



24 July 2008

ROLLS-ROYCE GROUP plc INTERIM RESULTS 2008

Group Highlights

- Order book increased by 17 per cent to £53.5 billion (2007: year end £45.9 billion).
- Group sales increased to £4,049 million. Sales on an underlying basis* increased by 12 per cent to £4,211 million.
- Services revenues increased by 12 per cent to £2,242 million on an underlying* basis, representing 53 per cent of Group sales.
- Underlying profit before taxation* increased to £410 million, up eight per cent.
- Profit before taxation of £389 million (2007: first half £377 million).
- Average net cash of £265 million (2007: first half £373 million).
- Cash outflow of £44 million (2007: first half cash inflow of £61 million before special £132 million injection to the UK pension schemes).
- Interim payment to shareholders of 5.72 pence per share.

*see note 3

Sir John Rose, Chief Executive, said:

"We have delivered a strong set of first half results.

"Over the last decade, Rolls-Royce has pursued a consistent strategy which has created a global power systems company with a broad and diverse portfolio of products and services.

"The youth, scale and geographical diversity of our Civil Aerospace installed base, along with our broad portfolio, will help mitigate the consequences of uncertain conditions in the airline industry. Our other businesses are increasingly material and are performing well.

"We are confident that we will continue to deliver profitable growth and positive cash flow for the full year."

Group Overview

Rolls-Royce made strong progress in the first half of 2008, again increasing both underlying profit and earnings per share.

The Group's order book grew by £7.6 billion to £53.5 billion, further extending the visibility of future revenues. The profile of the order book continues to become more international, with the growing Asian and Middle East markets now accounting for over 40 per cent of the total.

Sales in the period increased by 12 per cent on an underlying basis to £4,211 million and underlying aftermarket sales also increased by 12 per cent.

Underlying profit before tax increased by eight per cent to £410 million. This increase in profitability was achieved after the impact of a further five cent deterioration in the US dollar achieved exchange rate, increases in energy and commodity costs and a £36 million increase in restructuring charges. The increased charge for restructuring was mainly due to the programme, announced in January, to reduce the number of people working on support functions by 2,300 people. In addition, a one-off charge of £16 million was taken in the civil business.

At the end of the first half, the hedge book stood at \$9.1 billion with an average exchange rate of 1.87 US dollars to the pound, a deterioration of four cents from the start of 2008. For 2008 as a whole, the Group continues to forecast a deterioration in the achieved rate of between six and eight cents relative to 2007, at an incremental cost to the Group of around £100 million over the full year.

The consistent strategy pursued by the Group over many years has created a broadly based power systems company. The breadth, diversity and materiality of the Group's portfolio of businesses and products, access to global markets, a growing installed base, the expansion of the Group's aftermarket services business and the strength of the balance sheet all place Rolls-Royce in a good position to deal with the challenges of the current economic environment.

Activity in the Group's Civil Aerospace business has continued to increase strongly in the first half despite the impact of global economic pressures and rising fuel prices on the civil aviation industry. Underlying service revenues increased by ten per cent to £1,322 million in the first half and the order book by 17 per cent to £42.1 billion.

Demand for widebody aircraft remained strong and Rolls-Royce now has a 50 per cent share of this sector. Programmes in the business jet market continued to sell well, with 191 deliveries in the first half, an increase of four per cent. The successful launch of the Rolls-Royce powered Gulfstream G650 extends the Group's footprint in this sector and has attracted a positive market response.

The civil aviation industry will not be immune from the effects of high oil prices, the economic downturn and constraints on financing. However, the impact on the Civil Aerospace business should be mitigated by a number of factors:

- The widebody and corporate sectors, which together account for more than 75 per cent of Civil Aerospace original equipment revenues, continue to be resilient. The delays to the Airbus A380 and Boeing 787 programmes have reduced planned capacity in the

widebody sector by around 300 aircraft over the next three years and caused firmer demand for existing widebody products.

- The relative youth and fuel efficiency of the Rolls-Royce installed base, which has an average age of eight years, make it less likely that Rolls-Royce powered aircraft will be grounded than older and less efficient aircraft. The majority of announced retirements to date have been narrowbody aircraft or aircraft over 20 years old. In the narrowbody sector the Rolls-Royce effective share is less than ten per cent of the current generation market and less than ten per cent of the Rolls-Royce narrowbody fleet is more than 20 years old.
- The scale and diversity of the Rolls-Royce installed base, with the number of Rolls-Royce engines having grown by 75 per cent over the last ten years and with a further 462 engines delivered in the first half of 2008, will continue to support growth in aftermarket revenues.

The Marine business is benefiting from high levels of activity in the oil and gas sector and has enjoyed a very strong first half with its order book rising by 17 per cent. The oil industry is increasingly investing in deep water, offshore exploration and development, as well as in compression and transportation systems, which generate demand for high specification, bespoke vessels and equipment. This activity is opening up new opportunities for Marine in the supply of offshore ship designs and equipment.

Defence Aerospace continued to benefit from strong US demand, which now accounts for around 45 per cent of its revenues. The business maintained its lead in the military transport sector where the AE series of engines has made strong progress. The programme uses a common core and production facilities across a wide range of applications for the transport sector, including the C-130J, the C-27J, V-22 Osprey TiltRotor and the Global Hawk UAV. These applications will drive significant growth in engine deliveries in the second half of 2008 and beyond, with the C-130J and the V-22 alone expected to generate deliveries of around 160 engines a year over the next few years.

Energy is also benefiting from increased worldwide demand in the oil and gas production sector, driven by higher oil prices and, in the land-based power generation market, by the need for increased peaking capacity. This is opening up new opportunities for the business in the supply of gas turbines and compressors for land-based and underwater pipelines, as well as for power generation on rigs and Floating Production, Storage and Offloading vessels.

The balance sheet is robust, with the Group enjoying a strong cash position and credit rating. This enables the Group to take on long-term commitments, pursue investment opportunities as they arise and deal with any short-term consequences of the current economic environment. Changes to the Group's defined benefit pension schemes in 2007, including a £500 million cash injection and a reallocation of investments, have significantly reduced volatility in funding requirements.

The Group saw a cash outflow in the first half of £44 million (2007: cash inflow £61 million before special £132 million injection to the UK pension schemes), due to a range of factors including restructuring costs and increased inventory. However, the Group continues to expect a positive cash flow over the full year. Average net cash fell by £108 million to £265 million over the period, primarily reflecting the timing of the cash injection into the pension fund late in 2007.

Underlying earnings per share increased by nine per cent to 17.15p per share (2007: first half 15.72p per share). Basic earnings per share were 16.22p (2007: first half 17.12p).

An interim payment to shareholders has been declared of 5.72p per share (2007: first half: 4.04p). For the 2007 full year, the payment increased by 35 per cent compared with 2006. This interim payment is expected to be around 40 per cent of the full year payment for 2008.

Developments

Rolls-Royce is well placed to continue to develop its business and is investing in new programmes. In March, it launched the BR725, the exclusive engine for Gulfstream's new G650 corporate jet which is targeting an engine market worth around \$14 billion. Also in March, the Group announced that the RR300 helicopter engine, for Robinson Helicopter's R66, had been awarded its Federal Aviation Authority (FAA) Type and Production Certificate, becoming the first engine to roll off the Group's new small engine assembly line at Indianapolis. These two engine programmes demonstrate how the Group has continued to broaden its product portfolio.

Since the launch in July 2006 of the Airbus A350 XWB, for which the Trent XWB is currently the sole engine, firm orders have been placed to date for more than 700 engines. The engine addresses a sector of the market estimated to be worth \$186 billion over the next 20 years.

There have also been significant developments in Marine and Energy. The Group has continued to develop its marine capability and earlier this month announced its intention to acquire Scandinavian Electric Holdings, a supplier of system packages for diesel electric propulsion systems. Rolls-Royce is also particularly well positioned to respond to the increasing interest in the environmental impact of shipping. It is developing further versions of its successful Bergen gas engine to respond to the impact of increasingly stringent environmental restrictions.

The Group is also seeking to broaden its Energy portfolio to address new opportunities in civil nuclear and distributed power. In July, it announced the reshaping of its nuclear business to apply Rolls-Royce's existing capabilities to the expanding civil nuclear market, which is estimated to be worth up to £50 billion a year in 15 years time. In March, the Group took a 23.5 per cent equity stake in TGL, a privately owned company developing a free stream tidal power generation capability.

More generally, the Group has maintained its commitment to research and development (R&D). R&D investment funded by the Group in the first half was £222 million, or 5.3 per cent of underlying Group sales. Around two thirds of this investment is devoted to improving the environmental performance of the Group's products.

The Group has continued to expand its global footprint and strengthen its operational performance. In Singapore, the ground-breaking ceremony took place for the new engine assembly and test facility for large commercial aero engines, which the Group announced in 2007. Also in development is Crosspointe, a new advanced manufacturing, assembly and test facility in the Commonwealth of Virginia in the US.

Good progress has been made with the programme announced in January to reduce by 2,300 the number of people working in support areas. To date around 1,900 employees

have left Rolls-Royce. The Group anticipates that the programme will be complete by the end of 2008 and that it will be self-financing in the year. Meanwhile, Rolls-Royce has continued to recruit in operational areas as well as maintaining its apprentice and graduate programmes.

Prospects

Over the last decade, Rolls-Royce has pursued a consistent strategy which has created a global power systems company with a broad and diverse portfolio of products and services.

We are confident that we will continue to deliver profitable growth and positive cash flow for the full year.

For visual material

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. Photographs are available at www.newscast.co.uk

Please visit the [Rolls-Royce Media Room](#) for images and The [Newsmarket](#) for broadcast-standard video. If you are a first-time user of The Newsmarket, we encourage you to take a moment to register. If you have any questions about using The Newsmarket, please email [Journalist Help](#).

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REVIEW OF FIRST HALF 2008 BY BUSINESS SECTOR

Civil Aerospace

Order book: £42.1bn (2007: year end £35.9bn)

Engine deliveries: 462 (2007: 421)

Underlying sales: £2,102m (2007: £2,011m)

Underlying aftermarket service sales: £1,322m (2007: £1,205m)

Underlying profit before financing: £272m (2007: £261m)

The Civil Aerospace business has made good progress in the first half, with over £8 billion of new orders.

Underlying sales rose to £2,102 million, driven by growth in the corporate sector, increased deliveries of the V2500 for the Airbus A320 family and a ten per cent increase in aftermarket revenues. These trends are expected to continue for the full year. Trent deliveries for widebody aircraft were slightly lower in the first half but are expected to increase strongly in the second half.

Underlying profit increased by four per cent in the period, reflecting increasing volumes and a higher aftermarket mix. This was achieved despite higher unit costs, a five cent deterioration in the US dollar exchange rate and restructuring costs. In addition there was an increase in customer provisions of £16 million against a specific customer, relating to regional aircraft.

The business extended its product portfolio with the launch of the BR725, selected as the exclusive powerplant for Gulfstream's new flagship corporate jet, the G650. Rolls-Royce continues to be the leading engine supplier in the corporate sector, with a 34 per cent market share.

The Trent engine family secured orders worth £4.5 billion for a further 360 engines. The most mature Trent, the Trent 700, consolidated its lead position on the Airbus A330, on which it has a 53 per cent market share, and won orders for up to 194 engines. At the end of June the order book included a total of more than 2,300 Trent engines across six programmes. The global nature of the customer base was again evident, with orders from customers in Asia, Latin America and the Middle East, as well as the US and Europe.

In June, the Group established a joint venture company with GKN Aerospace to carry out research and development on the use of composite materials in future aero engine fan blades.

The Group's services activity continues to develop and is increasingly valued by civil aviation customers. Over half of Rolls-Royce's modern jet engine fleet is now covered by TotalCare® or CorporateCare® service agreements, a level that is expected to increase given that around 70 per cent of recent widebody orders incorporate these arrangements.

In July, the Group further extended its services provision, announcing a new joint venture company with its partner Mubadala Development Company, offering on-wing care for the rapidly expanding Middle East aviation market.

Defence Aerospace

Order book: £4.9bn (2007: year end £4.4bn)
Engine deliveries: 198 (2007: 168)
Underlying sales: £769m (2007: £808m)
Underlying aftermarket service sales: £441m (2007: £422m)
Underlying profit before financing: £104m (2007: £106m)

The Defence business continued to strengthen its market position in the first half, winning contracts worth £1.2 billion. The business's broad portfolio already comprises around 20,000 in-service engines and the fleet is expected to grow given the Group's strong position on a number of key programmes in the transport and combat sectors.

Overall underlying sales declined slightly in the first half due to the timing and mix of deliveries on new production engines, while aftermarket sales increased by five per cent. Both original equipment and aftermarket sales will improve in the second half.

Underlying profits were stable, despite an increased restructuring charge and adverse phasing of research and development spend.

The Group maintained its lead position on military transport aircraft. As part of the AirTanker consortium, it won a 27 year engine and support contract to supply the Trent 700 engine to the UK Ministry of Defence, worth over £700 million. The AE 2100 programme continued to make strong progress. AE 2100 orders this year have included a \$135 million contract for the Canadian Air Force for the C-130J and an exclusive nine year agreement, worth around \$915 million, with Alenia Aeronautica for C-27J propulsion systems.

A number of major development programme milestones were reached during the period, demonstrating the breadth of the defence portfolio. The F-35 Lightning II (Joint Strike Fighter) achieved first flight, fitted with the Rolls-Royce LiftSystem®, while the aircraft's collaborative F136 engine successfully completed its critical design review. On the Airbus A400M programme, Europrop International, in which Rolls-Royce has a 25 per cent share, delivered four TP400-D6 flight test engines to power the first A400M. The RR300 helicopter engine achieved its Federal Aviation Authority (FAA) Type and Production Certificate in March.

Marine

Order book: £5.5bn (2007: year end £4.7bn)

Underlying sales: £1,016m (2007: £700m)

Underlying aftermarket service sales: £326m (2007: £257m)

Underlying profit before financing: £87m (2007: £58m)

Rolls-Royce is a world leader in the provision of marine propulsion systems, offering a unique set of products and services for the naval and commercial sectors. Through its services business, it also supports propulsion systems installed on more than 20,000 vessels, including those in service with 70 navies worldwide.

The business continued to benefit from increased demand in the merchant and offshore sectors and achieved record sales in the first half. Underlying profits increased significantly, supported by strong volume growth in both original equipment and support services. Marine is now the Group's second largest business in revenue terms.

Increasing oil prices are supporting significant investment in the offshore oil and gas sector, driving demand for the Group's vessel designs and power systems equipment. Order activity continues to be robust, with new orders totalling £1.6 billion in the first half supporting a further increase in the order book to £5.5 billion.

Two landmark orders were received from China: a £58 million contract with China Oilfield Services Ltd to provide design and equipment systems for two offshore support vessels and a £13 million contract with BGP Marine China to design and equip an advanced seismic research vessel. The ships will support oil and gas exploration and production and are the Group's first such contracts in the Chinese market.

Also in China, the Group's integrated propulsion and manoeuvring system, Promas, is being installed on four merchant cargo ships under construction.

In the naval market, Marine passed a significant milestone with the successful 'light-off' of the two MT30 gas turbines installed on the US Navy's first Littoral Combat Ship. These Trent-derived engines are the most powerful marine gas turbines available worldwide.

The business also signed a memorandum of understanding with the Vietnam Shipbuilding Industry Group (Vinashin) in Hanoi to support the development of Vietnam's fast-growing marine industry.

Services capabilities were expanded with the opening of a new facility in Mumbai to support the Group's growing installed base of marine equipment. This development is part of an expansion of the Marine services capability that includes construction of new Service Centres in Galveston and Rio de Janeiro and the upgrading of the Rotterdam Service Centre.

Energy

Order book: £1.0bn (2007: year end £0.9bn)

Engine deliveries: 18 (2007: 9)

Underlying sales: £324m (2007: £227m)

Underlying aftermarket service sales: £153m (2007: £117m)

Underlying loss before financing: £(8)m (2007: loss £(1)m)

The Energy business supplies a broad range of aero-derived gas turbine packages to the worldwide oil and gas and power generation markets. With over 160 million hours of operating experience, the business has supplied over 4,000 packages to customers in around 80 countries.

Strong order intake in both the oil and gas and power generation sectors contributed to a 10 per cent increase in the order book in the first half, with new orders being won for 13 industrial Trent units in a broad range of locations, including Australia, Europe, Russia and South East Asia.

Sales increased by 43 per cent, driven by significantly increased original equipment and aftermarket sales across both the oil and gas and power generation sectors.

At Dolphin Energy in Qatar, the world's first industrial Trent mechanical drive gas turbines achieved full plant gas export capacity.

The Group continued to progress its programme to develop a commercially competitive fuel cell system. A 100 hour concept demonstration test of a fully integrated system is planned for the second half as part of the programme to prove the unit.

Steps have also been taken to exploit the Group's nuclear capability, derived from its 50 year involvement in the UK Royal Navy's nuclear submarine programme. In July, Rolls-Royce announced that it was establishing a new unit to take advantage of the emerging opportunities in civil nuclear in the UK and in other countries.

Strong volume growth contributed to an improved trading performance in the first half. Increased charges for restructuring and the expected increase in the Group's investment in fuel cells and lower levels of technology fees in the first half of 2008 all contributed to the result in the period. Continued strong volume growth in both original equipment and aftermarket is expected to deliver a modest profit in the second half of 2008.

Financial review

The firm and announced order book, at constant exchange rates, was £53.5bn (2007: year end £45.9bn). Aftermarket services represented 26 per cent of the order book (2007: year end 28 per cent).

Sales increased by 13 per cent to £4,049m (2007: £3,591m). Sales on an underlying basis grew by 12 per cent. Payments to industrial Risk and Revenue Sharing Partners (RRSPs), charged in cost of sales, amounted to £107m (2007: £95m).

The published profit before tax increased to £389m from £377m. Underlying profit before tax was £410m (2007: £380m). Underlying earnings per share increased by nine per cent, to 17.15p (2007: 15.72p) (see note 6).

Gross research and development investment increased seven per cent to £399m (2007: £373m). Net research and development investment charged to the income statement in the first half was £177m (2007: £195m) after net capitalisation of £45m (2007: £9m) on development programmes. The second half charge for R&D is expected to be around £40m higher than in the first half, the bulk of the increase being in Civil. Receipts from RRSPs in respect of new programme developments, shown as other operating income, were £13m (2007: £40m).

Investment in intangibles was £127m (2007: £60m) and, in addition to capitalised R&D of £57m, included £32m (2007: £24m) on recoverable engine costs and a further £25m (2007: £9m) on certification costs and participation fees.

Restructuring costs of £60m (2007: £24m) were charged within operating costs including costs associated with optimising the Group's support functions.

The taxation charge was £97m (2007: £74m). The taxation charge on an underlying basis was £101m, representing 25 per cent of underlying profit before tax (2007: £102m, representing 27 per cent of underlying profit before tax). The effective underlying tax rate is impacted by a number of factors including the geographical mix of profits, changes in legislation and the benefit of research and development tax credits.

There was a cash outflow in the period of £44m (2007: inflow £61m before £132m special injection to the UK pension schemes). Key features were an increase in overall working capital of £334m from 2007 year end, including increased trade and other receivables of £490m, an inventory increase of £250m, mitigated by a £406m increase in trade and other payables (including customer deposits). The net cash balance at the half year was £844m (2007: year end £888m).

Average net cash was £265m (2007: £373m), the reduction in the half-year largely accounted for by the phasing of a £500m investment in the Group's UK pension schemes that occurred largely at the end of 2007.

Provisions were £324m (2007: year end £301m). Provisions carried forward in respect of potential customer financing exposure amounted to £57m at the period end (2007: year end £44m).

There were no material changes to the Group's gross and net contingent liabilities in the first half. 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 2008, the gross level of commitments on delivered aircraft was \$1,198m (£602m), including \$666m for AVG's and \$532m for credit guarantees. The net exposure after reflecting the level of security was \$241m (£121m).

Related party transactions were broadly in line with 2007 (see note 14).

Pre-tax post-retirement benefit obligations were £123m (2007: year end £123m) (see note 10). After taking account of deferred taxation, post-retirement benefit obligations were £86m (2007: year end £88m).

The proposed interim payment to shareholders is equivalent to 5.72 pence per Ordinary Share (2007: interim payment 4.04 pence). This payment will be the first to be paid in C Shares rather than B Shares, the only material difference being that C Shares will not carry the right to convert directly into Ordinary Shares (see note 7 below). The interim payment is payable on January 5, 2009 to shareholders on the register on October 31, 2008. The entitlement date for C Shares is October 29, 2008.

As the Company will no longer be issuing B Shares, the directors have decided to exercise the Company's right to redeem compulsorily all remaining B Shares in issue at their nominal value of 0.1 pence per share on 22 September 2008. Payment of these redemption monies will be made to shareholders on 29 September 2008 together with a final B Share dividend accrued on B Shares from 1 July up until 22 September.

Condensed consolidated financial statements

Condensed consolidated income statement

For the half-year ended June 30, 2008

	Notes	Half-year to June 30, 2008 £m	Half-year to June 30, 2007 £m	Year to December 31, 2007 £m
Revenue	2	4,049	3,591	7,435
Cost of sales		(3,231)	(2,943)	(6,003)
Gross profit		818	648	1,432
Other operating income		13	40	50
Commercial and administrative costs		(366)	(318)	(653)
Research and development costs		(177)	(195)	(381)
Share of profit of joint ventures		33	26	66
Operating profit		321	201	514
Profit/(loss) on sale or termination of businesses		1	(1)	(2)
Profit before financing	2	322	200	512
Financing income	4	359	416	718
Financing costs	4	(292)	(239)	(497)
Net financing		67	177	221
Profit before taxation ¹	2,3	389	377	733
Taxation	5,6	(97)	(74)	(133)
Profit for the period		292	303	600
Attributable to:				
Equity holders of the parent		294	306	606
Minority interests		(2)	(3)	(6)
Profit for the period		292	303	600
Earnings per ordinary share ²				
Basic	6	16.22p	17.12p	33.67p
Diluted	6	15.97p	16.74p	32.97p
Payments to shareholders in respect of the period	7	(105)	(73)	(237)
¹ Underlying profit before taxation	3	410	380	800
² Underlying earnings per share are shown in note 6.				

Condensed consolidated financial statements (continued)

Condensed consolidated balance sheet

At June 30, 2008

	Notes	June 30, 2008 £m	Restated* June 30, 2007 £m	December 31, 2007 £m
ASSETS				
Non-current assets				
Intangible assets	8	1,885	1,492	1,761
Property, plant and equipment		1,792	1,725	1,813
Investments – joint ventures		298	258	284
Other investments		57	51	57
Deferred tax assets		91	82	81
Post-retirement scheme surpluses	10	221	94	210
		4,344	3,702	4,206
Current assets				
Inventory		2,453	2,081	2,203
Trade and other receivables		3,069	2,535	2,585
Taxation recoverable		7	3	7
Other financial assets	9	498	603	514
Short-term investments		1	35	40
Cash and cash equivalents		1,844	1,811	1,897
Assets held for sale		24	-	7
		7,896	7,068	7,253
Total assets		12,240	10,770	11,459
LIABILITIES				
Current liabilities				
Borrowings		(13)	(38)	(34)
Other financial liabilities	9	(159)	(30)	(85)
Trade and other payables		(4,647)	(3,826)	(4,326)
Current tax liabilities		(198)	(189)	(188)
Provisions		(163)	(115)	(121)
		(5,180)	(4,198)	(4,754)
Non-current liabilities				
Borrowings		(1,040)	(1,003)	(1,030)
Other financial liabilities	9	(320)	(336)	(303)
Trade and other payables		(1,026)	(873)	(965)
Deferred tax liabilities		(404)	(384)	(345)
Provisions		(161)	(185)	(180)
Post-retirement scheme deficits	10	(344)	(503)	(333)
		(3,295)	(3,284)	(3,156)
Total liabilities		(8,475)	(7,482)	(7,910)
Net assets		3,765	3,288	3,549
EQUITY				
Capital and reserves				
Called-up share capital		364	361	364
Share premium account		67	66	67
Capital redemption reserves		185	198	191
Transition hedging reserve		29	138	77
Other reserves		171	(59)	62
Retained earnings		2,939	2,579	2,776
Equity attributable to equity holders of the parent	11	3,755	3,283	3,537
Minority interests		10	5	12
Total equity		3,765	3,288	3,549

* Progress payments received against other inventory in the 2007 half-year comparative (£396m) have been included within trade and other payables.

Condensed consolidated financial statements (continued)

Condensed consolidated cash flow statement

For the half-year ended June 30, 2008

	Notes	Half-year to June 30, 2008 £m	Restated* Half-year to June 30, 2007 £m	Year to December 31, 2007 £m
Reconciliation of cash flows from operating activities				
Profit before taxation		389	377	733
Share of profit of joint ventures		(33)	(26)	(66)
(Profit)/loss on sale or termination of businesses		(1)	1	2
(Profit)/loss on sale of property, plant and equipment		(13)	2	1
Net interest payable	4	5	6	6
Net post-retirement scheme financing	4	13	(15)	(30)
Net other financing	4	(85)	(168)	(197)
Taxation paid		(32)	(23)	(71)
Amortisation of intangible assets	8	56	30	63
Depreciation of property, plant and equipment		92	82	170
Increase/(decrease) in provisions		16	(35)	(42)
Increase in inventories		(250)	(236)	(359)
Increase in trade and other receivables		(490)	(97)	(128)
Increase in trade and other payables		406	233	778
Decrease in other financial assets and liabilities		223	156	357
Additional cash funding of post-retirement schemes		(58)	(40)	(441)
Share-based payments charge		17	17	36
Transfers of hedge reserves to income statement		(66)	(63)	(149)
Dividends received from joint ventures		22	16	42
Net cash inflow from operating activities		211	217	705
Cash flows from investing activities				
Additions of unlisted investments		(1)	-	(5)
Disposals of unlisted investments		1	-	-
Additions to intangible assets		(122)	(58)	(294)
Purchases of property, plant and equipment		(105)	(121)	(304)
Disposals of property, plant and equipment		42	-	47
Acquisition of businesses		(8)	(1)	(6)
Disposals of businesses		-	2	3
Investments in joint ventures		(9)	(10)	(13)
Disposals of joint ventures		13	-	-
Net cash outflow from investing activities		(189)	(188)	(572)
Cash flows from financing activities				
Borrowings due within one year – repayment of loans		(3)	(346)	(350)
Borrowings due after one year – (repayment)/increase in loans		(25)	35	-
Capital element of finance lease payments		(2)	(1)	(5)
Net cash outflow from decrease in borrowings		(30)	(312)	(355)
Interest received		43	70	95
Interest paid		(55)	(78)	(93)
Interest element of finance lease payments		-	(3)	(3)
Decrease/(increase) in government securities and corporate bonds		39	(1)	(6)
Issue of ordinary shares		-	28	29
Purchase of own shares		(44)	(78)	(77)
Other transactions in own shares		-	27	34
Redemption of B Shares		(58)	(56)	(97)
Net cash outflow from financing activities		(105)	(403)	(473)
Decrease in cash and cash equivalents		(83)	(374)	(340)
Cash and cash equivalents at January 1		1,872	2,171	2,171
Foreign exchange		48	(11)	41
Cash and cash equivalents at period end		1,837	1,786	1,872

* Increase in inventories and increase in trade and other payables in the 2007 half-year comparative have been restated from (£238m) and £235m respectively to reflect progress payments received from other inventory being included within trade and other payables. The movement of £2m in each also reflects the corresponding restatement of both inventory and trade and other payables in the December 31, 2006 comparatives.

Condensed consolidated financial statements (continued)

	Half-year to June 30, 2008 £m	Half-year to June 30, 2007 £m	Year to December 31, 2007 £m
Reconciliation of movement in cash and cash equivalents to movements in net funds			
Decrease in cash and cash equivalents	(83)	(374)	(340)
Cash (inflow)/outflow from (decrease)/increase in government securities and corporate bonds	(39)	1	6
Net cash outflow from decrease in borrowings	30	312	355
Change in net funds resulting from cash flows	(92)	(61)	21
Exchange adjustments	48	(10)	41
Fair value adjustments	(37)	47	(18)
Movement in net funds	(81)	(24)	44
Net funds at January 1 excluding the fair value of swaps	873	829	829
Net funds at period end excluding the fair value of swaps	792	805	873
Fair value of swaps hedging fixed rate borrowings	52	(50)	15
Net funds at period end	844	755	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	Non cash flow £m	Exchange adjustments £m	Fair value £m	At June 30, 2008 £m
Cash at bank and in hand	1,265	(315)	-	44	-	994
Overdrafts	(25)	18	-	-	-	(7)
Short-term deposits	632	214	-	4	-	850
Cash and cash equivalents	1,872	(83)	-	48	-	1,837
Investments	40	(39)	-	-	-	1
Other borrowings due within one year	(4)	3	(1)	-	-	(2)
Borrowings due after one year	(1,026)	25	1	-	(37)	(1,037)
Finance leases	(9)	2	-	-	-	(7)
	873	(92)	-	48	(37)	792
Fair value of swaps hedging fixed rate borrowings	15				37	52
	888	(92)	-	48	-	844

Condensed consolidated statement of recognised income and expense

For the half-year ended June 30, 2008

	Half-year to June 30, 2008 £m	Half-year to June 30, 2007 £m	Year to December 31, 2007 £m
Foreign exchange translation differences from foreign operations	109	(4)	117
Net actuarial gains	-	525	511
Movement in unrecognised pension surplus (see note 10)	(43)	-	(112)
Transfers from transition hedging reserve	(66)	(63)	(149)
Related tax movements	30	(132)	(86)
Change in rates of corporation tax	-	(9)	(9)
Net income recognised directly in equity	30	317	272
Profit for the period	292	303	600
Total recognised income and expense for the period	322	620	872
Attributable to:			
Equity holders of the parent	324	623	878
Minority interests	(2)	(3)	(6)
Total recognised income and expense for the period	322	620	872

Condensed consolidated financial statements (continued)

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, 2008 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in jointly controlled entities. They have been prepared on the basis of the recognition and measurement requirements of IFRS applied to the financial statements at December 31, 2007 and those standards that have been endorsed and will be applied at December 31, 2008.

The consolidated financial statements of the Group as at and for the year ended December 31, 2007 (2007 Annual report) are available on the Group's website at www.rolls-royce.com or 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 2007 Annual report.

The comparative figures for the financial year December 31, 2007 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company'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 237(2) of the Companies Act 1985.

The condensed consolidated half-year financial statements were approved by the Board of directors on July 23, 2008.

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, 2007.

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, 2007.

Condensed consolidated financial statements (continued)

2 Analysis by business segment

	Half-year to June 30, 2008 £m	Half-year to June 30, 2007 £m	Year to December 31, 2007 £m
Revenue			
Civil aerospace	1,970	1,880	3,718
Defence aerospace	758	796	1,636
Marine	1,009	698	1,542
Energy	312	217	539
	4,049	3,591	7,435

	Half-year to June 30, 2008			Half-year to June 30, 2007			Year to December 31, 2007		
	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	186	86	272	112	149	261	308	256	564
Defence aerospace	106	(2)	104	84	22	106	170	29	199
Marine	75	12	87	40	18	58	91	22	113
Energy	(17)	9	(8)	(10)	9	(1)	(8)	13	5
Central items	(28)	-	(28)	(26)	-	(26)	(49)	-	(49)
	322	105	427	200	198	398	512	320	832
Net financing	67	(84)	(17)	177	(195)	(18)	221	(253)	(32)
Profit before taxation	389	21	410	377	3	380	733	67	800
Taxation	(97)	(4)	(101)	(74)	(28)	(102)	(133)	(60)	(193)
Profit for the period	292	17	309	303	(25)	278	600	7	607
Minority interests	2	-	2	3	-	3	6	-	6
Profit attributable to equity holders of the parent	294	17	311	306	(25)	281	606	7	613

	June 30, 2008 £m	June 30, 2007 £m	December 31, 2007 £m
Net assets/(liabilities)			
Civil aerospace	2,785	2,497	2,468
Defence aerospace	(170)	(49)	(172)
Marine	605	616	563
Energy	328	366	370
Net tax liabilities	(504)	(488)	(445)
Net unallocated post-retirement scheme deficits	(123)	(409)	(123)
Net funds	844	755	888
Net assets	3,765	3,288	3,549

	June 30, 2008 Number	June 30, 2007 Number	December 31, 2007 Number
Group employees at period end			
Civil aerospace	22,300	22,700	23,200
Defence aerospace	5,700	5,600	5,700
Marine	8,000	7,700	8,000
Energy	2,500	2,500	2,600
	38,500	38,500	39,500

Condensed consolidated financial statements (continued)

3 Underlying performance

Underlying performance is presented to show the economic substance of the Group's hedging strategies in respect of transactional exchange rate and commodity price movements.

Underlying sales 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 includes amounts realised from settled derivative contracts (primarily relating to civil aerospace) and for 2007 excluded the £130m of past-service post-retirement costs.

In addition, underlying profit before taxation excludes the unrealised amounts arising from revaluations required by IAS 32 *Financial Instruments: Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement* and the net impact of financing costs related to post-retirement scheme benefits.

Underlying profit adjustments:

	Half-year to June 30, 2008		Half-year to June 30, 2007		Year to December 31, 2007	
	Profit before financing £m	Profit before tax £m	Profit before financing £m	Profit before tax £m	Profit before financing £m	Profit before tax £m
Profit per consolidated income statement	322	389	200	377	512	733
Release of transition hedging reserve	(66)	(66)	(63)	(63)	(149)	(149)
Realised gains on settled derivative contracts	191	235	161	171	415	420
Net unrealised fair value changes to derivative contracts	-	(135)	-	(162)	-	(251)
Effect of currency on contract accounting	(20)	(20)	(30)	(30)	(76)	(76)
Revaluation of trading assets and liabilities	-	2	-	(16)	-	10
Financial RRSPs – foreign exchange differences and changes in forecast payments	-	(8)	-	(12)	-	13
Net post-retirement scheme financing	-	13	-	(15)	-	(30)
Post-retirement schemes – past service costs ¹	-	-	130	130	130	130
Total underlying adjustments	105	21	198	3	320	67
Underlying profit	427	410	398	380	832	800

¹ 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 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% discretionary increase applicable to pensions that do not benefit from any guaranteed increase, which increased the liability by £30m.

Condensed consolidated financial statements (continued)

4 Net financing

	Half-year to June 30, 2008		Half-year to June 30, 2007		Year to December 31, 2007	
	Underlying net financing		Underlying net financing		Underlying net financing	
	£m	£m	£m	£m	£m	£m
Financing income						
Interest receivable	31	31	44	44	83	83
Fair value gains on foreign currency contracts	75	-	137	-	215	-
Financial RRSPs – foreign exchange differences and changes in forecast payments	8	-	12	-	-	-
Fair value gains on commodity derivatives	60	-	25	-	36	-
Expected return on post-retirement scheme assets	185	-	191	-	384	-
Net foreign exchange gains	-	-	6	-	-	-
Other financing income	-	-	1	1	-	-
	359	31	416	45	718	83
Financing costs						
Interest payable	(36)	(36)	(50)	(50)	(89)	(89)
Financial RRSPs – foreign exchange differences and changes in forecast payments	-	-	-	-	(13)	-
Financial charge relating to financial RRSPs	(12)	(12)	(13)	(13)	(26)	(26)
Interest on post-retirement scheme liabilities	(198)	-	(176)	-	(354)	-
Net foreign exchange losses	(46)	-	-	-	(15)	-
	(292)	(48)	(239)	(63)	(497)	(115)
Net financing	67	(17)	177	(18)	221	(32)
Analysed as:						
Net interest payable	(5)	(5)	(6)	(6)	(6)	(6)
Net post-retirement scheme financing	(13)	-	15	-	30	-
Net other financing	85	(12)	168	(12)	197	(26)
Net financing	67	(17)	177	(18)	221	(32)

5 Taxation

The effective tax rate for the half-year is 24.9% (2007 half-year 19.6%, full year 18.1%). The effective rate for 2007 full year was lower, mainly because of the impact of the reduction in UK and German corporation tax rates enacted during 2007. The effective underlying tax rates are discussed on page 10.

Condensed consolidated financial statements (continued)

6 Earnings per ordinary share (EPS)

Basic EPS is calculated by dividing the profit attributable to ordinary shareholders of £294m (2007 half-year £306m, full year £606m) by 1,813m (2007 half-year 1,787m, full year 1,800m) 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, 2008		Half-year to June 30, 2007		Year to December 31, 2007	
	Pence	£m	Pence	£m	Pence	£m
EPS / Profit attributable to equity holders of the parent	16.22	294	17.12	306	33.67	606
Release of transition hedging reserve	(3.64)	(66)	(3.52)	(63)	(8.28)	(149)
Realised gains on settled derivative contracts	12.96	235	9.57	171	23.33	420
Net unrealised fair value changes to derivative contracts	(7.45)	(135)	(9.06)	(162)	(13.94)	(251)
Effect of currency on contract accounting	(1.10)	(20)	(1.68)	(30)	(4.22)	(76)
Revaluation of trading assets and liabilities	0.11	2	(0.90)	(16)	0.56	10
Financial RRSPs – foreign exchange differences and changes in forecast payments	(0.44)	(8)	(0.67)	(12)	0.72	13
Net post-retirement scheme financing	0.71	13	(0.84)	(15)	(1.67)	(30)
Post-retirement schemes – past service costs	-	-	7.27	130	7.22	130
Related tax effect	(0.22)	(4)	(0.28)	(5)	(1.39)	(25)
Change in rates of corporation tax ¹	-	-	(1.29)	(23)	(1.94)	(35)
Underlying EPS / Underlying profit attributable to equity holders of the parent	17.15	311	15.72	281	34.06	613

¹ During 2007, changes in the rates of UK and German corporation tax were enacted. The above adjustments represent the reduction in deferred tax liabilities reflected in the income statement as a result of these changes. Where deferred tax had 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 £294m (2007 half-year £306m, full year £606m) by 1,841m (2007 half-year 1,828m, full year 1,838m) ordinary shares, being 1,813m (2007 half-year 1,787m, full year 1,800m) as above, adjusted by the bonus element of existing share options of 28m (2007 half-year 41m, full year 38m).

Condensed consolidated financial statements (continued)

7 Payments to shareholders in respect of the period

Payments to shareholders in respect of the period represent the value of B Shares or C Shares to be issued in respect of the results for the period.

Issues of B Shares and C Shares were declared as follows:

	Half-year to June 30, 2008		Year to December 31, 2007	
	Pence per share	£m	Pence per share	£m
Interim	5.72	105	4.04	73
Final			8.96	164
			13.00	237

The Company has previously identified the importance and relevance of making payments to Shareholders in a form that does not generate additional surplus shadow ACT. This will accelerate the recovery of the Group's surplus ACT, and improve future cash flow, to the benefit of all Shareholders. Accordingly, all payments made to shareholders since June 2004 have been made in the form of B Shares rather than cash dividends.

As a result of the Company's strategic financial review the directors concluded that the increase in the Company's issued share capital, which occurs when Shareholders choose to convert B Shares to Ordinary Shares, is inconsistent with its strategy to maintain a more efficient balance sheet and limit Earnings Per Ordinary Share dilution. Therefore, from January 2009, payments to shareholders will be made in the form of C Shares, the only significant difference being that, unlike B Shares, C Shares will not carry the right to convert directly into Ordinary Shares. Instead shareholders will have the right to participate in the C Share Reinvestment Plan (CRIP) operated by our Registrar, which will provide a low-cost method of reinvesting redemption proceeds in Ordinary Shares.

Condensed consolidated financial statements (continued)

8 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	53	2	-	-	-	55
Additions	-	25	57	32	13	127
On acquisition of business	-	-	-	-	2	2
Disposals	-	-	-	-	(3)	(3)
At June 30, 2008	854	531	571	398	121	2,475
Accumulated amortisation and impairment:						
At January 1, 2008	-	150	150	204	29	533
Exchange adjustments	-	1	-	-	-	1
Provided during the period	-	6	12	30	8	56
At June 30, 2008	-	157	162	234	37	590
Net book value at June 30, 2008	854	374	409	164	84	1,885
Net book value at December 31, 2007	801	354	364	162	80	1,761

9 Other financial assets and liabilities

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

	June 30, 2008			June 30, 2007			December 31, 2007		
	Assets £m	Liabilities £m	Net amount £m	Assets £m	Liabilities £m	Net amount £m	Assets £m	Liabilities £m	Net amount £m
Foreign exchange contracts	348	(103)	245	557	(23)	534	433	(54)	379
Commodity contracts	74	-	74	46	-	46	39	-	39
	422	(103)	319	603	(23)	580	472	(54)	418
Interest rate contracts	76	(1)	75	-	(25)	(25)	42	(3)	39
Financial RRSPs	-	(353)	(353)	-	(306)	(306)	-	(315)	(315)
B Shares	-	(22)	(22)	-	(12)	(12)	-	(16)	(16)
	498	(479)	19	603	(366)	237	514	(388)	126

Foreign exchange and commodity financial instruments

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

	Half-year to June 30, 2008			Half-year to June 30, 2007	Year to December 31, 2007
	Foreign exchange £m	Commodity £m	Total £m	Total £m	Total £m
At January 1	379	39	418	593	593
Fair value changes to fair value hedges	1	-	1	(4)	(6)
Fair value changes to derivative contracts	75	60	135	162	251
Fair value of contracts settled	(210)	(25)	(235)	(171)	(420)
At period end	245	74	319	580	418

Condensed consolidated financial statements (continued)

Financial risk and revenue sharing partnerships (RRSPs)

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

	Half-year to June 30, 2008 £m	Half-year to June 30, 2007 £m	Year to December 31, 2007 £m
At January 1	(315)	(324)	(324)
Cash paid to partners	12	19	55
Addition	(39)	-	-
Exchange adjustments direct to reserves	(7)	-	(7)
Financing charge ¹	(12)	(13)	(26)
Excluded from underlying profit ¹			
Exchange adjustments	5	7	7
Changes in forecast payments	3	5	(20)
At period end	(353)	(306)	(315)

¹ Total charge included within finance in the income statement is £4m (2007 half-year £1m, full year £39m).

10 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, 2008	181	(304)	(123)
Exchange adjustments	-	(2)	(2)
Current service cost	(65)	(12)	(77)
Past service cost	-	(5)	(5)
Interest on post-retirement scheme liabilities	(181)	(17)	(198)
Expected return on post-retirement scheme assets	176	9	185
Contributions by employer	128	12	140
Movement in unrecognised surplus ¹	(43)	-	(43)
At June 30, 2008²	196	(319)	(123)
Analysed as:			
Post-retirement scheme surpluses – included in non-current assets	221	-	221
Post-retirement scheme deficits – included in non-current liabilities	(25)	(319)	(344)
	196	(319)	(123)

¹ Where a surplus has arisen on a scheme, in accordance with IAS19, the surplus is recognised as an asset only if it represents an unconditional economic benefit available to the Group in the future. Any surplus in excess of this benefit is not recognised in the balance sheet. The £43m movement in the current period has arisen due to the funding commitments currently in place.

² The net post-retirement scheme deficit as at June 30, 2008 is calculated on a year to date basis, using the latest valuation as at December 31, 2007. There have been no significant fluctuations or one-time events during the six-month period that would require adjustments to the actuarial assumptions made at December 31, 2007.

Condensed consolidated financial statements (continued)

11 Movements in capital and reserves

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

	Half-year to June 30, 2008 £m	Half-year to June 30, 2007 £m	Year to December 31, 2007 £m
At beginning of the period	3,537	2,718	2,718
Total recognised income and expense attributable to equity holders of the parent	324	623	878
Arising on issue of ordinary shares	-	28	29
Issue of B shares	(73)	(65)	(172)
Conversion of B shares into ordinary shares	9	10	71
Own shares purchased	(44)	(78)	(78)
Own shares vesting in share-based payment plans	35	85	93
Share-based payments adjustment	(18)	(41)	(22)
Related tax movements – current tax	-	-	43
Related tax movements – deferred tax	(15)	8	(18)
Change in rate of UK corporation tax – deferred tax	-	(5)	(5)
At period end	3,755	3,283	3,537

12 Share-based payments

In accordance with IFRS 2, a charge of £17m (2007 half-year £17m, full year £36m), relating to the fair value of share-based schemes granted since November 7, 2002 is included in the income statement.

13 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 2008, there were no material changes to the maximum gross and net contingent liabilities.

14 Related party transactions

Transactions with related parties are shown on page 109 of the Annual report 2007. Significant transactions in the current financial period are as follows:

	Half-year to June 30, 2008 £m	Year to December 31, 2007 £m
Sale of goods and services to joint ventures	785	1,289
Purchases of goods and services from joint ventures	(688)	(1,100)

15 Acquisitions

During the period the Group acquired one small business for consideration of £8m. There were no significant fair value adjustments in respect of the net assets acquired.

Principal risks and uncertainties

As described on pages 22 and 23 of the Annual report 2007, 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 2008.

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

- Environmental impact of products and operations
- External events which might affect demand for air travel or cause the business to be disrupted

Strategic risks

- Aftermarket
- Competitive pressures

Financial risks

- Counterparty credit risk, funding, liquidity and credit rating
- Market risks – foreign currency, interest rate and commodity
- Sales financing

Operational risks

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

Specific risks and uncertainties are discussed on pages 2 to 11.

Statement of directors' responsibilities

The directors confirm, to the best of their knowledge, that this condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting*, as adopted by the European Union and that the half-year report includes a fair review of the information required by Rules 4.2.7 and 4.2.8 of the Disclosure and Transparency Rules of the United Kingdom Financial Services Authority.

The directors of Rolls-Royce Group plc at February 6, 2008 are listed in the Annual report 2007 on page 46. There have been the following changes to the Board of directors since that report:

Dr John McAdam – appointed February 19, 2008

Carl Symon – resigned May 7, 2008

By order of the Board

Sir John Rose
Chief Executive
July 23, 2008

Andrew Shilston
Finance Director
July 23, 2008

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, 2008 which comprises the condensed consolidated income statement, the condensed consolidated balance sheet, the condensed consolidated cash flow statement, the consolidated statement of recognised income and expense 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.

Whilst the Company has previously produced a half-yearly report containing a condensed set of financial statements, those financial statements have not previously been subject to a review by an independent auditor. As a consequence, the review procedures set out above have not been performed in respect of the comparative period for the six months ended June 30, 2007.

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, 2008 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

KPMG Audit Plc
Chartered Accountants, London
July 23, 2008