N E W S   R E L E A S E

07 February 2008

ROLLS-ROYCE GROUP PLC PRELIMINARY RESULTS 2007

Group Highlights

- Order book increased by 76 per cent to a record £45.9bn (2006 £26.1bn), with the Asia and Middle East order book more than doubling to £20bn in 2007.
- Group sales increased to £7,435m (£7,156m). Sales on an underlying basis* increased by six per cent to £7,817m.
- Services sales increased by nine per cent to £4,265m on an underlying basis.
- Profit before financing was £512m (2006 £693m).
- Underlying profit before taxation* increased 13 per cent to £800m (2006 £705m).
- Net cash inflow, before a special contribution of £500m into the UK pension schemes, was £562m (2006 £491m).
- Average net cash of £350m (2006 £150m), after reflecting the £500m pension scheme contribution.
- Shareholder payments for 2007 will in aggregate be 35 per cent higher than in 2006.
- Final payment to shareholders increased by 51 per cent to 8.96p per share (2006 5.92p per share), making a full year total of 13.00p per share (2006 9.59p per share).

* see note 2

Sir John Rose, Chief Executive, said:

"We have delivered a strong set of results in challenging conditions.

"The breadth of our product and service portfolio, our access to expanding global markets and our focus on productivity and efficiency give us confidence that Rolls-Royce will continue to deliver profitable growth."

Group Overview

Summary

Rolls-Royce made strong progress in 2007, delivering underlying sales and profit growth across all its businesses and good cash flow despite the continuing challenges of a weak US dollar and increased unit costs. The consistent strategy pursued by the Group over many years, has created a business which is delivering increasing predictability of future revenues as a result of the breadth of the portfolio, the access to growing global markets and the strength of the aftermarket.

Our access to growing international markets resulted in a strong order intake across all our businesses. By the end of the year, the order book had increased by 76 per cent to a record £45.9bn.

Sales increased by four per cent to £7,435m. Underlying sales grew by six per cent relative to 2006 after allowing for the benefit of our hedge policy.

Underlying profit before tax increased by 13 per cent to £800m (2006 £705m), reflecting increased trading profits across all our businesses. This was achieved despite a further 8 cent deterioration in the achieved US dollar rate, at a cost of £92m in 2007, and increased unit costs.

The published profit before tax reduced to £733m from £1,391m in 2006. The increase in operating profits is more than offset by reduced benefits from the unrealised fair value of derivative contracts, lower benefit from foreign exchange hedge reserve release and the recognition of past service costs for UK pension schemes, all of which are excluded from the calculation of underlying performance. This is explained further in note 2 on page 17.

Basic earnings per share were 33.67p (2006 57.32p) with underlying earnings per share increasing by 14 per cent to 34.06p (2006 29.81p).

We manage our exposure to the US dollar by long term hedging. We finished the year with a hedge book of around $9.4bn, representing approximately 2.6 years' cover at an average rate of 1.83 dollars to the pound. This cover gives us the time and opportunity to take mitigating action against further deteriorations in the achieved US dollar rate, through improving productivity and 'dollarising' our cost base.

Increasing material costs, disruption due to facility moves and cost escalation in the external supply chain all contributed to an increase of seven per cent in our unit costs. In 2008 we anticipate that the result of our actions will reduce the rise in unit costs to between two and four per cent.

The Group has completed the restructuring of its UK defined benefit pension schemes. A £500m contribution into the UK schemes contributed to a significant reduction in the IAS 19 net deficit, which at the year-end had fallen to £123m. After making this payment and after increased investment in R&D, capital and IT, we generated a positive cash flow of £62m. This contributed to an improved average cash balance of £350m (2006 £150m), further strengthening the balance sheet.

In February 2007, we announced that we would be carrying out a financial review, the outcome of which is described in more detail below. Following the review, the Board has concluded that payments to shareholders should be rebased, resulting in an increase in payments for 2007 of 35 per cent with a full year payment of 13.00p per share.

The breadth of our order book

A good illustration of the strength of our strategy is the increasing breadth of our order book which is now well balanced between the Americas, Europe and Asia Pacific. The order book for Asia and the Middle East alone finished the year at the same level as the total value of our order book just four years ago. Almost 50 per cent of our order book is from outside the traditional markets of Europe and North America. In 2007 new orders were secured in a number of countries in which we had previously had little or no presence.

Investing in products and services

We have continued to invest in new products and services, with the breadth of our portfolio protecting us from delays or setbacks on particular programmes. We launched three major engine programmes in 2007; for Dassault Aviation's new, super mid size Falcon business jet, for the Airbus A350XWB and for the Robinson R66 helicopter. These new programmes are targeting a share of an addressable market opportunity estimated to be worth $200bn over the next 20 years. Our presence on a wide range of programmes reduces our exposure to unforeseen developments on any one programme.

Our aftermarket continued to expand, with underlying service revenues increasing by nine per cent to £4,265m (2006 £3,901m). An increasing number of our customers are committing to long term service arrangements such as Mission Ready Management Solutions® and TotalCare®. To meet the demand, the service network was augmented with the opening of a new repair and overhaul facility in Germany with joint venture partner Lufthansa Technik AG. We also added an Operations Room in Dahlewitz, Germany, to support our global fleet of two-shaft engines.

Investing in technology

We have continued to invest in technology. In 2007, investment in research and development totalled £824m (2006 £747m), of which we funded around 55 per cent and we expect the ongoing level of R&D cash spend by the business to continue at around five per cent of sales. A key milestone in 2007 and a reflection of the increasingly international nature of our research activity was the decision by the United States Air Force to select Rolls-Royce for ADVENT (Adaptive Versatile Engine Technology) and HEETE (Highly Efficient Embedded Turbine Engine), two major new programmes which will deliver the next generation of technologies for advanced propulsion systems.

In the course of the year, we further extended our research capability by opening two new University Technology Centres at Bristol University and Karlsruhe in Germany and entering into a technology partnership with Birmingham University to develop casting technologies.

Increasing productivity and efficiency

We are simplifying our organisation, improving productivity and efficiency and developing an organisation that reflects the truly global nature of our business. The programme to renew our UK factories was completed in 2007, and in November we announced plans to open two new aero engine assembly facilities in Singapore and Virginia. Simplification and rationalisation of our international supply chain continued, with resulting performance improvements. As part of our drive to improve efficiency, we announced earlier this year proposals to reduce by 2,300 the number of people employed in our support activities. Over the last twelve months, we have created 2,500 jobs in the operational areas of the business and maintained our recruitment of apprentices and graduates. We will continue to access the key skills we need in line with the development of the business.

Strategic financial review

In 2007, the Group's revised pension fund strategy was successfully implemented with the £500m special contribution into the UK pension schemes, together with a commitment to increase contributions in the future. The pension funds' investment strategy was also changed to shift asset allocation away from equities and to reduce the exposure to inflation and interest rate changes.

In February 2007, the Group committed to undertake a review of its financial strategy focusing on the manner and scale of payments to shareholders and taking into account the restructuring of the UK pension schemes, the importance of retaining a strong balance sheet and the investment needs of the Group. The review has coincided with changes in global capital markets and the increasing risk of global growth slowing.

We continue to believe that a strong balance sheet will remain essential for a long-term business such as ours. The Group has to compete against large competitors on programmes where returns are measured over decades and where the Group's competitive advantage depends on its ability to make substantial investments and long-term commitments to customers, not always at a time of our choosing. Financial flexibility in periods of uncertainty is desirable especially as there may be opportunities to develop the business further. Following the review, the Board has concluded that the overall strength of the business and its future prospects support a significant increase in the payment to shareholders.

It is therefore intended to increase cash returns to shareholders by increasing the annual shareholder payment by 35% over the 2006 level. Subject to the Group's future financial position and growth in earnings we would expect payments to shareholders to increase progressively.

In addition the Company will, for payments relating to 2008 onwards, remove the current option to convert the payments into ordinary shares, as explained further on page 11. The existing B Share scheme will be replaced by a C share scheme, which is tax efficient for the Company, under which shareholders may choose to retain C shares or redeem them for cash. As a consequence, the ongoing cash cost of shareholder payments is expected to increase in future years.

Prospects

The Group operates in a competitive and challenging environment. Our strong focus on productivity and efficiency, our broad product and service portfolio and our access to growing global markets give us confidence that in 2008 the business will continue to deliver profitable growth and positive cash flow.

For further information, please contact:

Helen Hao
Communications Manager- Greater China
2109 China Life Tower, 16 Chaoyangmenwai, Street
Beijing 100020
Tel:0086 10 85252288-223 Fax: 0086 10 85252213
Email: helen.hao@rolls-royce.com.cn