Condensed consolidated income statement

For the year ended December 31, 2010

	Notes	2010 £m	2009 £m
Revenue	2	**11,085**	10,414
Cost of sales		**(8,885)**	(8,303)
Gross profit		**2,200**	2,111
Other operating income		**95**	89
Commercial and administrative costs		**(836)**	(740)
Research and development costs		**(422)**	(379)
Share of results of joint ventures and associates		**93**	93
Operating profit		**1,130**	1,174
Profit/(loss) on disposal of businesses		**4**	(2)
Profit before financing and taxation	2	**1,134**	1,172
Financing income		**453**	2,276
Financing costs		**(885)**	(491)
Net financing	3	**(432)**	1,785
Profit before taxation [1]		**702**	2,957
Taxation		**(159)**	(740)
Profit for the year		**543**	2,217
Attributable to:			
Ordinary shareholders		**539**	2,221
Non-controlling interests		**4**	(4)
Profit for the year		**543**	2,217
Earnings per ordinary share attributable to shareholders	4		
Basic		**29.20p**	120.38p
Diluted		**28.82p**	119.09p
Underlying earnings per ordinary share are shown in note 4.			
Payments to ordinary shareholders in respect of the year	5		
Per share		**16.0p**	15.0p
Total		**299**	278
[1] Underlying profit before taxation		**955**	915

Condensed consolidated statement of comprehensive income

For the year ended December 31, 2010

	2010 £m	2009 £m
Profit for the year	**543**	2,217
Other comprehensive income (OCI)		
Foreign exchange translation differences on foreign operations	**22**	(156)
Net actuarial gains/(losses) relating to post-employment schemes	**157**	(1,148)
Movement in unrecognised post-retirement surplus	**(300)**	707
Movement in post-retirement minimum funding liability	**49**	40
Transfers from transition hedging reserve	**-**	(27)
Share of OCI of joint ventures and associates	**(16)**	20
Related tax movements	**29**	141
Total comprehensive income for the year	**484**	1,794
Attributable to:		
Ordinary shareholders	**480**	1,799
Non-controlling interests	**4**	(5)
Total comprehensive income for the year	**484**	1,794

Condensed consolidated balance sheet

At December 31, 2010

	Notes	2010 £m	2009 £m
ASSETS			
Non-current assets			
Intangible assets	6	**2,884**	2,472
Property, plant and equipment		**2,136**	2,009
Investments - joint ventures and associates		**393**	437
Investments - other		**11**	58
Other financial assets	7	**371**	637
Deferred tax assets		**451**	360
Post-retirement scheme surpluses	9	**164**	75
		6,410	6,048
Current assets			
Inventories		**2,429**	2,432
Trade and other receivables		**3,943**	3,877
Taxation recoverable		**6**	12
Other financial assets	7	**250**	80
Short-term investments		**328**	2
Cash and cash equivalents		**2,859**	2,962
Assets held for sale		**9**	9
		9,824	9,374
Total assets		**16,234**	15,422
LIABILITIES			
Current liabilities			
Borrowings	8	**(717)**	(126)
Other financial liabilities	7	**(105)**	(181)
Trade and other payables		**(5,910)**	(5,628)
Current tax liabilities		**(170)**	(167)
Provisions for liabilities and charges		**(276)**	(210)
		(7,178)	(6,312)
Non-current liabilities			
Borrowings	8	**(1,135)**	(1,787)
Other financial liabilities	7	**(945)**	(868)
Trade and other payables		**(1,271)**	(1,145)
Deferred tax liabilities		**(438)**	(366)
Provisions for liabilities and charges		**(268)**	(232)
Post-retirement scheme deficits	9	**(1,020)**	(930)
		(5,077)	(5,328)
Total liabilities		**(12,255)**	(11,640)
Net assets		**3,979**	3,782
EQUITY			
Equity attributable to ordinary shareholders			
Called-up share capital		**374**	371
Share premium account		**133**	98
Capital redemption reserves		**209**	191
Hedging reserves		**(37)**	(19)
Other reserves		**527**	506
Retained earnings		**2,769**	2,635
		3,975	3,782
Non-controlling interests		**4**	-
Total equity		**3,979**	3,782

Condensed consolidated cash flow statement

For the year ended December 31, 2010

	Notes	2010 £m	2009 £m
Reconciliation of cash flows from operating activities			
Profit before taxation		**702**	2,957
Share of results of joint ventures and associates		**(93)**	(93)
(Profit)/loss on disposal of businesses		**(4)**	2
Profit on disposal of property, plant and equipment		**(10)**	(40)
Net financing	3	**432**	(1,785)
Taxation paid		**(168)**	(119)
Amortisation of intangible assets		**130**	121
Depreciation of property, plant and equipment		**237**	194
Impairment of investments		**3**	-
Increase in provisions		**99**	81
Decrease in inventories		**41**	119
Decrease/(increase) in trade and other receivables		**39**	(14)
Increase/(decrease) in trade and other payables		**286**	(183)
Increase in other financial assets and liabilities		**(299)**	(303)
Additional cash funding of post-retirement schemes		**(135)**	(159)
Share-based payments		**50**	31
Transfers of hedge reserves to income statement		**-**	(27)
Dividends received from joint ventures and associates		**68**	77
Net cash inflow from operating activities		**1,378**	859
Cash flows from investing activities			
Additions of unlisted investments		**(1)**	(2)
Disposals of unlisted investments		**46**	-
Additions of intangible assets		**(321)**	(339)
Disposals of intangible assets		**-**	2
Purchases of property, plant and equipment		**(354)**	(258)
Disposals of property, plant and equipment		**38**	82
Acquisitions of businesses		**(150)**	(7)
Disposals of businesses		**2**	3
Investments in joint ventures and associates		**(19)**	(87)
Net cash outflow from investing activities		**(759)**	(606)
Cash flows from financing activities			
Repayment of loans		**(108)**	(10)
Proceeds from increase in loans		**68**	693
Capital element of finance lease payments		**-**	(3)
Net cash flow from (decrease)/increase in borrowings		**(40)**	680
Interest received		**11**	24
Interest paid		**(65)**	(66)
Interest element of finance lease payments		**-**	(1)
Increase in short-term investments		**(326)**	(1)
Issue of ordinary shares		**67**	18
Purchase of ordinary shares		**(124)**	(17)
Other transactions in ordinary shares		**-**	(3)
Redemption of C Shares		**(266)**	(250)
Net cash (outflow)/inflow from financing activities		**(743)**	384
Net (decrease)/increase in cash and cash equivalents		**(124)**	637
Cash and cash equivalents at January 1		**2,958**	2,462
Exchange gains/(losses) on cash and cash equivalents		**17**	(141)
Cash and cash equivalents at December 31		**2,851**	2,958

Reconciliation of movement in cash and cash equivalents to movements in net funds

	2010 £m	2009 £m
(Decrease)/increase in cash and cash equivalents	**(124)**	637
Net cash flow from decrease/(increase) in borrowings	**40**	(680)
Cash outflow from increase in short-term investments	**326**	1
Change in net funds resulting from cash flows	**242**	(42)
Net funds (excluding cash and cash equivalents) of businesses acquired	**(1)**	-
Exchange gains/(losses) on net funds	**17**	(141)
Fair value adjustments	**26**	110
Movement in net funds	**284**	(73)
Net funds at January 1 excluding the fair value of swaps	**1,051**	1,124
Net funds at December 31 excluding the fair value of swaps	**1,335**	1,051
Fair value of swaps hedging fixed rate borrowings	**198**	224
Net funds at December 31	**1,533**	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	Exchange differences £m	Fair value adjustments £m	Reclassi-fications £m	At December 31, 2010 £m
Cash at bank and in hand	1,240	384		23	-	-	1,647
Overdrafts	(4)	(4)		-	-	-	(8)
Short-term deposits	1,722	(504)		(6)	-	-	1,212
Cash and cash equivalents	2,958	(124)		17	-	-	2,851
Investments	2	326	-	-	-	-	328
Other current borrowings	(122)	42	-	-	59	(688)	(709)
Non-current borrowings	(1,786)	(2)	(1)	-	(33)	688	(1,134)
Finance leases	(1)	-	-	-	-	-	(1)
	1,051	242	(1)	17	26	-	1,335
Fair value of swaps hedging fixed rate borrowings	224				(26)		198
	1,275	242	(1)	17	-	-	1,533

Condensed consolidated statement of changes in equity

For the year ended December 31, 2010

	Attributable to ordinary shareholders								
	Share capital £m	Share premium £m	Capital redemption reserves £m	Hedging reserves[1] £m	Other reserves[2] £m	Retained earnings[3] £m	Total £m	Non-controlling interests £m	Total equity £m
At January 1, 2009	**369**	**82**	**204**	**(22)**	**663**	**920**	**2,216**	**9**	**2,225**
Profit for the year	-	-	-	-	-	2,221	2,221	(4)	2,217
Foreign exchange translation differences on foreign operations	-	-	-	-	(155)	-	(155)	(1)	(156)
Net actuarial losses on post-employment schemes	-	-	-	-	-	(1,148)	(1,148)	-	(1,148)
Movement in unrecognised post-retirement surplus	-	-	-	-	-	707	707	-	707
Movement in post-retirement minimum funding liability	-	-	-	-	-	40	40	-	40
Transfers from transition hedging reserve	-	-	-	(27)	-	-	(27)	-	(27)
Share of OCI of joint ventures and associates[5]	-	-	-	22	(2)	-	20	-	20
Related tax movements : deferred tax	-	-	-	8	-	133	141	-	141
Total comprehensive income for the year	**-**	**-**	**-**	**3**	**(157)**	**1,953**	**1,799**	**(5)**	**1,794**
Arising on issues of ordinary shares	2	16	-	-	-	-	18	-	18
Issue of C Shares	-	-	(264)	-	-	1	(263)	-	(263)
Redemption of C Shares	-	-	251	-	-	(251)	-	-	-
Ordinary shares purchased	-	-	-	-	-	(17)	(17)	-	(17)
Share-based payments: direct to equity[4]	-	-	-	-	-	28	28	-	28
Transactions with non-controlling interests	-	-	-	-	-	-	-	(4)	(4)
Related tax movements: deferred tax	-	-	-	-	-	1	1	-	1
Other changes in equity in the year	**2**	**16**	**(13)**	**-**	**-**	**(238)**	**(233)**	**(4)**	**(237)**
At January 1, 2010	**371**	**98**	**191**	**(19)**	**506**	**2,635**	**3,782**	**-**	**3,782**
Profit for the year	-	-	-	-	-	539	539	4	543
Foreign exchange translation differences on foreign operations	-	-	-	-	22	-	22	-	22
Net actuarial gains on post-employment schemes	-	-	-	-	-	157	157	-	157
Movement in unrecognised post-retirement surplus	-	-	-	-	-	(300)	(300)	-	(300)
Movement in post-retirement minimum funding liability	-	-	-	-	-	49	49	-	49
Share of OCI of joint ventures and associates[5]	-	-	-	(18)	1	1	(16)	-	(16)
Related tax movements: deferred tax	-	-	-	-	(2)	31	29	-	29
Total comprehensive income for the year	**-**	**-**	**-**	**(18)**	**21**	**477**	**480**	**4**	**484**
Arising on issues of ordinary shares	3	64	-	-	-	-	67	-	67
Issue of C Shares	-	(29)	(249)	-	-	1	(277)	-	(277)
Redemption of C Shares	-	-	267	-	-	(267)	-	-	-
Ordinary shares purchased	-	-	-	-	-	(124)	(124)	-	(124)
Share-based payments: direct to equity[4]	-	-	-	-	-	42	42	-	42
Related tax movements: deferred tax	-	-	-	-	-	5	5	-	5
Other changes in equity in the year	**3**	**35**	**18**	**-**	**-**	**(343)**	**(287)**	**-**	**(287)**
At December 31, 2010	**374**	**133**	**209**	**(37)**	**527**	**2,769**	**3,975**	**4**	**3,979**

1 Hedging reserves include nil (2009 nil) in respect of the transition hedging reserve and £(37)m (2009 £(19)m) in respect of the cash flow hedging reserve.

2 Other reserves include a merger reserve of £3m (2009 £3m) and a translation reserve of £524m (2009 £503m).

3 At December 31, 2010, 28,320,962 ordinary shares with a net book value of £125m (2009 7,156,497 ordinary shares with a net book value of £25m) were held and included in retained earnings. During the year, 6,586,568 ordinary shares with a net book value of £24m (2009 6,766,884 shares with a net book value of £25m) vested in share based payment plans. During the year, the Group acquired 27,751,333 ordinary shares through purchases on the London Stock Exchange.

4 The share-based payments – direct to equity is the net of the credit to equity in respect of the share-based payment charge to the income statement and the actual cost of shares vesting, excluding those vesting from own shares.

5 Certain of the Group's joint ventures and associates hold interest rate and inflation swaps for which cash flow hedge accounting has been adopted.

1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the EU (Adopted IFRS) 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, 2010 or 2009. Statutory accounts for 2009 have been delivered to the registrar of companies, and those for 2010 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 498(2) or (3) of the Companies Act 2006.

In 2010, the Group has adopted Revised IFRS 3 *Business Combinations* (including Amendments to IFRS 3 in Improvements to IFRS 2009) and amendments to IAS 27 *Consolidated and Separate Financial Statements*. The acquisition of ODIM ASA (see note 11) has been accounted for in accordance with the requirements of Revised IFRS 3. There was no retrospective impact.

No other revisions to Adopted IFRS that became applicable in 2010 have a significant impact on the Group's financial statements.

2 Analysis by business segment

The analysis by business segment is presented in accordance with IFRS 8 *Operating segments*, on the basis of those segments whose operating results are regularly reviewed by the Board (the Chief Operating Decision Maker as defined by IFRS 8).

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. There is no inter-segment trading and hence all revenues are from external customers.

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:

- 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.
- 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.

			2010			2009
	Original equipment £m	**Aftermarket £m**	**Total £m**	Original equipment £m	Aftermarket £m	Total £m
Underlying revenues						
Civil aerospace	**1,892**	**3,027**	**4,919**	1,855	2,626	4,481
Defence aerospace	**1,020**	**1,103**	**2,123**	964	1,046	2,010
Marine	**1,719**	**872**	**2,591**	1,804	785	2,589
Energy	**691**	**542**	**1,233**	558	470	1,028
	5,322	**5,544**	**10,866**	5,181	4,927	10,108

	2010 £m	2009 £m
Underlying profit before financing and taxation		
Civil aerospace	**392**	493
Defence aerospace	**309**	253
Marine	**332**	263
Energy	**27**	24
Reportable segments	**1,060**	1,033
Central items	**(50)**	(50)
	1,010	983
Underlying net financing	**(55)**	(68)
Underlying profit before taxation	**955**	915
Underlying taxation	**(236)**	(187)
Underlying profit for the year	**719**	728

As noted in the Civil aerospace review on page 8, 2010 profit before financing for civil aerospace includes a charge of £56m associated with the Trent 900 failure on an Airbus A380.

Net assets/(liabilities)

	Total assets		Total liabilities		Net assets	
	2010	2009	**2010**	2009	**2010**	2009
	£m	£m	**£m**	£m	**£m**	£m
Civil aerospace	**8,162**	7,612	**(5,435)**	(4,918)	**2,727**	2,694
Defence aerospace	**1,344**	1,228	**(1,867)**	(1,573)	**(523)**	(345)
Marine	**2,363**	2,379	**(1,548)**	(1,738)	**815**	641
Energy	**1,182**	1,025	**(748)**	(492)	**434**	533
Reportable segments	**13,051**	12,244	**(9,598)**	(8,721)	**3,453**	3,523
Eliminations	**(823)**	(457)	**823**	457	**-**	-
Net funds/(debt)	**3,385**	3,188	**(1,852)**	(1,913)	**1,533**	1,275
Tax assets/liabilities	**457**	372	**(608)**	(533)	**(151)**	(161)
Unallocated post-retirement scheme surpluses/deficits	**164**	75	**(1,020)**	(930)	**(856)**	(855)
Net assets	**16,234**	15,422	**(12,255)**	(11,640)	**3,979**	3,782

Group employees at year end	2010	Restated* 2009
Civil aerospace	**19,600**	19,500
Defence aerospace	**7,000**	7,100
Marine	**9,400**	8,300
Energy	**3,600**	3,400
	39,600	38,300

* Following a review of the allocation of employees in functions serving more than one segment, the 2009 figures have been restated.

Reconciliation to reported results	Total reportable segments £m	Underlying central items £m	Total underlying £m	Underlying adjustments £m	Group £m
Year ended December 31, 2010					
Revenue from sale of original equipment	**5,322**	**-**	**5,322**	**112**	**5,434**
Revenue from aftermarket services	**5,544**	**-**	**5,544**	**107**	**5,651**
Total revenue	**10,866**	**-**	**10,866**	**219**	**11,085**
Operating profit excluding share of results of joint ventures and associates	**963**	**(50)**[1]	**913**	**124**	**1,037**
Share of results of joint ventures and associates	**93**	**-**	**93**	**-**	**93**
Profit on disposal of businesses	**4**	**-**	**4**	**-**	**4**
Profit before financing and taxation	**1,060**	**(50)**	**1,010**	**124**	**1,134**
Net financing		**(55)**	**(55)**	**(377)**	**(432)**
Profit before taxation		**(105)**	**955**	**(253)**	**702**
Taxation		**(236)**	**(236)**	**77**	**(159)**
Profit for the year		**(341)**	**719**	**(176)**	**543**
Year ended December 31, 2009					
Revenue from sale of original equipment	5,181	-	5,181	128	5,309
Revenue from aftermarket services	4,927	-	4,927	178	5,105
Total revenue	10,108	-	10,108	306	10,414
Operating profit excluding share of results of joint ventures and associates	942	(50)[1]	892	189	1,081
Share of results of joint ventures and associates	93	-	93	-	93
Loss on disposal of businesses	(2)	-	(2)	-	(2)
Profit before financing and taxation	1,033	(50)	983	189	1,172
Net financing		(68)	(68)	1,853	1,785
Profit before taxation		(118)	915	2,042	2,957
Taxation		(187)	(187)	(553)	(740)
Profit for the year		(305)	728	1,489	2,217

1 Central corporate costs

Underlying adjustments				**2010**				2009
	Revenue £m	**Profit before financing £m**	**Net financing £m**	**Taxation £m**	Revenue £m	Profit before financing £m	Net financing £m	Taxation £m
Underlying performance	**10,866**	**1,010**	**(55)**	**(236)**	10,108	983	(68)	(187)
Release of transition hedging reserve	-	-	-	-	27	27	-	-
Recognise revenue at exchange rate on date of transaction	219	-	-	-	279	-	-	-
Realised losses/(gains) on settled derivative contracts [1]	-	180	(7)	-	-	274	60	-
Net unrealised fair value changes to derivative contracts [2]	-	-	(341)	-	-	14	1,835	-
Effect of currency on contract accounting	-	(56)	-	-	-	(126)	-	-
Revaluation of trading assets and liabilities	-	-	8	-	-	-	(17)	-
Financial RRSPs - foreign exchange differences and changes in forecast payments	-	-	(6)	-	-	-	72	-
Net post-retirement scheme financing	-	-	(31)	-	-	-	(97)	-
Related tax effect	-	-	-	77	-	-	-	(553)
Total underlying adjustments	**219**	**124**	**(377)**	**77**	**306**	**189**	**1,853**	**(553)**
Reported per consolidated income statement	**11,085**	**1,134**	**(432)**	**(159)**	10,414	1,172	1,785	(740)

[1] Realised losses/(gains) on settled derivative contracts included in profit before tax:
- includes £2m of realised losses (2009 £15m) deferred from prior years;
- excludes £5m of losses (2009 gains of £6m) realised in the year on derivative contracts settled in respect of trading cash flows that occurred after the year-end and £7m of losses (2009 nil) recognised in prior years in respect of cancelled contracts;
- excludes £10m of realised gains (2009 nil) in respect of derivatives held in fair value hedges and nil (2009 £14m realised losses) 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 nil (2009 £5m unrealised gains) in respect of derivative contracts held by joint venture companies and nil (2009 £9m unrealised losses) for which the related trading contracts have been cancelled and consequently the fair value loss has been recognised immediately in underlying profit.

The reconciliation of underlying earnings per ordinary share is shown in note 4.

3 Net financing

	2010 Per consolidated income statement £m	2010 *Underlying financing* [1] *£m*	2009 Per consolidated income statement £m	2009 *Underlying financing* [1] *£m*
Financing income				
Interest receivable	**23**	***23***	21	*21*
Fair value gains on foreign currency contracts	**-**	**-**	1,783	-
Financial RRSPs - foreign exchange differences and changes in forecast payments	**-**	**-**	72	-
Fair value gains on commodity derivatives	**29**	**-**	52	-
Expected return on post-retirement scheme assets	**400**	**-**	305	-
Net foreign exchange gains	**1**	**-**	43	-
	453	***23***	2,276	*21*
Financing costs				
Interest payable	**(63)**	***(63)***	(64)	*(64)*
Fair value losses on foreign currency contracts	**(370)**	**-**	-	-
Financial RRSPs - foreign exchange differences and changes in forecast payments	**(6)**	**-**	-	-
Financial charge relating to financial RRSPs	**(13)**	***(13)***	(25)	*(25)*
Interest on post-retirement scheme liabilities	**(431)**	**-**	(402)	-
Other financing charges	**(2)**	***(2)***	-	-
	(885)	***(78)***	(491)	*(89)*
Net financing	**(432)**	***(55)***	1,785	*(68)*
Analysed as:				
Net interest payable	**(40)**	***(40)***	(43)	*(43)*
Net post-retirement scheme financing	**(31)**	**-**	(97)	-
Net other financing	**(361)**	***(15)***	1,925	*(25)*
Net financing	**(432)**	***(55)***	1,785	*(68)*

[1] See note 2

4 Earnings per ordinary share (EPS)

Basic EPS are calculated by adjusting the weighted average number of ordinary shares in issue during the year for the bonus element of share options

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

	2010 Basic	2010 Potentially dilutive share options	2010 Diluted	2009 Basic	2009 Potentially dilutive share options	2009 Diluted
Profit attributable to ordinary shareholders (£m)	**539**		**539**	2,221		2,221
Weighted average number of shares (millions)	**1,846**	**24**	**1,870**	1,845	20	1,865
EPS	**29.20p**	**(0.38p)**	**28.82p**	120.38p	(1.29p)	119.09p

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

	2010 Pence	2010 £m	2009 Pence	2009 £m
Underlying EPS/Underlying profit attributable to ordinary shareholders	**38.73**	**715**	39.67	732
Total underlying adjustments to profit before tax (note 2)	**(13.70)**	**(253)**	110.68	2,042
Related tax effects	**4.17**	**77**	(29.97)	(553)
EPS/Profit attributable to ordinary shareholders	**29.20**	**539**	120.38	2,221
Diluted underlying EPS	**38.24**		39.25	

5 Payments to shareholders in respect of the year

Payments to shareholders in respect of the year represent the value of C Shares to be issued in respect of the results for the year. As noted on page 38, the Company intends to introduce a new holding company in 2011 and the C Shares in respect of the final payment for 2010 will be issued by the new company. Issues of C Shares were declared as follows:

	2010		2009	
	Pence per share	**£m**	Pence per share	£m
Interim (issued in January)	**6.4p**	**119**	6.0p	111
Final (issued in July)	**9.6p**	**180**	9.0p	167
	16.0p	**299**	15.0p	278

6 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 differences	**6**	**(2)**	**-**	**-**	**(1)**	**3**
Additions	**-**	**57**	**111**	**111**	**46**	**325**
Acquisitions of businesses	**118**	**-**	**-**	**-**	**96**	**214**
Disposals	**-**	**-**	**-**	**-**	**(1)**	**(1)**
At December 31, 2010	**1,115**	**686**	**862**	**697**	**413**	**3,773**
Accumulated amortisation:						
At January 1, 2010	**7**	**177**	**205**	**296**	**75**	**760**
Charge for the year	**-**	**13**	**27**	**55**	**35**	**130**
Disposals	**-**	**-**	**-**	**-**	**(1)**	**(1)**
At December 31, 2010	**7**	**190**	**232**	**351**	**109**	**889**
Net book value at December 31, 2010	**1,108**	**496**	**630**	**346**	**304**	**2,884**
Net book value at December 31, 2009	984	454	546	290	198	2,472

Certification costs and participation fees, development costs and recoverable engine costs have been reviewed for impairment in accordance with the requirements of IAS 36 *Impairment of Assets*. Where an impairment test was considered necessary, it has been performed on the following basis:

- The carrying values have been assessed by reference to value in use. These have been estimated using cash flows from the most recent forecasts prepared by management, which are consistent with past experience and external sources of information on market conditions over the lives of the respective programmes.
- The key assumptions underlying cash flow projections are assumed market share, programme timings, unit cost assumptions, discount rates, and foreign exchange rates.
- The pre-tax cash flow projections have been discounted at 11 per cent, based on the Group’s weighted average cost of capital.
- No impairment is required on this basis. However, a combination of changes in assumptions and adverse movements in variables that are outside the company's control (eg: discount rate, exchange rate and airframe delays) could result in impairment in future years.

7 Other financial assets and liabilities

	Derivatives						
	Foreign exchange contracts £m	Commodity contracts £m	Interest rate contracts £m	Total £m	Financial RRSPs £m	C Shares £m	Total £m
At December 31, 2010							
Non-current assets	**317**	**18**	**36**	**371**	**-**	**-**	**371**
Current assets	**98**	**10**	**142**	**250**	**-**	**-**	**250**
Current liabilities	**(38)**	**(5)**	**-**	**(43)**	**(39)**	**(23)**	**(105)**
Non current liabilities	**(713)**	**(2)**	**(3)**	**(718)**	**(227)**	**-**	**(945)**
	(336)	**21**	**175**	**(140)**	**(266)**	**(23)**	**(429)**
At December 31, 2009							
Non-current assets	429	11	197	637	-	-	637
Current assets	72	4	4	80	-	-	80
Current liabilities	(56)	(12)	-	(68)	(100)	(13)	(181)
Non current liabilities	(589)	(14)	(2)	(605)	(263)	-	(868)
	(144)	(11)	199	44	(363)	(13)	(332)

Foreign exchange and commodity financial instruments

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

	2010			2009
	Foreign exchange £m	**Commodity £m**	**Total £m**	Total £m
At January 1	**(144)**	**(11)**	**(155)**	(2,270)
Movements in fair value hedges	**7**	**-**	**7**	(33)
Movements in net investment hedges	**-**	**-**	**-**	(14)
Movements in other derivative contracts	**(370)**	**29**	**(341)**	1,835
Contracts settled	**171**	**3**	**174**	327
At December 31	**(336)**	**21**	**(315)**	(155)

Financial risk and revenue sharing partnerships (RRSPs)

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

	2010 £m	2009 £m
At January 1	**(363)**	(455)
Cash paid to partners	**114**	55
Addition	**-**	(15)
Exchange adjustments included in OCI	**2**	6
Financing charge [1]	**(13)**	(26)
Excluded from underlying profit:		
Exchange adjustments [1]	**(6)**	45
Restructuring of financial RRSP agreements and changes in forecast payments [1]	**-**	27
At December 31	**(266)**	(363)

[1] Total charge included within finance in the income statement is £19m (2009 credit £47m). In 2009, £1m of the financing charge was capitalised in intangible assets.

8 Borrowings

The Group's borrowing facilities decreased during 2010, following the maturity of a US$187 million US private placement. In addition, €750m of 4½% Notes become payable within one year.

9 Pensions and other post-retirement benefits

Movements in the net post-retirement position recognised in the balance sheet were as follows:

	UK schemes £m	Overseas schemes £m	Total £m
At January 1, 2010	**(380)**	**(475)**	**(855)**
Exchange differences	**-**	**(11)**	**(11)**
Current service cost	**(118)**	**(34)**	**(152)**
Past service cost	**-**	**(1)**	**(1)**
Interest on post-retirement scheme liabilities	**(375)**	**(56)**	**(431)**
Expected return on post-retirement scheme assets	**374**	**26**	**400**
Contributions by employer	**227**	**55**	**282**
Net actuarial gains/(losses)	**302**	**(145)**	**157**
Movement in unrecognised surplus [1]	**(299)**	**(1)**	**(300)**
Movement on minimum funding liability [2]	**49**	**-**	**49**
Curtailment	**-**	**6**	**6**
At December 31, 2010	**(220)**	**(636)**	**(856)**
Analysed as:			
Post-retirement scheme surpluses - included in non-current assets	**164**	**-**	**164**
Post-retirement scheme deficits - included in non-current liabilities	**(384)**	**(636)**	**(1,020)**
	(220)	**(636)**	**(856)**

[1] Where a surplus has arisen on a scheme, in accordance with IAS 19 and IFRIC 14, the surplus is recognised as an asset only if it represents an unconditional economic benefit available to the Group in the future. Any surplus in excess of this benefit is not recognised in the balance sheet.

[2] A minimum funding liability arises where the statutory funding requirements require future contributions in respect of past service that will result in a future unrecognisable surplus.

10 Contingent liabilities and contingent assets

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.

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 the value that is expected to crystallise. 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 for forecast foreign currency transactions, this amount is reported, together with the sterling equivalent at the reporting date spot rate.

The discounted values of contingent liabilities relating to delivered aircraft and other arrangements where financing is in place, less insurance arrangements and relevant provisions were:

	2010		2009	
	£m	***$m***	£m	*$m*
Gross contingent liabilities	**633**	***991***	704	*1,137*
Contingent liabilities net of relevant security [1]	**121**	***190***	134	*217*
Contingent liabilities net of relevant security reduced by 20% [2]	**200**	***314***	233	*376*
[1] Security includes unrestricted cash collateral of:	**68**	***106***	77	*124*

[2] Although sensitivity calculations are complex, the reduction of the relevant security by 20% illustrates the sensitivity of the contingent liability to changes in this assumption

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.

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, which are yet to be substantiated, received by EPI Europrop International GmbH (EPI) in which the Group is a partner, which is developing the TP400 engine for the Airbus A400M aircraft. As a consequence of the insolvency of an insurer as previously reported, the Group is no longer fully insured against known and potential claims from employees who worked for certain of the Group's UK based businesses for a period prior to the acquisition of those businesses by the Group. 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.

In 2010, the Launch Nations reconfirmed their commitment to the A400M programme; however, the Nations and Airbus remain in final negotiations to modify the existing agreement. EPI and Airbus are simultaneously in negotiations to modify their agreement in support of the A400M. The timing and outcome of these negotiations, and their possible impact on EPI and the Group, therefore remain uncertain. In the event that the programme were cancelled, at December 31, 2010, the Group's balance sheet did not include any net assets that would require impairment (2009 £17m).

In 2010, Rolls-Royce commenced an action in the United States against United Technologies Corporation (UTC), the parent company of Pratt & Whitney, alleging that the GP7200 turbofan engine, UTC's geared turbofan engine, and other UTC turbofan engines infringe Rolls-Royce's swept fan blade patent. A trial is expected be held in late March or early April this year. UTC subsequently commenced proceedings against Rolls-Royce in the United States and in England alleging that Trent 900, Trent 1000 and Trent XWB engines infringe its patent. Judgments in UTC's cases are expected to be handed down between 2012 and 2015.

It is not possible to comment at this stage on the amount of any damages which might be awarded in favour of, or against, Rolls-Royce although an award of damages or the financial effect of other remedies could be material. Rolls-Royce is advised that it has a strong claim against UTC and strong defences in the proceedings brought by UTC.

11 Acquisitions of businesses

On April 7, 2010, the Group acquired 67 per cent of the issued share capital, and obtained control, of ODIM ASA (ODIM). Together with the 33 per cent of the issued share capital already held, this gave Rolls-Royce 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.

	ODIM £m	Other £m	Total £m
Intangible assets - software and other	96	-	96
Property, plant and equipment	24	-	24
Inventory	16	-	16
Trade and other receivables	57	-	57
Cash and cash equivalents	12	-	12
Trade and other payables	(46)	-	(46)
Current tax liabilities	(3)	-	(3)
Borrowings	(1)	-	(1)
Deferred tax liabilities	(32)	-	(32)
Provisions	(2)	-	(2)
Total identifiable assets and liabilities	121	-	121
Goodwill arising	115	3	118
Total consideration	236	3	239
Satisfied by:			
Cash consideration	159	3	162
Existing 33 per cent shareholding	77	-	77
	236	3	239
Net cash outflow arising on acquisition:			
Cash consideration			162
Less: cash and cash equivalents acquired			(12)
Cash outflow per cash flow statement			150
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 December 31, 2010.

The goodwill arising on the acquisition of ODIM amounting to £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 December 31, 2010, amounted to £2m.

The acquisition of the controlling interest in ODIM contributed £205m revenue and £16m loss before tax (including amortisation of intangible assets arising on acquisition) to the Group's results for the period between the date of acquisition and December 31, 2010. If the acquisition of ODIM had been completed on January 1, 2010, the Group's revenues and profit before tax would have been £11,132m and £696m respectively.

Principal risks and uncertainties

The Group has established and implemented a sound risk management structure throughout the business, that supports programme execution, informs decision making and ultimately leads to better business performance.

Business environment

Environmental impact of products and operations

The Group recognises that its products and business operations have an impact on the environment, particularly in relation to climate change. Environmental performance is of great importance to customers and regulators; Rolls-Royce is determined to be part of the solution to these environmental challenges.

Failure to respond proactively to the escalating environmental challenge could result in a dilution of reputation, and ultimately loss of market share to competitors. Product lifecycles may also be shortened, with a consequent impact on the business model.

Mitigation:
- Significant investment in innovative solutions and enhancements for the aviation, marine and energy markets.
- Research and development in low carbon technologies such as nuclear power, fuel cells and tidal energy.
- Governance structure headed by the Environment Council directs and monitors improvements in the environmental performance of the Group's products.

Legislative and regulatory pressures

The Group operates in a highly regulated environment and aims to comply with all relevant statutes. Increasing requirements from domestic and international legislation continue to be experienced; examples include anti-bribery, authorisation of chemicals and substances, and financial regulations, specifically relating to 'over-the-counter' derivatives.

Non-compliance with applicable legislation and regulations would expose the Group to significant financial fines and penalties and may have a damaging effect on its reputation.

Mitigation:
- Establishment of a business-wide compliance structure, focusing on anti-bribery and corruption legislation.
- Enhanced policies and training on Gifts & Hospitality and Commercial Intermediaries for all employees.
- Lobbying to inform and influence the content and implementation of new legislation and regulations.

Significant external events

Events may occur, externally to the business, that could undermine the basis of its operational and financial forecasts. Such events might include terrorism, political change, global pandemic, natural disaster or continued and deeper economic retrenchment.

Such events could lead to a prolonged reduction in demand for transportation, and hence for a proportion of the Group's products and services. There may also be constraints on the Group's ability to conduct its business operations, for example, in the case of disruption to business premises or mobility of personnel.

Mitigation:
- A balanced business portfolio and diversity of global operations mitigate the impact of events in any one market sector or geographic territory.
- A responsive and regularly exercised team for the proactive management of external events ensures that disruptions to the business, and to customers' operations, are minimised.

See also 'IT security' risk.

Strategic

Competitive pressures

The markets in which the Group operates are highly competitive and this competition is increasing as a result of global economic uncertainties. The majority of product programmes are long term in nature and access to key customer platforms, most importantly Airbus and Boeing aircraft programmes, is critical to success. This requires sustained investment in technology, capability and infrastructure, all creating high barriers to entry. However, these factors alone do not protect the Group from competition, including pricing and technical advances made by competitors.

If Rolls-Royce's products, services and pricing do not remain competitive, this could result in the loss of market share, with attendant impact on long-term financial performance.

Mitigation:
- Establishment of long-term customer relationships allows the Group to differentiate its products and services and protect margins in the face of competitive pressures.
- Steady focus on improvement in operational performance, for example through the modernisation of facilities.
- Increased focus on managing the costs of operations and products.
- Sustained investment in technology acquisition, and robust protection of intellectual property (see also 'IT security' risk).

Export controls

Rolls-Royce designs and supplies a number of products and services for the military. Many countries in which the Group conducts its business have legislation controlling the export of specified goods and technology intended or adaptable for military application.

Non-compliance with export controls could impact both programme performance and the Group's reputation. Our ability to conduct business in certain jurisdictions could be revoked if we are non-compliant.

Mitigation:
- Exports Committee, chaired by the Chief Operating Officer, directs strategy and policy on exports.
- Export control managers embedded throughout the business.
- Export controls awareness training.
- Maintenance of the capability to monitor and comply with requirements.

Government spending

The Group conducts activities as a result of government investments, whether through direct sales or support to technology and other programmes. Such spending could be expected to experience continued pressure during a time of global financial uncertainty and budgetary constraint in Europe and the US in particular.

A decrease in governmental spending could have an adverse effect on the Group's future performance. For example, asset usage and/or flying hours could reduce across military fleets impacting aftermarket revenues. Reduction in technology investment programmes could delay product development and introduction.

Mitigation:
- Development of a diversified portfolio of products and services to various markets and regions.
- Proactive lobbying for research and technology funding.
- Focus on performance to achieve commitments under current contracts.

Global resource capability

Rolls-Royce's position at the forefront of technology and innovation, and its commitment to delivering significant volumes of business to its customers, demand that we maintain world class capabilities in all core resource groups, particularly management. Demographic trends, the UK immigration cap and limited supply of appropriately educated and skilled personnel in Science, Technology, Engineering & Mathematics subjects exacerbate this risk.

Failure to grow the Group's resource capability to the necessary levels whilst maintaining world-class quality, would adversely impact delivery of customer programmes, threaten our reputation and stifle opportunities for future innovation and growth.

Mitigation:
- Significant investment in resourcing and capability infrastructure, notably in the transformation of the Human Resources function.
- Comprehensive systems in place for the development of individuals' competencies and the objective assessment of performance, linked to reward.
- The Group lobbies on the implications of the UK immigration cap, whilst managing the situation under the interim arrangements announced in 2010.

Financial

Counterparty credit risk

Rolls-Royce works with various counterparties including financial institutions, customers, joint venture partners and insurers. Counterparty failure is recognised as a principal risk driven mainly by the economic uncertainties and pressures in the current environment.

Cash and profit margins could be impacted in the short term, although the Group has built a strong balance sheet to protect itself from the impact of individual defaults.

Mitigation:
- Established policy for managing counterparty credit risk.
- Common framework to measure, report and control exposures to counterparties across the Group using value-at-risk and fair-value techniques.
- Internal credit rating assigned to each counterparty, assessed with reference to publicly available credit information and subject to regular review.

Currency risk

The Group is exposed to movements in exchange rates for both foreign currency transactions and the translation of net assets and income statements of foreign subsidiaries. The Group regards its interests in overseas subsidiary companies as long-term investments. The Group is exposed to a number of foreign currencies; the most significant being USD to GBP and USD to EUR.

Fluctuations in exchange rates to which the Group is exposed could adversely affect operational results or the outcomes of financial transactions.

Mitigation:
- Hedging policy, using a variety of financial instruments, to minimise the impact of fluctuations in exchange rates on future transactions and cash flows.
- Translational exposures managed through the currency matching of assets and liabilities, where applicable.
- Risks reviewed regularly, and appropriate risk mitigation performed where material mismatches arise.

Credit rating

As a long-term business, the Group attaches significant importance to maintaining a sound investment grade credit rating, which it views as necessary for the business to operate effectively.

Downgrading of the Group's credit rating would inhibit its ability to secure funding, hedge forward or provide vendor financing, reducing and impacting cash, profit, and reputation.

Mitigation:
- The Group has developed a strong financial risk profile and continues to improve the business risk profile.

Operational

Supply chain performance

The Group's products and services are delivered through the effective operation of its facilities and key capabilities, including its supply chain. Success in strengthening our market position and our presence on a number of high profile civil and defence aerospace programmes, together with a growing marine business, places increased demands on the performance of the supply chain. There is an ongoing exposure to the price of base metals, arising from business operations.

Significant supply chain disruption, and failure to deliver parts on time or to committed costs and quality, would undermine the assumptions within business cases, adversely impacting profit and cash. Consequent damage to reputation could also hinder our ability to win future business.

Mitigation:
- Investment in developing world-class manufacturing processes in Asia, North America and Europe.
- Well-established business continuity management process that focuses on critical facilities, activities, processes, skills and suppliers. Significant progress in dual sourcing in these areas.
- Increased focus on understanding and addressing sources of risk arising in the external supply chain, particularly those associated with financial instability.
- Comprehensive programme of business interruption insurance.
- Policies to hedge the price of selected base metals.

Ethics

The Group recognises the benefits derived from conducting business in an ethical and socially responsible manner. This approach extends from the sourcing of raw materials and components to the manufacture and delivery of products and services in all of its global locations and markets. It applies to the provision of a safe and healthy place of work and investment in technologies to reduce the environmental impact of our products and operations.

Shortcomings in the Group's business conduct would result in significant financial penalties, disruption to our business and/or have a damaging effect on our reputation.

Mitigation:
- Ethics Committee established to oversee and maintain the highest ethical standards.
- Global Code of Business Ethics, in 16 languages, issued to all employees supported by a training and engagement programme to improve awareness of the Group's values.
- Global telephone and internet channels are available for employees to report in confidence any concerns regarding potentially unethical behaviours.

See also 'Environmental impact of products and operations' risk.

Programme portfolio

The Group manages complex product programmes with demanding technical and volume requirements against stringent, and sometimes fluctuating, customer schedules. This requires co-ordination of the engineering function, manufacturing operations, the external supply chain and other partners.

Failure to achieve programme goals would have significant financial and reputational implications for the Group, including the risk of impairment of the carrying value of the Group's intangible assets and the impact of potential litigation.

Mitigation:
- Continuous improvement of all processes and project management controls to ensure both technical and business objectives are achieved.
- All major programmes subject to approval and regular review by the Board, with particular focus on the nature and potential impact of emerging risks and the effective mitigation of previously identified threats.

IT security

The continuing globalisation of the business and advances in technology have resulted in more data being transmitted internationally, posing an increased security risk.

A breach of IT security may result in controlled data or intellectual property being lost, corrupted or accessed by non-authorised users. Adverse impacts upon operational effectiveness, compliance with legislation or the reputation of the Group might arise.

Mitigation:
- Continual upgrading of security equipment and software, and deployment of a multi-layered protection system that includes web gateway filtering, firewalls and intruder detection.
- Additional specialist resources committed.
- Active sharing of information through industry and government forums.

Product Performance

The Group strives to deliver world-class products that are safe and reliable, focusing attention on product design, robust quality and processes, pre-service maturity and in-service management. Safety is the Group's highest priority.

Deteriorations in product safety could significantly affect the Group's reputation, and ultimately lead to a loss of business. Shortfalls in performance at entry into service or through life could lead to penalties or additional costs in the aftermarket, and would degrade the business cases upon which revenues are forecast.

Mitigation:
- The Group operates, and will continue to operate, in a 'safety first' culture.
- Ongoing actions and activities being driven to improve maturity at entry-into-service.
- Continuing engineering focus on improvements to product reliability and service lives.

Proposed arrangements for the creation of a new holding company

Rolls-Royce Group plc is proposing a change to its corporate structure in order to generate appropriate reserves which will allow it to continue its progressive shareholder payment policy and the Group's practice of providing cash returns to shareholders in the most efficient manner through the issue and redemption of C shares. The restructuring proposals will create a new non-trading Group holding company, New Holdco, which will be incorporated under the laws of England and Wales and have a premium listing on the London Stock Exchange's ("LSE") main market for listed securities. The new corporate structure will be implemented by means of a Scheme of Arrangement (the Scheme) under Part 26 of the Companies Act followed by a reduction of capital of New Holdco. Under the terms of the Scheme, shareholders will exchange ordinary shares in Rolls-Royce Group plc for shares in New Holdco on a one for one basis. The Scheme will provide greater flexibility in the capital structure of the Group and provide distributable reserves to New Holdco. Approval will be sought from shareholders for these proposals at the time of the Group's Annual General Meeting on May 6, 2011 and the Scheme will also require the sanction of the High Court. Further details of the Scheme will be provided in due course.

Annual report and financial statements

The statements below have been prepared in connection with the Company's full Annual report for the year ended December 31, 2010. Certain parts thereof are not included with this announcement.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position and a summary of the principal risks affecting the business are set out in the business review. The financial position of the Group, its cash flows, liquidity position, borrowing facilities and financial risks are described in the business review. In addition, the consolidated financial statements include the Group's objectives, policies and processes for financial risk management, details of its cash and cash equivalents, indebtedness and borrowing facilities and its financial instruments, hedging activities and its exposure to counterparty credit risk, liquidity risk, currency risk, interest rate risk and commodity pricing risk.

The Group meets its funding requirements through a mixture of shareholders' funds, bank borrowings, bonds, notes and finance leases. The table in the Finance Director's review shows the maturity profile of the Group's outstanding debt facilities; a total of £567million is due to expire in 2011. The Group has a further £450 million of term funding available that is currently undrawn.

The Group's forecasts and projections, taking into account reasonably possible changes in trading performance, show that the Group has sufficient financial resources. As a consequence the directors have a reasonable expectation that the Company and the Group are well placed to manage their business risks and to continue in operational existence for the foreseeable future, despite the current uncertain global economic outlook. Accordingly, the directors continue to adopt the going concern basis in preparing the consolidated financial statements.

Responsibility statement

Each of the persons who is a director at the date of approval of this report confirms that to the best of his or her knowledge:

i) each of the Group and parent company financial statements, prepared in accordance with IFRS and UK Accounting Standards respectively, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer and the undertakings included in the consolidation taken as a whole; and

ii) the Directors' report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Sir John Rose	Andrew Shilston
Chief Executive	*Finance Director*
February 9, 2011	February 9, 2011