



8 February 2007

ROLLS-ROYCE GROUP plc PRELIMINARY RESULTS 2006

Group Highlights

- Record order book, at £26.1bn (2005 £24.4bn).
- Group sales were £7,156m. Sales on an underlying* basis increased by 14 per cent.
- Services revenues increased by 13 per cent to £3,901m on an underlying* basis.
- Profit before financing costs of £693m (2005 £877m).
- Underlying profit before financing costs** increased 10 per cent to £748m.
- Underlying profit before taxation** increased 19 per cent to £705m.
- Net cash inflow of £491m (2005 £552m).
- Average net cash of £150m (2005 net debt £260m).
- Final payment to shareholders increased by ten per cent to 5.92p per share, making a full year total of 9.59p per share.

* see note 4

** see note 3

Sir John Rose, Chief Executive, said:

"We are pleased to have increased our order book, sales and underlying earnings in a challenging environment. These results strongly endorse the Group's strategy and demonstrate the resilience and organic growth capabilities of our business model.

"For 2007, we are confident that the measures we are taking to improve productivity, coupled with the underlying growth of the Group and the robust business model, will enable us to continue to grow underlying revenues and profits and generate a positive cash flow."

Group Overview

The Group continued to make strong progress in 2006, increasing sales to £7,156 million (2005 £6,603 million), with underlying sales growth of 14 per cent, and increasing underlying profit before tax by 19 per cent to £705 million (2005 £593 million). Importantly, our ability to access growing markets on a global basis enabled us to continue to grow our order book, which ended the year at £26.1 billion (2005 £24.4 billion).

We continue to invest in technologies, products, people and capabilities with the objective of broadening and strengthening our product portfolio, improving our efficiency and enhancing the environmental performance of our products. In 2006, total investment in research and development amounted to £747m (2005 £663m).

Rolls-Royce is continuing to play a proactive and positive role on environmental issues and we have a strong track record of performance in this area. Our focus remains on reducing the environmental impact of our products and operations and on working towards a more sustainable future through the development of new low-carbon technologies.

After increasing investment in manufacturing capability and research and development, there was a strong cash inflow of £491 million resulting in an improvement of £410 million in our average cash balance and a cash balance of £826 million at the end of the year. Basic earnings per share rose to 57.32p (2005 20.11p) with underlying earnings per share increasing by 22 per cent to 29.81p (2005 24.48p). We propose to increase the final payment to shareholders to 5.92p making a total payment for the year of 9.59p per share, an increase of ten per cent on 2005.

Our overall performance in 2006 was strong in an undoubtedly challenging year. The underlying financial results were achieved after accommodating a further seven cent deterioration in the dollar achieved rate relative to 2005. We expect to absorb a similar further deterioration in the exchange rate we achieve in 2007.

We manage our exposure to the US dollar by long-term hedging. Today we have the benefit of a hedge book of approximately US\$10 billion, which means that we have clear visibility of the exchange rate we can achieve over the next three years. Whilst it is impossible to offset sustained dollar weakness through hedging, the cover we have taken reduces the volatility that exchange rate fluctuations cause and creates the opportunity for us to take other mitigating actions, such as cost reduction and the 'dollarisation' of our cost base.

Raw material price inflation has been a significant factor for all manufacturing industry. It is helpful that, as a high value-added business, the cost of raw materials forms a relatively small proportion of our total costs. We have maintained our focus on productivity and efficiency measures and where appropriate we hedge our exposure in the financial commodities markets. The nature of the business also enables us to enter into long-term procurement contracts, which help protect us from future fluctuations in raw material prices and give us visibility of our cost base.

We are continuing to invest globally in new facilities and to improve the performance of our international supply chain. These changes, which are occurring at the same time as a significant increase in load, have been managed well in tough conditions.

We are continuing our discussions with the relevant parties about our UK pension funds. Our proposals include a cash injection of £500m. Our overall intent is to make a significant step towards reducing deficits and limiting the impact on the business of volatility in interest rates and share prices. We expect to make progress in 2007.

We operate 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 services to the users of our products. Consequently we have good visibility of our future workload and market opportunity. The results in 2006 demonstrate the resilience of the Group and its business model.

Prospects

Each of our businesses offers significant opportunities for organic growth. Over the next 20 years, we estimate the global accessible market to be worth some two trillion US dollars, of which about half will relate to the provision of aftermarket services.

The Group ended 2006 with a net cash balance of £826 million. In 2007, a substantial portion of this balance is earmarked to address the pension deficit. We believe that a strong balance sheet is essential for a long-term business such as ours. We compete against large competitors across programmes where returns are measured over decades, where we enter into long-term service commitments and where significant investments to gain market access are the norm. During 2007, we will be reviewing our financial strategy in the light of the Group's continuing cash generation, investment needs, progress on resolving the pension deficit and underlying performance.

For 2007, we are confident that the measures we are taking to improve productivity, coupled with the underlying growth of the Group and the robust business model, will enable us to continue to grow underlying revenues and profits and generate a positive cash flow.

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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.

Photographs are available at www.newscast.co.uk

Visit www.thenewsmarket.com/rolls-royce to download broadcast-standard video or order a Beta SP tape of Rolls-Royce products, services and facilities.

REVIEW OF 2006 BY BUSINESS SECTOR

Civil Aerospace

Sales: £3,775m (2005 £3,561m)

Underlying profit before financing costs: £519m (2005 £454m)

The civil aerospace business continued to expand its broadly-based installed fleet and once again generated growth in customer services.

Highlights of the Year

- The first run of the Trent 1000 was achieved on schedule.
- An agreement was reached with Airbus to offer a new Trent for the A350 XWB twinjet.
- CorporateCare® secured 165 new agreements in the year, its highest ever level.
- Gulfstream took delivery of its 3,000th Rolls-Royce engine.
- The production line for the V2500 engine completed a seamless transfer from Derby to Dahlewitz.

New orders announced during 2006 amounted to approximately £7 billion, resulting in a record order book of £20 billion.

The Trent-powered A380 received its Type Certificate from the US FAA and the European EASA airworthiness authorities – the first time this clearance has been awarded simultaneously by the two bodies.

Civil engine deliveries decreased by three per cent to 856, with weak demand in the regional sector partially offset by increased Trent deliveries. Our underlying original equipment revenues grew by 15 per cent, as a result of the increased proportion of high value products in the sales mix.

Civil fleet flying hours rose by eight per cent compared with 2005, driven by the increased number of engines in service and global traffic growth.

Underlying services revenues increased by 15 per cent to £2.3 billion, representing 59 per cent of civil aerospace revenues. More than 48 per cent of our modern jet engine fleet is covered by TotalCare® or CorporateCare service agreements.

Defence Aerospace

Sales: £1,569m (2005 £1,413m)

Underlying profit before financing costs: £193m (2005 £180m)

Defence Aerospace continues to be an attractive and growing business. We have a wide range of defence engine programmes at all stages of the product life cycle, supported by a rapidly growing services business.

Highlights of the year

- Major service contracts were secured with the UK Ministry of Defence and with all branches of the US Department of Defense.
- A £75m contract was secured to supply the T800 helicopter engine for the UK's Future Lynx.
- The AE 3007 engine powered the US Global Hawk UAV past the 10,000 service hour mark
- The 200th AE 1107C-Liberty engine was delivered for installation in the V-22 Osprey tiltrotor
- The first engine propeller tests were successfully completed on the TP400 engine for the Airbus A400M military transport aircraft.

In 2006, Rolls-Royce made steady progress with its combat programmes. Both the collaborative F136 engine and LiftSystem for the Joint Strike Fighter programme successfully continued their development testing.

2006 saw further increases in the scope of services that Rolls-Royce is offering to its customers. The Group entered into an alliance with Serco, the leading services provider, to extend our service offerings and access new markets. More of the Group's long-term service arrangements in the form of Mission Ready Management Solutions (MRMS®) are now handled through our Operations Centre. This hub for in-service support is now open 24 hours a day, 7 days a week.

More than 2,800 engines and 4,150 modules are covered by MRMS support contracts and a number of these were added in 2006. New or renewed services contracts were signed with all branches of the US military, covering the AE 2100, the F405 (Adour), AE 1107C-Liberty and the Model 250.

Underlying services revenues represented 53 per cent of defence sales for 2006.

Marine

Sales: £1,300m (2005 £1,097m)

Underlying profit before financing costs: £101m (2005 £89m)

Rolls-Royce is a world leader in the provision of marine propulsion systems, offering a unique set of products and services for both naval and commercial sectors.

Highlights of the year

- The first Lockheed Martin-designed Littoral Combat Ship (LCS), Freedom, was launched, powered by the MT30 engine.
- We secured our largest ever contract for a single offshore vessel, for ship design and equipment systems worth nearly £20 million.
- We secured our largest offshore marine systems order in a deal worth over £60 million with Farstad Shipping.
- The merchant business secured £35 million in system orders in 2006.
- We delivered the first three gas turbines to provide the main electrical power for the Republic of Korea Navy's first 7,000-tonne destroyer.

All of our marine business segments, offshore, merchant, naval, and submarines, are performing well. Across the business our order book stands at over £2 billion and our factories are operating at capacity.

The success of the marine business depends increasingly on delivering integrated power and propulsion systems for customers. Over the past year, the business has progressed towards its goal of being a complete systems supplier.

We are well positioned on US naval gas turbine programmes. The first Lockheed Martin-designed Littoral Combat Ship (LCS), Freedom, was launched, powered by the MT30 engine. In the UK, we continued to make good progress with the next generation of Royal Navy Type 45 destroyer, powered by the WR-21 engine.

We have a long history of supplying complete systems to our offshore customers. Today we are reaping the benefits of the expertise we have gained in this area. Buoyed by high oil prices, the demand for service and support ships has been matched by similar growth in exploration and production.

We have already introduced TotalCare-type support packages for some of our naval customers, based on the successful model developed in our aerospace businesses. About 40 per cent of our turnover is involved in after-market service support across our full range of products and we are expanding our capabilities at service centres around the world.

Energy

Sales: £512m (2005 £532m)

Underlying (loss)/profit before financing costs: £(18)m (2005 £1m)

The Rolls-Royce energy business supplies a wide range of gas turbine packages to the worldwide oil & gas and power generation markets, with more than 4,000 industrial gas turbines sold and over 140 million hours of operating experience.

Highlights of the year

- We achieved a record year for order intake.
- We won our first order for equipment to be installed in Vietnam and continued to expand our installed base in Asia and Africa.
- The first industrial Trent packages to be installed in the United States were announced.
- The industrial RB211 fleet exceeded 20 million hours of operation.
- We continued to make progress in the development of solid oxide fuel cell technology.

Our energy business recorded a small loss after expensing an investment of £22 million in fuel cells technology.

The oil & gas market remains robust, primarily driven by strong fuel prices. In Asia, we won orders worth over US\$100 million for projects in Indonesia, Malaysia, Thailand and, for the first time, Vietnam. Orders valued at over US\$100 million were won from customers in Africa and the Middle East, including equipment for the next

pipeline to bring natural gas from Algeria to Spain. The existing pipeline is already wholly driven by Rolls-Royce equipment.

In power generation, we are building momentum and, encouragingly, had a record year for order intake. Whilst the market has been stabilising in Europe, the US marketplace is continuing to show signs of recovery.

It was also a record year for aftermarket order intake. Underlying aftermarket services revenues now account for 46 per cent of our total segment sales and, with last year's strong performance, our order book for Long-Term Service Agreements has grown to over \$270 million.

Our fuel cell programme continued to meet its milestones. In October, we dedicated as our US fuel cell headquarters a new, purpose-built fuel cell facility on the campus of Stark State College of Technology in Canton, Ohio. We announced an agreement with the US utility, American Electric Power, to test and evaluate our first two fuel cell prototype systems. With our additional presence in Singapore and the UK, this business is making progress in solid oxide fuel cell systems for megawatt-scale, stationary power applications with the goal of introducing a competitive product in this decade.

FINANCIAL REVIEW

The firm and announced order book, at constant exchange rates, was £26.1bn (2005 £24.4bn). Aftermarket services represented 38 per cent of the order book (2005 36 per cent).

Sales increased by eight per cent, compared with 2005, at £7,156m (2005 £6,603m). Sales on an underlying* basis grew by 14 per cent. Payments to industrial Risk and Revenue Sharing Partners (RRSPs), charged in cost of sales, amounted to £162m (2005 £146m).

Underlying profit before tax was £705m (2005 £593m). Underlying earnings per share increased by 22 per cent, to 29.81p (2005 24.48p) (see note 3).

Gross research and development investment was £747m (2005 £663m). Net research and development investment charged to the income statement was £370m (2005 £282m) after net capitalisation of £25m (2005 £57m) on development programmes in 2006. Receipts from RRSPs in respect of new programme developments, shown as other operating income, were £57m (2005 £60m).

Investment in intangibles was £225m (2005 £132m) and included £64m (2005 £36m) on recoverable engine costs and a further £91m (2005 £10m) on certification costs and participation fees.

Restructuring costs of £47m (2005 £48m) were charged within operating costs.

*see note 4.

The taxation charge was £397m (2005 £130m). The taxation charge on an underlying basis was £190m, representing 27 per cent of underlying profit before tax. (2005 £170m, representing 29 per cent of underlying profit before tax). The effective rate is impacted by a number of drivers including geographical mix of profits, changes in legislation and the benefit of research and development tax credits. In 2007 the underlying rate is expected to be similar to that in 2006.

Cash inflow during the year was £491m (2005 £552m). Key features were: £175m increase in investment in non-current assets; £61m increase in receipts in respect of share options exercised; and the benefit of conversion of B shares into ordinary shares in respect of the payment to shareholders. Customer advances increased by £252m. Average net cash was £150m (2005 net debt £260m), an improvement of £410m across the year. The net cash balance at the year-end was £826m (2005 £335m).

Provisions were £335m (2005 £361m). Provisions carried forward in respect of potential customer financing exposure amounted to £98m at the year-end (2005 £90m).

There were no material changes to the Group's gross and net contingent liabilities in 2006 (see note 11).

Post-retirement benefit obligations were £995m (2005 £1,659m). After taking account of deferred taxation, post-retirement benefit obligations were £681m (2005 £1,154m) (see note 12).

The Group is continuing to make payments to shareholders in the form of 'B' shares rather than a dividend. These shares can then be redeemed for the same amount of cash that would have been received with a cash dividend, or converted into the same number of ordinary shares in the Group that would have been received under the scrip dividend alternative. The issue of 'B' shares will result in significant tax benefits for the Group, by accelerating the recovery of Advance Corporation Tax, which will in turn benefit all shareholders.

The proposed final payment to shareholders is equivalent to 5.92 pence per ordinary share (2005 final payment 5.38p), making a total payment for the year of 9.59 pence (2005 8.72p). The final payment is payable on July 2, 2007 to shareholders on the register on March 9, 2007. The final day of trading with entitlement to B shares is March 6, 2007.

Consolidated Income Statement
For the year ended December 31, 2006

	2006	2005
	£m	£m
Revenue	7,156	6,603
Cost of sales	(5,527)	(4,924)
Gross profit	1,629	1,679
Other operating income	57	60
Commercial and administrative costs	(671)	(624)
Research and development costs	(370)	(282)
Share of profit of joint ventures	47	46
Operating profit	692	879
Profit/(loss) on sale of businesses	1	(2)
Profit before financing income/(costs)	693	877
Financing income	1,196	472
Financing costs	(498)	(872)
Net financing income/(costs) (note 5)	698	(400)
Profit before taxation *	1,391	477
Taxation - UK	(299)	(61)
Taxation - Overseas	(98)	(69)
Profit for the year	994	347
Attributable to:		
Equity holders of the parent	998	350
Minority interest	(4)	(3)
Profit for the year	994	347
Earnings per ordinary share		
Basic	57.32p	20.11p
Diluted	55.14p	19.31p
Payments to shareholders in respect of the year	(172)	(154)
* Underlying profit before taxation (note 3)	705	593

**Consolidated Balance Sheet
at December 31, 2006**

	2006 £m	Restated* 2005 £m
ASSETS		
Non-current assets		
Intangible assets	1,460	1,315
Property, plant and equipment	1,706	1,649
Investments - joint ventures	240	247
Other investments	51	52
Deferred tax assets	141	439
	3,598	3,702
Current assets		
Inventory	1,447	1,309
Trade and other receivables	2,465	2,047
Taxation recoverable	5	3
Other financial assets	644	464
Short-term investments	34	37
Cash and cash equivalents	2,185	1,757
	6,780	5,617
Total assets	10,378	9,319
LIABILITIES		
Current liabilities		
Borrowings	(400)	(75)
Other financial liabilities	(37)	(234)
Trade and other payables	(3,290)	(2,689)
Current tax liabilities	(191)	(171)
Provisions	(146)	(138)
	(4,064)	(3,307)
Non-current liabilities		
Borrowings	(990)	(1,458)
Other financial liabilities	(336)	(339)
Trade and other payables	(827)	(650)
Deferred tax liabilities	(252)	(178)
Provisions	(189)	(223)
Post-retirement benefit obligations	(995)	(1,659)
	(3,589)	(4,507)
Total liabilities	(7,653)	(7,814)
Net assets	2,725	1,505
EQUITY		
Capital and Reserves		
Called up share capital	356	352
Share premium account	43	30
Other reserves	319	605
Retained earnings	2,000	512
Equity attributable to equity holders of the parent	2,718	1,499
Minority interest	7	6
Total equity	2,725	1,505

* See note 6

Consolidated Cash Flow Statement

	Year to 31 December 2006 £m	Year to 31 December 2005 £m
Reconciliation of operating cash flows		
Profit before taxation	1,391	477
Depreciation and amortisation	221	254
Decrease in provisions	(36)	(31)
Decrease in working capital	256	247
Decrease in other financial assets and liabilities	250	283
Other non cash movements	(1,029)	(145)
Taxation paid	(25)	(60)
Dividends received from joint ventures	44	35
Net cash inflow from operating activities	1,072	1,060
Cash flows from investing activities		
Disposals of unlisted investments	-	5
Additions to intangible assets	(219)	(132)
Disposals of intangible assets	7	-
Purchases of property, plant and equipment	(298)	(219)
Disposals of property, plant and equipment	55	69
Acquisition of businesses	(5)	-
Disposals of businesses	1	1
Investments in joint ventures	(11)	(13)
Disposals of joint ventures	1	-
Net cash outflow from investing activities	(469)	(289)
Cash flows from financing activities		
Borrowings - repayment of loans	(53)	(207)
Capital element of finance lease payments	(8)	(11)
Net cash outflow from decrease in borrowings	(61)	(218)
Net interest paid	(14)	(49)
Decrease/(increase) in government securities and corporate bonds	3	(1)
Issue of ordinary shares	9	26
Purchase of own shares	(44)	-
Settlement of financial liabilities to purchase own shares	-	(149)
Other transactions in own shares	78	-
Redemption of B shares	(93)	(52)
Net cash outflow from financing activities	(122)	(443)
Net increase in cash and cash equivalents	481	328
Cash and cash equivalents at January 1	1,745	1,439
Foreign exchange and net cash of businesses acquired/disposed	(55)	46
Adjustment on implementation of IAS 32 and IAS 39	-	(68)
Cash and cash equivalents at December 31	2,171	1,745
Overdrafts included in borrowings	14	12
Cash and cash equivalents per the balance sheet	2,185	1,757

	Year to 31 December 2006 £m	Year to 31 December 2005 £m
Reconciliation of increase in cash and cash equivalents to movement in net funds		
Increase in cash and cash equivalents	481	328
Cash (inflow)/outflow from (decrease)/increase in government securities and corporate bonds	(3)	1
Net cash outflow from decrease in borrowings	61	218
Change in net funds resulting from cash flows	539	547
Exchange and other non-cash adjustments	(48)	5
Fair value adjustments	77	47
Movement in net funds	568	599
Net funds/(debt) at January 1	261	(149)
Adjustment on implementation of IAS 32 and IAS 39	-	(189)
	829	261
Fair value of swaps hedging fixed rate borrowings	(3)	74
Net funds at December 31	826	335

Movement net in funds

Net funds at December 31	826	335
Net funds at January 1	335	(217)
Movement in net funds	491	552

Consolidated Statement of Recognised Income and Expense
For the year ended December 31, 2006

	2006 £m	2005 £m
Foreign exchange adjustments	(75)	49
Actuarial gains/(losses)	602	(282)
Transfers from transition hedging reserve	(289)	(462)
Transfers from cash flow hedging reserve	-	3
Related tax movements	(91)	222
Net income/(expense) recognised directly in equity	147	(470)
Profit for the year	994	347
Total recognised income and expense for the year	1,141	(123)
Attributable to:		
Equity holders of the parent	1,145	(120)
Minority interest	(4)	(3)
Total recognised income and expense for the year	1,141	(123)

Summary of movements in equity
For the year ended December 31, 2006

	2006	2005
	£m	£m
At January 1	1,505	1,597
Total recognised income and expense for the year	1,141	(123)
Issue of ordinary shares	14	30
Issue of B Shares	(154)	(141)
Conversion of B shares into ordinary shares	55	87
Other transactions in ordinary shares	96	2
Share-based payment adjustments	(13)	24
Sale of shares in subsidiary company to minority interest	5	5
Related tax movements	76	24
At December 31	2,725	1,505
Attributable to:		
Equity holders of the parent	2,718	1,499
Minority interest	7	6
Total equity	2,725	1,505

Notes

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, 2006 or 2005. Statutory accounts for 2005 have been delivered to the registrar of companies, and those for 2006 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

2. Analysis by business segment

	2006 £m	2005 £m
Revenue		
Civil aerospace	3,775	3,561
Defence aerospace	1,569	1,413
Marine	1,300	1,097
Energy	512	532
	7,156	6,603
Profit before financing costs		
Civil aerospace	479	659
Defence aerospace	186	177
Marine	103	87
Energy	(28)	(1)
Central costs	(47)	(45)
	693	877
Underlying profit before financing costs*		
Civil aerospace	519	454
Defence aerospace	193	180
Marine	101	89
Energy	(18)	1
Central costs	(47)	(45)
	748	679
Net assets/liabilities		
Civil aerospace	2,165	1,617
Defence aerospace	20	55
Marine	619	674
Energy	387	390
Net tax (liabilities) / assets	(297)	93
Unallocated post-retirement benefit obligations	(995)	(1,659)
Net cash/(debt)	826	335
Net assets	2,725	1,505

*excluding unrealised gains on fair value adjustments (see note 3)

3. Earnings per ordinary share and underlying profit reconciliation

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

Basic earnings per ordinary share of 57.32p (2005 20.11p) are calculated by dividing the profit attributable to ordinary shareholders of £998m (2005 £350m) by 1,741 million (2005 1,740 million) 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.

Year to 31 December 2006

	£m	£m	£m	Pence
Profit before financing income/(costs)	693			
Profit before taxation		1,391		
Profit attributable to equity holders of the parent			998	57.32
Release of transition hedge reserve (note 9)	(289)	(289)	(289)	(16.60)
Realised gains on settled derivatives contracts (note 7)	343	370	370	21.25
Realised gains carried forward in contract balances	(27)	(27)	(27)	(1.55)
Net unrealised fair value changes to derivative contracts (note 7)	-	(730)	(730)	(41.93)
Unrealised gains recognised in contract balances	28	28	28	1.61
Revaluation of trading assets and liabilities	-	4	4	0.23
Foreign exchange differences and changes in forecast payments relating to financial RRSPS (Note 8)	-	(39)	(39)	(2.24)
Net post-retirement financing (income)/charge	-	(3)	(3)	(0.17)
Related tax effect	-	-	207	11.89
Underlying profit before financing costs	748			
Underlying profit before taxation		705		
Underlying profit for the year attributable to equity holders of the parent			519	
Underlying earnings per share				29.81
Year to 31 December 2005				
	£m	£m	£m	Pence
Profit before financing income/(costs)	877			
Profit before taxation		477		
Profit attributable to equity holders of the parent			350	20.11
Release of transition hedge reserve (note 9)	(452)	(452)	(452)	(25.97)
Realised gains on settled derivatives contracts (note 7)	328	396	396	22.76
Realised gains carried forward in contract balances	(32)	(32)	(32)	(1.84)
Net unrealised fair value changes to derivative contracts (note 7)	-	345	345	19.83
Unrealised gains recognised in contract balances	(42)	(42)	(42)	(2.41)
Revaluation of trading assets and liabilities	-	(78)	(78)	(4.49)
Foreign exchange differences and changes in forecast payments relating to financial RRSPS (Note 8)	-	(30)	(30)	(1.72)
Net post-retirement financing (income)/charge	-	9	9	0.52
Related tax effect	-	-	(40)	(2.31)
Underlying profit before financing costs	679			
Underlying profit before taxation		593		
Underlying profit for the year attributable to equity holders of the parent			426	
Underlying earnings per share				24.48

Diluted earnings per ordinary share of 55.14p (2005 19.31p) are calculated by dividing the profit attributable to ordinary shareholders of £998m (2005 £350m) by 1,810 million (2005 1,813 million) ordinary shares, being 1,741 million (2005 1,740 million) as above, adjusted by the bonus element of existing share options of 69 million (2005 73 million).

4. Underlying Sales

The Group seeks to present a measure of underlying sales that excludes the release of the foreign exchange transition hedge reserve and reflects the achieved US dollar exchange rate arising on settled derivatives contracts.

5. Net financing costs

	2006		2005	
	£m	Underlying finance costs £m	£m	Underlying finance costs £m
Interest receivable	82	82	65	65
Fair value gains on foreign currency contracts	696	-	-	-
Financial RRSPs – foreign exchange differences and changes in forecast payments	39	-	30	-
Fair value gains on commodity derivatives	34	-	54	-
Expected return on post-retirement assets	343	-	312	-
Net foreign exchange gains	-	-	11	1
Other financing income	2	2	-	-
Financing income	1,196	84	472	66
Interest payable	(100)	(100)	(104)	(104)
Fair value losses on foreign currency contracts	-	-	(399)	-
Finance charge relating to financial RRSPs	(27)	(27)	(43)	(43)
Interest on post-retirement liabilities	(340)	-	(321)	-
Net foreign exchange losses	(31)	-	-	-
Other financing charges	-	-	(5)	(5)
Financing costs	(498)	(127)	(872)	(152)
Net financing income/(costs)	698	(43)	(400)	(86)
<u>Analysed as:</u>				
Net interest payable	(18)	(18)	(39)	(39)
Net post-retirement financing income/(costs)	3	-	(9)	-
Net other financing income/(costs)	713	(25)	(352)	(47)
Net financing income/(costs)	698	(43)	(400)	(86)

6. Intangible assets

	2006						2005
	Goodwill £m	Certification and participation fees £m	Development expenditure £m	Recoverable engine costs £m	Other £m	Total £m	Total £m
Cost:							
At January 1	751	284	381	265	-	1,681	1,573
Reclassification of software from property, plant and equipment*	-	-	-	-	44	44	28
At January 1 (as restated)	751	284	381	265	44	1,725	1,601
Exchange adjustments	(23)	-	-	-	-	(23)	(8)
Additions at cost	-	91	41	64	29	225	132
Acquisition of business	7	-	-	-	3	10	-
Disposals	-	(1)	-	-	(6)	(7)	-
At December 31	735	374	422	329	70	1,930	1,725
Accumulated amortisation:							
At January 1	-	138	116	146	-	400	346
Reclassification of software from property, plant and equipment*	-	-	-	-	10	10	5
At January 1 (as restated)	-	138	116	146	10	410	351
Provided during the year	-	5	16	30	9	60	59
At December 31	-	143	132	176	19	470	410
Net book value at December 31	735	231	290	153	51	1,460	1,315
Net book value at January 1 (restated)	751	146	265	119	34	1,315	1,250

*restatement between property, plant and equipment and intangible assets.

7. Foreign exchange and commodity financial instruments

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

	<u>2006</u>			2005
	<u>Foreign exchange £m</u>	<u>Commodity £m</u>	<u>Total £m</u>	Total £m
At January 1	228	31	259	995
Fair value changes to fair value hedges	(26)	-	(26)	5
Fair value changes to other derivative contracts	696	34	730	(345)
Fair value relating to contracts settled	(344)	(26)	(370)	(396)
At December 31	554	39	593	259

8. Financial Risk and Revenue Sharing Partnerships (RRSPs)

Movements in the amortised cost values of financial RRSPs are as follows:

	2006 £m	2005 £m
At January 1	(423)	(468)
Cash paid to partners	87	58
Financing charge*	(27)	(43)
Excluded from underlying profit:		
-Exchange adjustments	42	(56)
-Restructuring of RRSP agreements and changes in forecast payments	(3)	86
At December 31	(324)	(423)

* Total amounts included in finance income/(costs) within the income statement £12m (31 December 2005, £(13m)).

9. Foreign exchange and commodity hedge reserve movements

Movements in the foreign exchange and commodity hedge reserves excluding deferred taxation are as follows:

	<u>2006</u>			2005
	<u>Foreign exchange £m</u>	<u>Commodity £m</u>	<u>Total £m</u>	Total £m
At January 1*	538	5	543	1,005
Transferred to income statement**	(284)	(5)	(289)	(462)
At December 31	254	-	254	543
* Deferred tax on opening balance	(162)	(2)	(164)	(302)
** Deferred tax on amount transferred	85	2	87	138

10. Group employees at year end

	2006	2005
	Number	Number
Civil aerospace	22,300	21,050
Defence	5,500	5,200
Marine	7,600	7,200
Energy	2,600	2,750
	38,000	36,200

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 relating to financing arrangements are spread over many years and relate to a number of customers and a broad product portfolio.

Contingent liabilities are disclosed on a discounted basis. As the directors consider the likelihood of these contingent liabilities crystallising to be remote, this amount does not represent a present value. However, the amounts are discounted at the Group's borrowing rate to reflect better 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 financing arrangements on all delivered aircraft less insurance arrangements and relevant provisions, at December 31, 2006 amounted to \$1,109m (2005 \$1,097m). Taking into account the net realisable value of the relevant security including unrestricted cash collateral of \$114m (2005 \$108m), the discounted value of the net contingent liabilities in respect of financing arrangements on all delivered aircraft amounted to \$243m (2005 \$259m). If the value of the relevant security were reduced by 20 per cent, a net contingent liability with a discounted value of approximately \$361m (2005 \$363m) would result. 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. Pensions and other post-retirement benefits

The gross post retirement benefits deficit, before deferred tax, has reduced to £995m (2005 £1,659m) having incorporated current mortality assumptions for the Group's UK pension schemes. The net post-retirement benefits deficit, after taking account of deferred taxation, was £681m (2005 £1,154m). A charge of £145m (2005 £132m) for pensions and other post-retirement benefits is included in the income statement.

13. Share-based payments

In accordance with IFRS 2 a charge of £36m (2005:£26m) relating to the fair value of share-based schemes is included in the income statement.