

Condensed consolidated income statement

For the half-year-ended June 30, 2010

	Notes	Half-year to June 30, 2010 £m	Half-year to June 30, 2009 £m	Year to December 31, 2009 £m
Revenue	2	5,421	5,142	10,414
Cost of sales		(4,316)	(4,054)	(8,303)
Gross profit		1,105	1,088	2,111
Other operating income		82	68	89
Commercial and administrative costs		(433)	(407)	(740)
Research and development costs		(192)	(200)	(379)
Share of profit of joint ventures and associates		32	47	93
Operating profit		594	596	1,174
Loss on sale or termination of businesses		-	(3)	(2)
Profit before financing		594	593	1,172
Financing income	3	221	2,170	2,276
Financing costs	3	(1,290)	(248)	(491)
Net financing		(1,069)	1,922	1,785
(Loss)/profit before taxation ¹		(475)	2,515	2,957
Taxation		144	(658)	(740)
(Loss)/profit for the period		(331)	1,857	2,217
Attributable to:				
Equity holders of the parent		(334)	1,859	2,221
Non-controlling interests		3	(2)	(4)
(Loss)/profit for the period		(331)	1,857	2,217
Earnings per ordinary share ²				
Basic	5	(18.07p)	100.87p	120.38p
Diluted	5	(18.07p)	99.95p	119.09p
Payments to shareholders in respect of the period				
Per share	6	6.40p	6.00p	15.00p
Total (£m)	6	119	111	278

¹ Underlying profit before taxation

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² Underlying earnings per ordinary share are shown in note 5.

Condensed consolidated statement of comprehensive income

For the half-year-ended June 30, 2010

	Half-year to June 30, 2010 £m	Half-year to June 30, 2009 £m	Year to December 31, 2009 £m
(Loss)/profit for the period	(331)	1,857	2,217
Other comprehensive income			
Foreign exchange translation differences from foreign operations	(39)	(288)	(158)
Net actuarial losses	(63)	-	(1,148)
Movement in unrecognised post-retirement surplus	(91)	(24)	707
Movement in post-retirement minimum funding liability	27	25	40
Transfers from transition hedging reserve	-	(27)	(27)
Net movements on cash flow hedging reserve in respect of joint ventures and associates	(22)	12	22
Related tax movements	29	(1)	141
Total comprehensive income for the period	(490)	1,554	1,794
Attributable to:			
Equity holders of the parent	(493)	1,557	1,799
Non-controlling interests	3	(3)	(5)
Total comprehensive income for the period	(490)	1,554	1,794

Condensed consolidated balance sheet

At June 30, 2010

	Notes	June 30, 2010 £m	June 30, 2009 £m	December 31, 2009 £m
ASSETS				
Non-current assets				
Intangible assets	7	2,737	2,286	2,472
Property, plant and equipment		2,058	1,916	2,009
Investments – joint ventures and associates		360	336	437
Other investments		10	55	58
Other financial assets	8	222	707	637
Deferred tax assets		627	170	360
Post-retirement scheme surpluses	9	83	455	75
		6,097	5,925	6,048
Current assets				
Inventory		2,526	2,589	2,432
Trade and other receivables		4,162	3,802	3,877
Taxation recoverable		8	9	12
Other financial assets	8	196	69	80
Short-term investments		326	1	2
Cash and cash equivalents		2,808	2,716	2,962
Assets held for sale		9	9	9
		10,035	9,195	9,374
Total assets		16,132	15,120	15,422
LIABILITIES				
Current liabilities				
Borrowings		(820)	(6)	(126)
Other financial liabilities	8	(188)	(743)	(181)
Trade and other payables		(6,343)	(5,301)	(5,628)
Current tax liabilities		(159)	(153)	(167)
Provisions		(230)	(204)	(210)
		(7,740)	(6,407)	(6,312)
Non-current liabilities				
Borrowings		(1,146)	(1,879)	(1,787)
Other financial liabilities	8	(1,388)	(424)	(868)
Trade and other payables		(993)	(1,306)	(1,145)
Non-current tax liabilities		-	(1)	-
Deferred tax liabilities		(410)	(309)	(366)
Provisions		(259)	(173)	(232)
Post-retirement scheme deficits	9	(1,053)	(930)	(930)
		(5,249)	(5,022)	(5,328)
Total liabilities		(12,989)	(11,429)	(11,640)
Net assets		3,143	3,691	3,782
EQUITY				
Capital and reserves				
Called-up share capital		371	371	371
Share premium account		98	97	98
Capital redemption reserves		188	200	191
Hedging reserves		(41)	(29)	(19)
Other reserves		463	368	506
Retained earnings		2,061	2,677	2,635
Equity attributable to equity holders of the parent		3,140	3,684	3,782
Non-controlling interests		3	7	-
Total equity		3,143	3,691	3,782

Condensed consolidated cash flow statement

For the half-year-ended June 30, 2010

	Notes	Half-year to June 30, 2010 £m	Half-year to June 30, 2009 £m	Year to December 31, 2009 £m
Reconciliation of cash flows from operating activities				
(Loss)/profit before taxation		(475)	2,515	2,957
Share of profit of joint ventures and associates		(32)	(47)	(93)
Loss on sale or termination of businesses		-	3	2
Loss/(profit) on sale of property, plant and equipment		1	(16)	(40)
Net financing	3	1,069	(1,922)	(1,785)
Taxation paid		(69)	(50)	(119)
Amortisation and impairment of intangible assets	7	64	57	121
Depreciation and impairment of property, plant and equipment		103	93	194
Impairment of unlisted investments		2	-	-
Increase in provisions		45	30	81
(Increase)/decrease in inventories		(79)	(123)	119
Increase in trade and other receivables		(240)	(97)	(14)
Increase/(decrease) in trade and other payables		598	(67)	(183)
Increase in other financial assets and liabilities		(195)	(184)	(303)
Additional cash funding of post-retirement schemes		(53)	(73)	(159)
Share-based payments charge		8	15	31
Transfers of hedging reserves to income statement		-	(27)	(27)
Dividends received from joint ventures and associates		36	30	77
Net cash inflow from operating activities		783	137	859
Cash flows from investing activities				
Additions of unlisted investments		(1)	(3)	(2)
Disposals of unlisted investments		46	-	-
Additions of intangible assets		(181)	(167)	(339)
Disposals of intangible assets		-	-	2
Purchases of property, plant and equipment		(175)	(109)	(258)
Disposals of property, plant and equipment		10	29	82
Acquisitions of businesses		(147)	-	(7)
Disposals of businesses		-	-	3
Investments in joint ventures and associates		(14)	(5)	(87)
Disposals of joint ventures and associates		-	2	-
Net cash outflow from investing activities		(462)	(253)	(606)
Cash flows from financing activities				
Current borrowings – repayment of loans		-	(10)	(10)
Current borrowings – increase in loans		56	-	-
Non-current borrowings – increase in loans		-	692	693
Capital element of finance lease payments		-	(1)	(3)
Cash inflow from net increase in borrowings		56	681	680
Interest received		20	30	24
Interest paid		(68)	(48)	(66)
Interest element of finance lease payments		-	-	(1)
Increase in government securities and corporate bonds		(324)	-	(1)
Issue of ordinary shares		-	17	18
Purchase of ordinary shares		(58)	(16)	(17)
Other transactions in ordinary shares		-	-	(3)
Redemption of C Shares		(107)	(101)	(250)
Net cash (outflow)/inflow from financing activities		(481)	563	384
(Decrease)/increase in cash and cash equivalents				
Cash and cash equivalents at January 1		2,958	2,462	2,462
Foreign exchange		6	(195)	(141)
Cash and cash equivalents at period-end		2,804	2,714	2,958

	Half-year to June 30, 2010 £m	Half-year to June 30, 2009 £m	Year to December 31, 2009 £m
Reconciliation of movements in cash and cash equivalents to movements in net funds			
(Decrease)/increase in cash and cash equivalents	(160)	447	637
Cash outflow from increase in government securities and corporate bonds	324	-	1
Cash inflow from net increase in borrowings	(56)	(681)	(680)
Change in net funds resulting from cash flows	108	(234)	(42)
Net funds (excluding cash and cash equivalents) of businesses acquired	(1)	-	-
Exchange adjustments	6	(194)	(141)
Fair value adjustments	4	136	110
Movement in net funds	117	(292)	(73)
Net funds at January 1 excluding the fair value of swaps	1,051	1,124	1,124
Net funds at period-end excluding the fair value of swaps	1,168	832	1,051
Fair value of swaps hedging fixed rate borrowings	220	198	224
Net funds at period-end	1,388	1,030	1,275

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

	At January 1, 2010 £m	Funds flow £m	Net funds of businesses acquired £m	Non cash flow £m	Exchange £m	Fair value £m	At June 30, 2010 £m
Cash at bank and in hand	1,240	(453)	3	-	22	-	812
Overdrafts	(4)	-	-	-	-	-	(4)
Short-term deposits	1,722	281	9	-	(16)	-	1,996
Cash and cash equivalents	2,958	(172)	12	-	6	-	2,804
Investments	2	324	-	-	-	-	326
Other current borrowings	(122)	(56)	-	(688)	-	50	(816)
Non-current borrowings	(1,786)	-	(1)	688	-	(46)	(1,145)
Finance leases	(1)	-	-	-	-	-	(1)
	1,051	96	11	-	6	4	1,168
Fair value of swaps hedging fixed rate borrowings	224					(4)	220
	1,275	96	11	-	6	-	1,388

Condensed consolidated statement of changes in equity

For the half-year-ended June 30, 2010

	Attributable to equity holders of the parent							Non-controlling interests £m	Total equity £m
	Share capital £m	Share premium £m	Capital redemption reserves £m	Hedging reserves £m	Other reserves £m	Retained earnings £m	Total £m		
At January 1, 2009	369	82	204	(22)	663	920	2,216	9	2,225
Profit for the period	-	-	-	-	-	1,859	1,859	(2)	1,857
Foreign exchange translation differences on foreign operations	-	-	-	-	(287)	-	(287)	(1)	(288)
Movement in unrecognised post-retirement surplus	-	-	-	-	-	(24)	(24)	-	(24)
Movement in post-retirement minimum funding liability	-	-	-	-	-	25	25	-	25
Transfers from transition hedging reserve	-	-	-	(27)	-	-	(27)	-	(27)
Transfers to cash flow hedging reserve	-	-	-	12	-	-	12	-	12
Related tax movements – deferred tax	-	-	-	8	(8)	(1)	(1)	-	(1)
Total comprehensive income	-	-	-	(7)	(295)	1,859	1,557	(3)	1,554
Arising on issue of ordinary shares	2	15	-	-	-	-	17	-	17
Issue of C Shares	-	-	(105)	-	-	-	(105)	-	(105)
Redemption of C Shares	-	-	101	-	-	(101)	-	-	-
Ordinary shares purchased	-	-	-	-	-	(16)	(16)	-	(16)
Share-based payments adjustment	-	-	-	-	-	15	15	-	15
Transactions with non-controlling interests	-	-	-	-	-	-	-	1	1
Other changes in equity in the period	2	15	(4)	-	-	(102)	(89)	1	(88)
At June 30, 2009	371	97	200	(29)	368	2,677	3,684	7	3,691
Profit for the period	-	-	-	-	-	362	362	(2)	360
Foreign exchange translation differences on foreign operations	-	-	-	-	130	-	130	-	130
Net actuarial losses	-	-	-	-	-	(1,148)	(1,148)	-	(1,148)
Movement in unrecognised post-retirement surplus	-	-	-	-	-	731	731	-	731
Movement in post-retirement minimum funding liability	-	-	-	-	-	15	15	-	15
Transfers to cash flow hedging reserve	-	-	-	10	-	-	10	-	10
Related tax movements – deferred tax	-	-	-	-	8	134	142	-	142
Total comprehensive income	-	-	-	10	138	94	242	(2)	240
Arising on issue of ordinary shares	-	1	-	-	-	-	1	-	1
Issue of C Shares	-	-	(159)	-	-	1	(158)	-	(158)
Redemption of C Shares	-	-	150	-	-	(150)	-	-	-
Ordinary shares purchased	-	-	-	-	-	(1)	(1)	-	(1)
Share-based payments adjustment	-	-	-	-	-	13	13	-	13
Transactions with non-controlling interests	-	-	-	-	-	-	-	(5)	(5)
Related tax movements – deferred tax	-	-	-	-	-	1	1	-	1
Other changes in equity in the period	-	1	(9)	-	-	(136)	(144)	(5)	(149)
At December 31, 2009	371	98	191	(19)	506	2,635	3,782	-	3,782
Loss for the period	-	-	-	-	-	(334)	(334)	3	(331)
Foreign exchange translation differences on foreign operations	-	-	-	-	(39)	-	(39)	-	(39)
Net actuarial losses	-	-	-	-	-	(63)	(63)	-	(63)
Movement in unrecognised post-retirement surplus	-	-	-	-	-	(91)	(91)	-	(91)
Movement in post-retirement minimum funding liability	-	-	-	-	-	27	27	-	27
Transfers from cash flow hedging reserve	-	-	-	(22)	-	-	(22)	-	(22)
Related tax movements – deferred tax	-	-	-	-	(4)	33	29	-	29
Total comprehensive income	-	-	-	(22)	(43)	(428)	(493)	3	(490)
Issue of C Shares	-	-	(111)	-	-	1	(110)	-	(110)
Redemption of C Shares	-	-	108	-	-	(108)	-	-	-
Ordinary shares purchased	-	-	-	-	-	(58)	(58)	-	(58)
Share-based payments adjustment	-	-	-	-	-	16	16	-	16
Related tax movements – deferred tax	-	-	-	-	-	3	3	-	3
Other changes in equity in the period	-	-	(3)	-	-	(146)	(149)	-	(149)
At June 30, 2010	371	98	188	(41)	463	2,061	3,140	3	3,143

Notes to the condensed consolidated financial statements

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, 2010 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in joint ventures and associates.

The consolidated financial statements of the Group as at and for the year-ended December 31, 2009 (2009 Annual report) are available 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 2009 Annual report.

The comparative figures for the financial year December 31, 2009 are not the Group's statutory accounts for that financial year. Those accounts have been reported on by the Group'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 498(2) or (3) of the Companies Act 2006.

The Board of directors approved the condensed consolidated half-year financial statements on July 28, 2010.

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, 2009 (International Financial Reporting Standards issued by the International Accounting Standards Board, as adopted for use in the EU effective at December 31, 2009), with the following exceptions:

- Revised IFRS 3 *Business Combinations* and amendments to IAS 27 *Consolidated and Separate Financial Statements* have been adopted. These standards affect the accounting for acquisitions and transactions with non-controlling interests, in particular, the acquisition of ODIM ASA. There is no retrospective impact.
- IFRIC 18 *Transfers of Assets from Customers* has been adopted. This interpretation confirms the Group's existing policies for the recognition of assets received from customers and there is no significant impact.
- Amendments to IFRS 2 *Group Cash-settled Share-based Payment Transactions* has been adopted. These amendments apply to the International ShareSave Scheme, but the impact is not significant.

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, 2009.

2 Analysis by business segment

The analysis by business segment is presented in accordance with the basis set out in IFRS 8 *Operating segments*.

The operating results are prepared on an underlying basis that excludes items considered to be non-underlying in nature. The principles adopted are:

Underlying revenues – Where revenues are denominated in a currency other than the functional currency of the Group undertaking, these reflect the achieved exchange rates arising on settled derivative contracts and exclude the release of the foreign exchange transition hedging reserve, which was fully utilised in 2009.

Underlying profit before financing – Where transactions are denominated in a currency other than the functional currency of the Group undertaking, this reflects the transactions at the achieved exchange rates on settled derivative contracts and excludes the release of the foreign exchange transition hedging reserve.

Underlying profit before taxation – In addition to those adjustments in underlying profit before financing, this:

- Includes amounts realised from settled derivative contracts and revaluation of relevant assets and liabilities to exchange rates forecast to be achieved from future settlement of derivative contracts; and
- Excludes unrealised amounts arising from revaluations required by IAS 39 *Financial Instruments: Recognition and Measurement*, changes in value of financial RRSP contracts arising from changes in forecast payments and the net impact of financing costs related to post-retirement scheme benefits.

This analysis also includes a reconciliation of the underlying results to those reported in the consolidated income statement.

	Half-year to June 30, 2010			Half-year to June 30, 2009			Year to December 31, 2009		
	Original equipment £m	Aftermarket £m	Total £m	Original equipment £m	Aftermarket £m	Total £m	Original equipment £m	Aftermarket £m	Total £m
Underlying revenues									
Civil aerospace	858	1,436	2,294	943	1,337	2,280	1,855	2,626	4,481
Defence aerospace	510	508	1,018	473	496	969	964	1,046	2,010
Marine	928	429	1,357	851	376	1,227	1,804	785	2,589
Energy	348	242	590	236	211	447	558	470	1,028
	2,644	2,615	5,259	2,503	2,420	4,923	5,181	4,927	10,108

	Half-year to June 30, 2010 £m	Half-year to June 30, 2009 £m	Year to December 31, 2009 £m
Underlying profit before financing			
Civil aerospace	210	257	493
Defence aerospace	158	136	253
Marine	171	110	263
Energy	(19)	1	24
Reportable segments	520	504	1,033
Underlying central items	(26)	(26)	(50)
Underlying profit before financing	494	478	983
Underlying net financing	(29)	(33)	(68)
Underlying profit before taxation	465	445	915
Underlying taxation	(116)	(85)	(187)
Underlying profit for the period	349	360	728

Net assets/(liabilities)

	Total assets			Total liabilities			Net assets/(liabilities)		
	June 30, 2010	June 30, 2009	December 31, 2009	June 30, 2010	June 30, 2009	December 31, 2009	June 30, 2010	June 30, 2009	December 31, 2009
Civil aerospace	7,665	7,835	7,612	(5,822)	(5,164)	(4,918)	1,843	2,671	2,694
Defence aerospace	1,343	1,102	1,228	(1,675)	(1,390)	(1,573)	(332)	(288)	(345)
Marine	2,498	2,375	2,379	(1,763)	(1,845)	(1,738)	735	530	641
Energy	1,060	922	1,025	(647)	(415)	(492)	413	507	533
Reportable segments	12,566	12,234	12,244	(9,907)	(8,814)	(8,721)	2,659	3,420	3,523
Eliminations	(506)	(663)	(457)	506	663	457	-	-	-
Net funds	3,354	2,915	3,188	(1,966)	(1,885)	(1,913)	1,388	1,030	1,275
Tax assets/(liabilities)	635	179	372	(569)	(463)	(533)	66	(284)	(161)
Post-retirement scheme surpluses/(deficits)	83	455	75	(1,053)	(930)	(930)	(970)	(475)	(855)
	16,132	15,120	15,422	(12,989)	(11,429)	(11,640)	3,143	3,691	3,782

Group employees at period-end

	June 30, 2010	June 30, 2009	December 31, 2009
Civil aerospace	21,100	21,700	21,500
Defence aerospace	5,500	5,500	5,500
Marine	9,400	8,600	8,700
Energy	2,900	2,500	2,600
	38,900	38,300	38,300

Underlying revenue adjustments

	Half-year to June 30, 2010 £m	Half-year to June 30, 2009 £m	Year to December 31, 2009 £m
Underlying revenue	5,259	4,923	10,108
Exclude achieved rate of settled derivative contracts	162	192	279
Release of transition hedging reserve	-	27	27
Revenue per consolidated income statement	5,421	5,142	10,414

Underlying profit adjustments

	Half-year to June 30, 2010			Half-year to June 30, 2009			Year to December 31, 2009		
	Profit before financing £m	Net financing £m	Taxation £m	Profit before financing £m	Net financing £m	Taxation £m	Profit before financing £m	Net financing £m	Taxation £m
Underlying performance	494	(29)	(116)	478	(33)	(85)	983	(68)	(187)
Release of transition hedging reserve	-	-	-	27	-	-	27	-	-
Realised losses on settled derivative contracts ¹	121	5	-	182	66	-	274	60	-
Net unrealised fair value changes to derivative contracts ²	(12)	(1,018)	-	10	1,939	-	14	1,835	-
Effect of currency on contract accounting	(9)	-	-	(104)	-	-	(126)	-	-
Revaluation of trading assets and liabilities	-	5	-	-	(8)	-	-	(17)	-
Financial RRSPs – exchange differences and changes in forecast payments	-	(19)	-	-	8	-	-	72	-
Net post-retirement scheme financing	-	(13)	-	-	(50)	-	-	(97)	-
Related tax effect	-	-	260	-	-	(573)	-	-	(553)
Total underlying adjustments	100	(1,040)	260	115	1,955	(573)	189	1,853	(553)
Reported per consolidated income statement	594	(1,069)	144	593	1,922	(658)	1,172	1,785	(740)

¹ Realised losses on settled derivative contracts included in profit before tax:

- includes £1m of realised losses (2009: half-year £10m, full-year £15m) deferred from prior periods;
- excludes £7m of losses (2009: half-year nil, full-year gains of £6m) realised in the period on derivative contracts settled in respect of cash flows that will occur after the period-end;
- excludes £6m of realised losses (2009: half and full-year nil) recognised in prior periods when the related trading contracts were cancelled; and
- excludes nil (2009: half-year nil, full-year £14m) realised in respect of derivatives held in net investment hedges.

² The adjustment for unrealised fair value changes included in profit before financing includes the reversal of £11m of unrealised losses (2009: half-year £1m unrealised losses, full-year £5m unrealised gains) in respect of derivative contracts held by joint ventures and £1m (2009: half-year £9m, full-year £9m) of unrealised losses for which the related trading contracts have been cancelled and consequently the fair value loss has been recognised immediately in underlying profit.

3 Net financing

	Half-year to June 30, 2010		Half-year to June 30, 2009		Year to December 31, 2009	
	Per consolidated income statement £m	Underlying net financing £m	Per consolidated income statement £m	Underlying net financing £m	Per consolidated income statement £m	Underlying net financing £m
Financing income						
Interest receivable	8	8	13	13	21	21
Fair value gains on foreign currency contracts	-	-	1,909	-	1,783	-
Financial RRSPs – foreign exchange differences and changes in forecast payments	-	-	8	-	72	-
Fair value gains on commodity derivatives	-	-	30	-	52	-
Expected return on post-retirement scheme assets	201	-	152	-	305	-
Net foreign exchange gains	10	-	58	-	43	-
Other financing income	2	2	-	-	-	-
	221	10	2,170	13	2,276	21
Financing costs						
Interest payable	(30)	(30)	(31)	(31)	(64)	(64)
Fair value losses on foreign currency contracts	(1,017)	-	-	-	-	-
Financial RRSPs – foreign exchange differences and changes in forecast payments	(19)	-	-	-	-	-
Financial charge relating to financial RRSPs	(9)	(9)	(14)	(14)	(25)	(25)
Fair value losses on commodity derivatives	(1)	-	-	-	-	-
Interest on post-retirement scheme liabilities	(214)	-	(202)	-	(402)	-
Other financing charges	-	-	(1)	(1)	-	-
	(1,290)	(39)	(248)	(46)	(491)	(89)
Net financing	(1,069)	(29)	1,922	(33)	1,785	(68)
Analysed as:						
Net interest payable	(22)	(22)	(18)	(18)	(43)	(43)
Net post-retirement scheme financing	(13)	-	(50)	-	(97)	-
Net other financing	(1,034)	(7)	1,990	(15)	1,925	(25)
Net financing	(1,069)	(29)	1,922	(33)	1,785	(68)

4 Taxation

The effective tax rate for the half-year is 30.3% (2009: half-year 26.2%, full-year 25%). In accordance with IAS 12 *Income Taxes* the effective rate does not take into account the impact in 2010 of the proposed reduction in the UK corporation tax rate from 28% to 27% as the legislation had not been substantively enacted by the balance sheet date. (Similarly, proposed future reductions in the rate to 24% will be reflected when the relevant legislation is substantively enacted.) The impact of the reduction in the rate on the underlying effective tax rate for the full-year is not expected to be significant.

5 Earnings per ordinary share (EPS)

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

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

	Half-year to June 30, 2010			Half-year to June 30, 2009			Year to December 31, 2009		
	Potentially dilutive share options ¹			Potentially dilutive share options			Potentially dilutive share options		
	Basic		Diluted	Basic		Diluted	Basic		Diluted
(Loss)/profit (£m)	(334)	-	(334)	1,859	-	1,859	2,221	-	2,221
Weighted average shares (millions)	1,848	-	1,848	1,843	17	1,860	1,845	20	1,865
EPS (pence)	(18.07)	-	(18.07)	100.87	(0.92)	99.95	120.38	(1.29)	119.09

¹ As the basic EPS is negative, in accordance with IAS 33 *Earnings per Share*, share options are not considered dilutive. For diluted underlying EPS, the weighted average number of shares was 1,874m.

The reconciliation between underlying EPS and basic EPS is as follows:

	Half-year to June 30, 2010		Half-year to June 30, 2009		Year to December 31, 2009	
	Pence	£m	Pence	£m	Pence	£m
Underlying EPS / Underlying profit attributable to equity holders of the parent	18.72	346	19.64	362	39.67	732
Total underlying adjustments to (loss)/profit before tax (note 2)	(50.86)	(940)	112.32	2,070	110.68	2,042
Related tax effects	14.07	260	(31.09)	(573)	(29.97)	(553)
Basic EPS / (Loss)/profit attributable to equity holders of the parent	(18.07)	(334)	100.87	1,859	120.38	2,221
Diluted underlying EPS	18.46		19.46		39.25	

6 Payments to shareholders in respect of the period

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

	Half-year to June 30, 2010		Year to December 31, 2009	
	Pence per share	£m	Pence per share	£m
Interim	6.40	119	6.00	111
Final			9.00	167
	6.40	119	15.00	278

7 Intangible assets

	Goodwill £m	Certification costs and participation fees £m	Development expenditure £m	Recoverable engine costs £m	Software and other £m	Total £m
Cost:						
At January 1, 2010	991	631	751	586	273	3,232
Exchange adjustments	(51)	(5)	-	-	(8)	(64)
Additions	-	38	60	69	14	181
On acquisition of businesses	115	-	-	-	96	211
At June 30, 2010	1,055	664	811	655	375	3,560
Accumulated amortisation and impairment:						
At January 1, 2010	7	177	205	296	75	760
Exchange adjustments	-	(1)	-	-	-	(1)
Provided during the period	-	6	14	28	16	64
At June 30, 2010	7	182	219	324	91	823
Net book value at June 30, 2010	1,048	482	592	331	284	2,737
Net book value at January 1, 2010	984	454	546	290	198	2,472

8 Other financial assets and liabilities

	Half-year to June 30, 2010			Half-year to June 30, 2009			Year to December 31, 2009		
	Assets £m	Liabilities £m	Net £m	Assets £m	Liabilities £m	Net £m	Assets £m	Liabilities £m	Net £m
Foreign exchange contracts	229	(1,232)	(1,003)	596	(680)	(84)	501	(645)	(144)
Commodity contracts	14	(23)	(9)	-	(42)	(42)	15	(26)	(11)
	243	(1,255)	(1,012)	596	(722)	(126)	516	(671)	(155)
Interest rate contracts	175	(2)	173	180	(3)	177	201	(2)	199
Financial RRSPs	-	(303)	(303)	-	(438)	(438)	-	(363)	(363)
C Shares	-	(16)	(16)	-	(4)	(4)	-	(13)	(13)
	418	(1,576)	(1,158)	776	(1,167)	(391)	717	(1,049)	(332)
Current	196	(188)		69	(743)		80	(181)	
Non-current	222	(1,388)		707	(424)		637	(868)	
	418	(1,576)		776	(1,167)		717	(1,049)	

Foreign exchange and commodity financial instruments

	Half-year to June 30, 2010			Half-year to June 30, 2009	Year to December 31, 2009
	Foreign exchange £m	Commodity £m	Total £m	Total £m	Total £m
At January 1	(144)	(11)	(155)	(2,270)	(2,270)
Fair value changes to fair value hedges	23	-	23	(39)	(33)
Fair value changes to net investment hedges	-	-	-	6	(14)
Fair value changes to other derivative contracts	(1,017)	(1)	(1,018)	1,939	1,835
Fair value of contracts settled	135	3	138	238	327
At period-end	(1,003)	(9)	(1,012)	(126)	(155)

Financial risk and revenue sharing partnerships (financial RRSPs)

	Half-year to June 30, 2010 £m	Half-year to June 30, 2009 £m	Year to December 31, 2009 £m
At January 1	(363)	(455)	(455)
Cash paid to partners	82	17	55
Addition	-	(15)	(15)
Exchange adjustments direct to reserves	6	21	6
Financing charge ¹	(9)	(14)	(26)
Excluded from underlying profit: ¹			
Exchange adjustments	(19)	12	45
Changes in forecast payments	-	(4)	27
At period-end	(303)	(438)	(363)

¹ Amounts included in net financing in the income statement. The financing charge for 2009 full-year excluded £1m (2009 half-year nil) of financing charge capitalised in intangible assets.

9 Pensions and other post-retirement benefits

The net post-retirement scheme deficit as at June 30, 2010 is calculated on a year to date basis, using the latest valuation as at December 31, 2009, updated to June 30, 2010 for the principal schemes. This update does not take account of the proposal, announced by the UK government on July 8, 2010, to limit the rate of increases in pensions to the Consumer Prices Index rather than the Retail Price Index. The impact of this proposal will depend, inter alia, on the rules of the relevant schemes and the detailed legislation supporting the proposal, which will be assessed during the second half of 2010. In 2009, there were no significant fluctuations or one-time events during the first-half that required adjustment to the actuarial assumptions made at December 31, 2008 and the net post-retirement deficit was calculated on a year-to-date basis, using the valuation as at December 31, 2008.

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, 2010	(380)	(475)	(855)
Exchange adjustments	-	(29)	(29)
Current service cost	(58)	(16)	(74)
Interest on post-retirement scheme liabilities	(189)	(25)	(214)
Expected return on post-retirement scheme assets	188	13	201
Contributions by employer	106	21	127
Actuarial gain/(losses) ¹	54	(116)	(62)
Movement in unrecognised surplus ²	(91)	-	(91)
Movement on minimum funding liability	27	-	27
At June 30, 2010	(343)	(627)	(970)
Analysed as:			
Post-retirement scheme surpluses - included in non-current assets	83	-	83
Post-retirement scheme deficits - included in non-current liabilities	(426)	(627)	(1,053)
	(343)	(627)	(970)

¹ In addition to the above, an actuarial loss of £1m in respect of a joint venture has been recognised in other comprehensive income.

² Where a surplus has arisen on a scheme, in accordance with IAS 19 *Employee Benefits*, the surplus is recognised as an asset only if it represents an economic benefit available to the Group in the future. Any surplus in excess of this benefit is not recognised in the balance sheet.

10 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 2010, there were no material changes to the maximum gross and net contingent liabilities.

Contingent liabilities exist in respect of guarantees provided by the Group in the ordinary course of business for product delivery, performance and reliability. The Group has, in the normal course of business, entered into arrangements in respect of export finance, performance bonds, countertrade obligations and minor miscellaneous items. Various Group undertakings are parties to legal actions and claims which arise in the ordinary course of business, some of which are for substantial amounts. These include claims received, which are yet to be substantiated, by EPI Europrop International GmbH (EPI) in which the Group is a partner, which is developing the TP400 engine for the Airbus A400M aircraft. The Group has included in provisions the directors' best estimate of the expected loss on this programme. While the outcome of some of these matters cannot precisely be foreseen, the directors do not expect any of these arrangements, legal actions or claims, after allowing for provisions already made, to result in significant loss to the Group.

During the first-half of 2010, Airbus agreed in principle with the Customer Nations to: increase the price of the contract; waive all liquidated damages related to current delays; provide additional funding in exchange for a participation in future export sales; and accelerate pre-delivery payments in the period of 2010 to 2014. Although the impact of this agreement on EPI is not yet certain, at June 30, 2010, the Group balance sheet had no net assets associated with the programme.

11 Related party transactions

Transactions with related parties are shown on page 141 of the Annual report 2009. Significant transactions in the current financial period are as follows:

	Half-year to June 30, 2010 £m	Half-year to June 30, 2009 £m	Year to December 31, 2009 £m
Sales of goods and services to joint ventures and associates	1,270	1,086	2,136
Purchases of goods and services from joint ventures and associates	(1,079)	(890)	(1,900)

12 Acquisitions

On April 7, 2010, the Group acquired 67 per cent of the issued share capital of ODIM ASA (ODIM). Together with the 33 per cent of the issued share capital already held, this gave the Group control of 100 per cent of ODIM. ODIM is a Norwegian marine technology company which develops and sells advanced automated handling systems for seismic and offshore vessels. ODIM's technology and unique subsea and deepwater capability complement the Group's existing activities. Integrating ODIM's innovative technology and highly skilled people into the Group will optimise the Group's offering and provide the global customer base with a wider range of products and services in this important market segment.

Recognised amounts of identifiable assets acquired and liabilities assumed

	£m
Intangible assets	96
Property, plant and equipment	24
Inventories	16
Trade and other receivables	57
Cash and cash equivalents	12
Trade and other payables	(46)
Current tax liabilities	(3)
Borrowings	(1)
Deferred tax liabilities	(32)
Provisions	(2)
Total identifiable assets and liabilities	121
Goodwill	115
Total consideration	236
Satisfied by:	
Cash	159
Existing 33 per cent shareholding	77
	236
Net cash outflow arising on acquisition:	
Cash consideration	159
Less: cash and cash equivalents acquired	(12)
	147
Identifiable intangible assets comprise:	
Technology, patents and licenses	45
Customer relationships	46
Other	5
	96

The fair value of the Group's 33 per cent interest in ODIM before the acquisition was £77m. The Group recognised a gain of £3m as a result of remeasuring this interest, which is included in the share of profits of joint ventures and associates in the consolidated income statement for the period-ended June 30, 2010.

The goodwill of £115m (which is not tax-deductible) consists of anticipated synergies and the assembled workforce. The synergies principally arise from:

- increases in revenue from the combination of the routes to market; and
- cost savings from the combination of the supply chain and central functions.

The gross contractual value of trade and other receivables acquired is £58m. At the acquisition date it is estimated that contractual cash flows of £1m will not be collected.

Acquisition related costs (included in commercial and administrative costs) in the consolidated income statement for the period-ended June 30, 2010, amounted to £2m.

ODIM contributed £101m revenue and £2m loss before tax (predominantly amortisation of intangible assets arising on acquisition) to the Group's results for the period between the date of acquisition and June 30, 2010.

If the acquisition of ODIM had been completed on January 1, 2010, the Group's revenues and loss before tax would have been £5,469m and £480m respectively.

Principal risks and uncertainties

As described on pages 24 to 26 of the Annual report 2009, 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 2010.

Rolls-Royce has filed a patent infringement complaint against United Technologies Corporation (UTC) in the Federal Court for the Eastern District of Virginia alleging infringement by UTC of Rolls-Royce's swept fan patent.

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

- Cyclical downturn - global recession
- Environmental impact of products and operations

Financial risks

- Movements in foreign currency exchange rates
- Interest rates
- Commodity prices
- Counterparty credit risk
- Regulatory developments

Strategic risks

- Competitive pressures
- Export controls

Operational risks

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

Going concern

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the consolidated financial statements. The financial risk management objectives and policies of the Group and the exposure of the Group to price risk, credit risk, liquidity risk and cash flow risk are discussed in the Finance Directors' review of the Annual report 2009 on pages 58 to 65.

Statement of directors' responsibilities

The directors confirm that to the best of their knowledge:

- the condensed financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU;
- the interim management report includes a fair review of the information required by:
 - (a) DTR 4.2.7R of the *Disclosure and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
 - (b) DTR 4.2.8R of the *Disclosure and Transparency Rules*, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

The directors of Rolls-Royce Group plc at February 10, 2010 are listed in the Annual report 2009 on page 66. There have been no changes to the directors since that report.

By order of the Board

Sir John Rose
Chief Executive
July 28, 2010

Andrew Shilston
Finance Director
July 28, 2010

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, 2010 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated cash flow statement, the condensed consolidated statement of changes in equity 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.

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, 2010 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

AJ Sykes
for and on behalf of KPMG Audit Plc
Chartered Accountants, London
July 28, 2010