs | (26) | (26) | (26) | (26) |
| Fair value losses on commodity derivatives | (96) | - | - | - |
| Interest on post-retirement scheme liabilities | (395) | - | (354) | - |
| Net foreign exchange losses | (91) | - | (15) | - |
| Other financing charges | (5) | (3) | - | - |
| | (3,186) | (98) | (497) | (115) |
| Net financing | (2,754) | (39) | 221 | (32) |
| Analysed as: | | | | |
| Net interest payable | (10) | (10) | (6) | (6) |
| Net post-retirement scheme financing | (22) | - | 30 | - |
| Net other financing | (2,722) | (29) | 197 | (26) |
| Net financing | (2,754) | (39) | 221 | (32) |

5 Earnings per ordinary share (EPS)

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

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

| | 2008 | | | 2007 | | |
|--|----------------|------------------------------------|----------------|-------|------------------------------------|---------|
| | Basic | Potentially dilutive share options | Diluted | Basic | Potentially dilutive share options | Diluted |
| (Loss)/profit (£m) | (1,340) | - | (1,340) | 606 | - | 606 |
| Weighted average number of shares (millions) | 1,820 | - ¹ | 1,820 | 1,800 | 38 | 1,838 |
| EPS (pence) | (73.63) | - | (73.63) | 33.67 | (0.70) | 32.97 |

¹ As the basic EPS is negative, in accordance with IAS 33 *Earnings per Share*, share options are not considered dilutive.

Underlying EPS has been calculated as follows:

| | 2008 | | 2007 | |
|---|----------------|----------------|---------|-------|
| | Pence | £m | Pence | £m |
| EPS / (Loss)/profit attributable to equity holders of the parent | (73.63) | (1,340) | 33.67 | 606 |
| Release of transition hedge reserve | (4.40) | (80) | (8.28) | (149) |
| Realised gains on settled derivative contracts | 16.05 | 292 | 23.33 | 420 |
| Net unrealised fair value changes to derivative contracts | 135.99 | 2,475 | (13.94) | (251) |
| Effect of currency on contract accounting | (2.42) | (44) | (4.22) | (76) |
| Revaluation of trading assets and liabilities | (0.77) | (14) | 0.56 | 10 |
| Financial RRSPs - foreign exchange differences and changes in forecast payments | 6.65 | 121 | 0.72 | 13 |
| Net post-retirement scheme financing | 1.21 | 22 | (1.67) | (30) |
| Post-retirement schemes – past service costs - see note 3 | - | - | 7.22 | 130 |
| Related tax effect | (41.98) | (764) | (1.39) | (25) |
| Change in rates of corporation tax | - | - | (1.94) | (35) |
| Underlying EPS / Underlying profit attributable to equity holders of the parent | 36.70 | 668 | 34.06 | 613 |

6 Payments to shareholders in respect of the year

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

| | 2008 | | 2007 | |
|---------|-----------------|------------|-----------------|-----|
| | Pence per share | £m | Pence per share | £m |
| Interim | 5.72 | 105 | 4.04 | 73 |
| Final | 8.58 | 158 | 8.96 | 164 |
| | 14.30 | 263 | 13.00 | 237 |

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, 2008 | 801 | 504 | 514 | 366 | 109 | 2,294 |
| Exchange adjustments | 173 | 9 | 5 | - | 7 | 194 |
| Additions | - | 55 | 113 | 97 | 128 | 393 |
| On acquisitions of businesses | 41 | - | - | - | 11 | 52 |
| On disposals of businesses | (2) | - | - | - | - | (2) |
| Disposals | - | - | - | - | (1) | (1) |
| At December 31, 2008 | 1,013 | 568 | 632 | 463 | 254 | 2,930 |
| Accumulated amortisation and impairment: | | | | | | |
| At January 1, 2008 | - | 150 | 150 | 204 | 29 | 533 |
| Exchange adjustments | - | 3 | - | - | 2 | 5 |
| Provided during the year | 5 | 12 | 26 | 46 | 18 | 107 |
| Disposals | - | - | - | - | (1) | (1) |
| At December 31, 2008 | 5 | 165 | 176 | 250 | 48 | 644 |
| Net book value at December 31, 2008 | 1,008 | 403 | 456 | 213 | 206 | 2,286 |
| Net book value at December 31, 2007 | 801 | 354 | 364 | 162 | 80 | 1,761 |

8 Other financial assets and liabilities

The carrying values of other financial assets and liabilities were as follows:

| | 2008 | | | 2007 | | |
|----------------------------|--------------|-------------------|---------------------|--------------|-------------------|---------------------|
| | Assets £m | Liabilities £m | Net amount £m | Assets £m | Liabilities £m | Net amount £m |
| Foreign exchange contracts | 112 | (2,293) | (2,181) | 433 | (54) | 379 |
| Commodity contracts | - | (89) | (89) | 39 | - | 39 |
| Interest rate contracts | 112 | (2,382) | (2,270) | 472 | (54) | 418 |
| Financial RRSPs | 278 | (4) | 274 | 42 | (3) | 39 |
| B Shares | - | (455) | (455) | - | (315) | (315) |
| | - | - | - | - | (16) | (16) |
| | 390 | (2,841) | (2,451) | 514 | (388) | 126 |

Foreign exchange and commodity financial instruments

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

| | 2008 | | | 2007 |
|--|---------------------|-------------|----------------|-------|
| | Foreign exchange | Commodity | Total | Total |
| At January 1 | 379 | 39 | 418 | 593 |
| Fair value changes to derivative contracts | (2,383) | (96) | (2,479) | 251 |
| Fair value changes to fair value hedges | 83 | - | 83 | (6) |
| Fair value relating to contracts settled | (236) | (32) | (268) | (420) |
| Fair value of derivative contracts assumed on formation of joint venture | (24) | - | (24) | - |
| At December 31 | (2,181) | (89) | (2,270) | 418 |

Financial risk and revenue sharing partnerships (RRSPs)

Movements in the recognised values of financial RRSPs were as follows:

| | 2008 £m | 2007 £m |
|---|------------|------------|
| At January 1 | (315) | (324) |
| Cash paid to partners | 53 | 55 |
| Addition | (40) | - |
| Exchange adjustments direct to reserves | (6) | (7) |
| Financing charge ¹ | (26) | (26) |
| Excluded from underlying profit ¹ | | |
| Exchange adjustments | (118) | 7 |
| Restructuring of financial RRSP agreements and changes in forecast payments | (3) | (20) |
| At December 31 | (455) | (315) |

¹ Total charge included within finance in the income statement is £147m (2007 £39m).

9 Pensions and other post-retirement benefits

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 | 181 | (304) | (123) |
| Exchange adjustments | - | (133) | (133) |
| Current service cost | (127) | (27) | (154) |
| Past service cost | (5) | (3) | (8) |
| Interest on post-retirement scheme liabilities | (358) | (37) | (395) |
| Expected return on post-retirement scheme assets | 352 | 21 | 373 |
| Contributions by employer | 248 | 31 | 279 |
| Transfers | 3 | - | 3 |
| Actuarial gains/(losses) | 1,040 | (96) | 944 |
| Movement in unrecognised surplus ¹ | (926) | (2) | (928) |
| At December 31 | 408 | (550) | (142) |

Analysed as:

| | | | |
|---|------|-------|-------|
| Post-retirement scheme surpluses - included in non-current assets | 453 | - | 453 |
| Post-retirement scheme deficits - included in non-current liabilities | (45) | (550) | (595) |
| | 408 | (550) | (142) |

¹ Where a surplus has arisen on a scheme, in accordance with IAS 19, 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 Movements in capital and reserves

Movements in equity attributable to equity holders of the parent were as follows:

| | 2008 £m | 2007 £m |
|--|------------|------------|
| At January 1 | 3,537 | 2,718 |
| Total recognised income and expense attributable to equity holders of the parent | (829) | 878 |
| Arising on issue of ordinary shares | 17 | 29 |
| Issue of B shares | (237) | (172) |
| Conversion of B shares into ordinary shares | 53 | 71 |
| Ordinary shares purchased | (44) | (78) |
| Ordinary shares vesting in share-based payment plans | 37 | 93 |
| Share-based payments adjustment | (1) | (22) |
| Related tax movements - current tax | - | 43 |
| Related tax movements - deferred tax | (11) | (18) |
| Change in rate of UK corporation tax - deferred tax | - | (5) |
| At December 31 | 2,522 | 3,537 |

11 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.

The Group reports contingent liabilities on a discounted basis. As directors consider the likelihood of these contingent liabilities crystallising to be remote, this amount does not represent a value that is expected to crystallise. However, the amounts are discounted at the Group's borrowing rate to reflect the time span over which these exposures could arise. The contingent liabilities are denominated in US dollars. As the Group does not adopt hedge accounting, this amount is reported, together with the sterling equivalent at the reporting date spot rate.

The discounted value of the total gross contingent liabilities relating to delivered aircraft and other arrangements where financing is in place, less insurance arrangements and relevant provisions were:

| | 2008 | | 2007 | |
|---|------|-------|------|-------|
| | £m | US\$m | £m | US\$m |
| Gross contingent liabilities | 755 | 1,086 | 616 | 1,227 |
| Contingent liabilities net of relevant security ¹ | 155 | 222 | 140 | 279 |
| Contingent liabilities net of relevant security reduced by 20% ² | 246 | 354 | 218 | 434 |
| ¹ Security includes unrestricted cash collateral of: | 85 | 123 | 60 | 120 |

² Although sensitivity calculations are complex, the reduction of the relevant security by 20% illustrates the sensitivity of the contingent liability to changes in this assumption

There are also net contingent liabilities in respect of undelivered aircraft, but it is not considered practicable to estimate these as deliveries can be many years in the future, and the relevant financing will only be put in place at the appropriate time.

12 Acquisitions and joint ventures

During the year the Group concluded a joint venture with Goodrich Corporation to develop and manufacture engine controls. As part of the transaction, the Group paid \$100m in cash and assumed a further £24m of foreign exchange commitments. These amounts totalling £93m have been included in intangible assets in the year (note 7). The Group also invested £31m in new joint venture companies, including £16m relating to the formation of this engine controls joint venture.

The Group also acquired a number of small businesses for a total consideration of £50m. There were no significant fair value adjustments in respect of the net assets acquired.