



## ROLLS-ROYCE GROUP plc INTERIM RESULTS 2007

26 July 2007

### Group Highlights

- Record order book, increased 34 per cent to £35.1bn (2006: year end £26.1bn).
- Group sales increased to £3,591m. Sales on an underlying\* basis increased by 10 per cent.
- Services revenues increased by nine per cent to £2,001m on an underlying\* basis, representing 53 per cent of Group sales.
- Underlying profit before taxation\*\* increased to £380m, up 17 per cent.
- Profit before taxation of £377m\*\* (2006: £870m).
- Average net cash of £373m (2006: first half £83m).
- Cash inflow of £61m, before the injection of £132m into the Group's UK pension schemes (2006: first half cash inflow of £122m).
- Interim payment to shareholders increased by 10 per cent to 4.04p per share

\*Underlying sales reflect the exclusion of the IAS 39 hedge reserve adjustments and the inclusion of the benefit of settled foreign exchange transactions, and is consistent with underlying profit presentation.

\*\*Adjustments for underlying profits are included in note 1. Underlying profits reflect a level of performance that excludes items considered to be non-operating in nature (see notes 1 and 2). Profit before tax includes such non-operating items, principally those relating to unrealised revaluation effects.

Sir John Rose, Chief Executive, said:

*"The Group has made strong progress in the first half.*

*"We have a well balanced business with a broad portfolio of products and services and proven access to global markets. Continued investment in our product portfolio and value added services for our customers has made us a market leader and gives us the ability to grow organically.*

*"Despite the challenges of increasing raw material costs and the effects of a weakening US dollar, the Group is well placed to deliver growth in underlying profit and, before pension scheme injections, a positive cash flow in 2007."*

### Group Overview

#### Trading

Rolls-Royce has continued to make strong progress in the first half of 2007, increasing

underlying profit and, before a payment into the Group's UK pension schemes, generating a positive cash flow.

The Group's order book, which grew by £9.0bn in the half to £35.1bn, continues to become more international and is well balanced between the Americas, Asia and the Middle East and Europe. The first half of 2007 saw a further broadening of the Group's global reach, with a range of new customers being secured in growing markets for Rolls-Royce, including South America and Russia.

Sales in the period increased by 10 per cent on an underlying basis to £3,746m with organic growth across the business. Despite the effect of the weakening dollar, underlying aftermarket sales increased by nine per cent in the first half with growth coming from all segments.

Underlying profit before tax increased by 17 per cent to £380m. This was despite the impact of a further seven cent deterioration in the US dollar achieved exchange rate, creating a £40m headwind compared to the first half of 2006, and an increase in unit costs partly due to rising raw material costs.

At the end of the first half, the hedge book stood at \$9.4bn with an average exchange rate of 1.78 US dollars to the pound, a deterioration of four cents from the start of 2007. For the whole of 2007, the Group continues to expect a deterioration in the achieved rate of between seven and eight cents relative to 2006.

The Group continues to take action to offset unit and other cost increases and the weakening US dollar, including increased dollar based sourcing, restructuring the supply chain and delivering productivity improvements from investment in new facilities.

Average net cash improved by £290m to £373m after a £132m injection into the Group's UK pension schemes, the first phase in the Group's plan to put £500m into these schemes. The Group expects to transfer the remaining £368m before the end of 2007 as actions on risk management and asset allocation are completed. This will enable the Group to conclude the review of financial strategy, the start of which was announced in February 2007.

Underlying earnings per share increased by 15 per cent to 15.72p (2006: first half 13.62p)<sup>1</sup>. Basic earnings per share were 17.12p (2006: first half 35.86p) . An interim payment to shareholders has been declared of 4.04p per share (2006: first half 3.67p), an increase of 10 per cent.

## **Developments**

Three new engine programmes were announced in the period:

- A new Rolls-Royce engine was selected by Dassault Aviation to power its new, super mid-sized Falcon business jet;
- The Trent XWB was formally launched for the A350 XWB and has demonstrated significant success in the market;
- The new RR300 engine was selected for the Robinson R66 helicopter

These three programmes target a share of an addressable market opportunity estimated

to be worth \$200bn over the next 20 years.

In addition, the US Navy selected the MT30 to power the DDG-1000, a new class of advanced combat vessel.

Research and development activities progressed as planned over the period with the Group investing around five per cent of sales on a cash basis, a level expected to be maintained over the rest of the year. This investment enables the Group to develop a broad portfolio of programmes and service capabilities that typically enjoy a lifecycle of several decades.

The Group's research programmes are increasingly aimed at improving the environmental performance of existing and future products. The Environmentally Friendly Engine (EFE) programme entered its manufacturing phase in the first half and will demonstrate and validate new technologies aimed at reducing aero engine fuel burn and emissions. The Group also believes that with its engineering and scientific background, it is well placed to exploit the increased demand for clean and fuel efficient power sources.

Rolls-Royce opened two new University Technology Centres (UTCs) at Bristol and Manchester Universities. The Group now has 28 UTCs worldwide, which make an important contribution to the Group's research and technology acquisition programmes.

The Group also continued to expand its services capabilities. The construction of a new Trent repair and overhaul facility, through a joint venture with Lufthansa Technik, was completed in Germany and is now operational. The latest of the Group's Operations Rooms was opened in Dahlewitz to support two-shaft engines in service. The benefits of the Group's service capabilities were again demonstrated by the increasing number of customers committing to long term TotalCare® and Mission Ready Management Solutions contracts in the civil and defence sectors respectively.

The Group's factory modernisation programme in the UK is nearing completion. New facilities in Derby and Bristol will be operational by the end of 2007 and together with improved processes will strengthen productivity and reduce costs. The Group is also making good progress in identifying a site for a new assembly and test facility, with proposals being considered from Singapore and a number of US states.

The Group operates in a competitive and challenging environment and in doing so, we benefit from a consistent strategy, a strong order book, long programme life cycles and the revenue generated by the provision of value added aftermarket services to the users of its products. Consequently we have good visibility of our future workload and market opportunity. The results in the first half of 2007 demonstrate the resilience of the Group and its business model.

## **Prospects**

The Group expects to deliver an increase in underlying profits for the 2007 full year despite the headwinds of a weakening dollar and increasing unit costs. This increase in underlying profits will contribute to a positive cash flow for the full year before the effects

of the cash injections into the UK pension schemes are taken into account.

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