N E W S   R E L E A S E

February 11 2010

ROLLS-ROYCE GROUP plc
2009 PRELIMINARY RESULTS

Group Highlights

- Order intake of £13.4bn resulted in a record order book at the year-end of £58.3bn (2008 £55.5bn).

- Group revenues increased to £10,414m (2008 £9,082m). Revenues on an underlying basis* increased by 11 per cent to £10,108m. Services revenues increased by four per cent to £4,927m on an underlying basis.

- Profit before financing was £1,172m (2008 £862m).

- Underlying profit before taxation* increased by four per cent to £915m (2008 £880m).

- Strong financial position

    - Average net cash for the period improved by £260m to £635m (2008 £375m).
    - Robust balance sheet with net cash of £1,275m at the period end (2008 £1,458m).
    - No major changes in pension cash funding requirements.

- Proposed final payment to shareholders of nine pence per share, an increase of five per cent over 2008, bringing the full year payment to 15 pence per share.

* see note 1 on page 22

Sir John Rose, Chief Executive, said:

"Rolls-Royce has delivered a solid set of results despite difficult trading conditions. This demonstrates the resilience of our business.

"Our record order book, the breadth of the portfolio across all four sectors, our strong balance sheet and the early action we have taken to reduce costs will enable us to manage short-term difficulties and deliver long-term growth. These fundamental strengths give us the confidence to increase the final payment to shareholders by five per cent.

"In 2010 we expect underlying revenues and profits to be broadly similar to those achieved in 2009".

Group Overview

Resilient performance:

Rolls-Royce continued to make solid progress in 2009 despite difficult trading conditions. The order book (£58.3bn), underlying revenues (£10.1bn) and underlying profit before tax (£915m) all increased. The Group has a strong financial position with average net cash balances improving by £260m to £635m.

In 2009 the business was affected by the global economic downturn and by continued delays in a number of major programmes. These include the Airbus A380, the Boeing 787 and the Airbus A400M military transport aircraft. The Group continued to focus on increasing productivity and efficiency across the business, both to improve the long-term competitive position and to mitigate the effects of the recent global downturn.

The economic environment remains challenging and it seems likely that world growth will be slower in the years ahead than it has been in the past decade. However Rolls-Royce will benefit from its ability to access the world's faster growing markets where there continues to be demand for investment in transport and infrastructure.

Our success in winning new customers and orders, the breadth and mix of our product and service portfolio and the financial performance of the Group all demonstrate the increasing resilience of our business. Revenues generated from outside civil aerospace continued to grow strongly comprising 56 per cent of revenues in 2009. This was driven by increases of 19 per cent and 17 per cent respectively in our defence and marine segments, and 36 per cent growth in our energy business where revenues exceeded £1bn for the first time.

A consistent strategy:

Ours is a long-term business. Over the last decade the disciplined application of our strategy has delivered a better balanced and more resilient performance. We have expanded our portfolio significantly, and improved market share in all our four markets. This has led to a more than four fold increase in the order book, and a far better mix and balance of our revenues. Group revenues have grown at an average rate of eight per cent a year with profit before tax growing by close to ten per cent a year, causing both to more than double since 1999.

During the same period we have become less dependent on our traditional markets of Europe and North America. These geographies, which accounted for approximately 70 per cent of our revenues in 1999, represent 66 per cent of our revenues today. This trend is set to continue as almost half of the Group's order book now relates to business in Asia, the Middle East and South America. Around half our revenues today come from services, compared to 40 per cent a decade ago. This represents an annual growth in services of around ten per cent.

We have become a much more international company, with new manufacturing and service facilities spread across five continents. These changes helped deliver good results in 2009 and we believe will ensure another robust performance in 2010.

2009 has been a remarkable year in which we celebrated the first flight of six new types of aircraft powered by Rolls-Royce engines – the Boeing 787, Gulfstream G650, Airbus A400M, Embraer Legacy 650, the BAES MANTIS UAV and the Lynx Wildcat helicopter. Early in 2010 the short take-off and vertical landing (STOVL) version of the F-35 Lightning II Joint Strike Fighter Lightning (JSF) deployed the unique Rolls-Royce LiftSystem™ for the first time.

This rate of new product introduction is at an unprecedented level with more entirely new aircraft taking to the skies in just three months than in the previous five years. These new product introductions combined with the volatility in load during 2009 created significant capacity challenges which were well managed by the company and our supply chain. Our abilities to meet these challenges are the direct consequence of a decade of investment and innovation.

In the marine market, in 2009 we saw the US Navy's Littoral Combat Ship complete sea trials ready for active duty in 2010, as well as the first sailing of the Royal Navy's Astute class submarine and the commissioning of the Royal Navy's first Type 45 Destroyer, HMS Daring.

All these aircraft and vessels are powered by Rolls-Royce and are expected to enter active service in the next few years. Each of these programmes has a lifespan of 40 years or more, giving us exceptional visibility of future original equipment and service revenues. Our continuing level of targeted investment supports these programmes as well as the further expansion of our portfolio. This includes programmes such as the Trent XWB engine which will run for the first time in 2010, and the LiftSystem for the JSF which is already undergoing flight tests. Our strong market positions, supported by the entry into service of these major new programmes, reinforce our belief that revenues will double in the next ten years, just as they have in the last decade.

The balance of the business we have today, our operational performance and our prospects for long-term growth provide the Board with the confidence to increase the payment to shareholders by five per cent to nine pence per share, a total of 15 pence per share for the year.

Strong financial position:

Average net cash balances were £635m for the year, and year-end cash balances were almost £1.3bn. Debt maturities are well spread and were extended further during 2009 with the successful issue of a 10-year £500m GBP bond designed to refinance a maturing obligation in 2011.

The year-end IAS 19 valuation of the Group's pension schemes revealed a modest deterioration in the net deficit to £855m. This is primarily a function of the return to more normal levels of the benchmark AA Corporate discount rate upon which this valuation is based.

More important was the completion of the triennial actuarial valuation of the Group's largest UK pension scheme which represents around two-thirds of the Group's forecast liabilities. This confirmed that there will be no change to funding requirements in 2010. This demonstrates the benefits of the early action taken to amend the terms of the scheme and to adopt an investment strategy that reduces volatility.

Despite challenging financing markets and a strong year for aircraft and engine deliveries there has been no significant change in the outstanding amount of financial or contingent support to customers.

Strengthening productivity, and investing for long-term growth:

We have maintained our focus on costs and improving operational efficiency. This is demonstrated by a further improvement in underlying revenue per employee which increased last year by ten per cent to £233,000[1]. We have improved this key metric every year for more

[1] Revenue per employee is stated on a three year rolling average basis

than a decade. During this time we have doubled our revenues whilst employing 2,000 fewer people.

As our market share and the scale of the aftermarket grows, and as major new programmes move into serial production, it remains crucial that we continue to invest to meet our customer's needs. In 2009 we expanded our global services network with six new marine service centres in the USA, Brazil, Canada, UAE and Italy. We also expanded two civil overhaul bases in Asia. Looking forward we announced investments in new world-class facilities in the UK, Singapore and the USA. These will come on line over the next three years to meet demand and to improve operational effectiveness.

The Group's ability to identify and pursue new options for global growth is further illustrated by two developments in the year. In July the Marine business broadened its involvement in the offshore oil and gas sector by taking a 33 per cent shareholding in ODIM ASA. Further progress has been made in the Group's civil nuclear business with the announcement that Rolls-Royce will build a new civil nuclear manufacturing facility, and will take the leading role in the UK Government-supported Nuclear Advanced Manufacturing Research Centre.

Over the last decade Rolls-Royce has invested more than £2.7bn in capital expenditure including new facilities, plant and equipment. This includes more than £1.8bn to upgrade its UK operations.

Trading Summary:

The broad portfolio of products and services that the Group delivers, an improving market position and access to a broad global customer base helped secure orders worth £13.4bn in 2009. At the year-end the order book reached £58.3bn, approximately £16.5bn of which relates to service contracts.

Revenues increased by 15 per cent to £10.4bn. This strong performance was aided by weaker average GBP exchange rates, mainly against the USD and Euro. Underlying revenues improved by 11 per cent, with double digit increases in all divisions other than civil aerospace where revenues were stable.

The Group maintained its foreign exchange hedging policy and increased the hedge book over the year to $18.8bn, with an average rate of $1.63. Better rates locked into the hedge book provide visibility of improving rates over the next few years. Underlying profits in 2009 benefited by around £71m from improving exchange rates. This was made up of £16m from a one and a half cent improvement in the achieved rate, and a further £55m from translation benefits on overseas businesses, mainly in the Civil aerospace and Marine segments. 2010 achieved rates are expected to improve by between six and nine cents compared to the 2009 levels.

Unit costs of our gas turbine products increased by around three per cent. This reflects the continuing effect of operational volatility caused by programme delays and difficult trading conditions and increased commodity costs. In the Marine business, which is less focused on gas turbine products, unit costs reduced modestly in the year. In the year ahead we expect unit costs to be relatively flat.

Investment in research and development was £864m (2008 £885m), of which the Group funded around 55 per cent (£471m). The charge to the income statement declined slightly for the full year, by £24m to £379m. This was partly a function of lower cash spend, but also due to a small increase in the net level of spend capitalised in the period. The charge in 2010 is expected to increase by around £35m as more engineering time focuses on early stage programmes, such as the Trent XWB, on which research and development spending is charged rather than capitalised.

Underlying profit before tax, which excludes the non-cash impact of the hedge book and other financial instruments, increased by four per cent to £915m (2008 £880m). This growth in profit reflected a significant increase in original equipment and a more modest growth in services revenues, along with lower R&D, lower restructuring charges and improved foreign exchange rates. It also took account of increased unit costs, and the higher financing costs resulting from the new GBP bond issued in April 2009.

The Group's reported profit before tax of £2,957m includes the effects of "mark-to-market" of its financial instruments, for which hedge accounting is not adopted. This effectively reverses much of the revaluation reported in the second half of 2008. The impact of mark to market is included within net financing in the income statement (see note 2 on page 24).

The underlying tax charge of £187m benefited from a one-off £35m credit following the successful completion of overseas tax audits and changes in legislation. This resulted in a reduction in the underlying tax rate to 20.4 per cent. The 2010 tax rate is expected to return to a more normal 24 per cent effective rate.

The Group reported a net cash outflow of £183m for the period: £141m of this was caused by the revaluation of currency balances at the end of the period. The remaining outflow reflected the combined effects of an increase in profits, a £50m increase in payments to shareholders, a slow-down in order flow and associated customer deposits, slightly increased net financial working capital and significant investment in the business. The Group invested £76m in adding capability through acquisitions in the year. This included £71m to acquire a 33 per cent holding in ODIM ASA, a Norwegian company involved in the offshore oil and gas sector.

The Group expects a modest cash outflow in 2010, reflecting a further slowdown in customer deposits, increased investment in capacity and capability and increased payments to shareholders in the period.

Basic earnings per share were 120.38p (2008 loss of 73.63p), reflecting the mark-to-market adjustments above, with underlying earnings per share increasing by eight per cent to 39.67p (2008 36.70p), partly reflecting an improved tax rate.

Group prospects:

Rolls-Royce benefits from the disciplined application of a long-term strategy. This has given us a broad, well balanced portfolio and a strong financial position.

Long-term growth is underpinned by a strong market position, a record number of major programmes, new service facilities and our expanded aftermarket service propositions. We expect these factors to lead to a doubling of revenues over the next ten years.

In the short-term the Group expects the trading environment to remain difficult, with some continuing demand and operational uncertainty. The Group expects underlying revenues, underlying profits and average net cash in 2010 to be broadly similar to those achieved in 2009 with a modest cash outflow in the year.

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An interview on the results with Rolls-Royce Chief Executive, Sir John Rose, is available on video, audio and text on www.rolls-royce.com and www.cantos.com. For news desks requiring visual material, photographs are available at www.rolls-royce.com and news broadcasters requiring broadcast-standard video can visit www.thenewsmarket.com/rolls-royce. If you are a first-time user, please take a moment to register. In case you have any questions, please email journalisthelp@thenewsmarket.com.

A copy of this report in Portable Document Format (PDF) can be downloaded from the investors section of the website at www.rolls-royce.com.

REVIEW BY BUSINESS SEGMENT[2]

Civil aerospace

	2009	2008
Order book (£bn)	**47.0**	43.5
Engine deliveries	**844**	987
Underlying revenues (£m)	**4,481**	4,502
Underlying services revenues (£m)	**2,626**	2,726
Underlying profit before financing (£m)	**493**	566

The Civil aerospace business made considerable progress in 2009 with major technical and commercial milestones achieved on a number of programmes. However, volatile trading conditions and the continuing effects of major programme delays impacted performance. The civil portfolio benefits from having a large, broad-based and relatively young fleet of engines which helped mitigate some of the consequences of the global downturn in the period.

Three new Rolls-Royce powered civil aircraft flew for the first time during 2009. The Boeing 787, Gulfstream G650 and the Embraer Legacy 650 all completed first flights and will enter service progressively over the next three years further expanding the portfolio, market share and underpinning long-term growth.

The order book grew to £47bn at the end of 2009 with orders totalling £9.4bn in the year. This included contracts and announcements for 178 V2500 engines and 236 Trent engines for the Trent 700, Trent 1000 and Trent XWB programmes, including new customers from Turkey, Ethiopia and the US.

The Trent 700 and Trent XWB passed important programme milestones during the year, with each achieving orders of more than 1,000 engines. It is significant that the new Trent XWB has taken just five years to reach this landmark, a quarter of the time it took the Trent 700 to achieve this level of orders. The Trent order book now includes more than 2,400 engines across six programmes – most due for delivery in the next 5~10 years. This order book, together with more than 1,600 engines delivered in the previous 15 years, underpins the long-term growth of the civil fleet over the next decade.

The trading environment remained difficult throughout 2009. Reduced flying hours, deferred support requirements by our customers and the continuing effects of delays to major new airframe programmes impacted segments of the aerospace market differently. However, revenues were stable at £4.5bn for the year, demonstrating the resilient characteristics of the portfolio.

Total engine deliveries for the year were 844, 143 lower than in 2008. There was a shift in mix towards Trent engines for the widebody and away from the corporate and regional sector. A record 224 Trent engines were delivered in the year with strong growth of the Trent 700 for the Airbus A330 underpinning a record year. In the narrow-body market the V2500 remained resilient with deliveries of 347 units, similar to 2008. This included the delivery of the 4,000th engine on this programme over the past 25 years. Corporate and regional deliveries were 39 per cent lower at 272 engines. Despite delivering fewer engines in 2009, the delivered installed thrust, at 25 million lbs, was similar to 2008. The move to larger engines supported an increase of four per cent in original equipment revenues.

[2] Commentaries relate to underlying revenues and profits unless specifically noted

An increasing proportion of new engine deliveries include long-term service contracts (TotalCare™ and CorporateCare™). More than 90 per cent of the last three years of Trent engine announcements include TotalCare. Today 76 airlines, including 40 of the top 50, benefit from our TotalCare proposition. These contracts are an important driver of long-term service revenue growth and give us greater visibility of future workloads. These trends continued in 2009 and supported further growth in revenues from engines operated under long-term contacts. However, service revenues from engines maintained on more discretionary time and material arrangements were lower in 2009. This reflects customer actions to delay non-essential maintenance activities reducing the number of engine overhauls and the scope of service. As a consequence, overall service revenues declined by four per cent compared to 2008.

The total number of parked aircraft remained stable over 2009 at around 2,700. Of these around 465 were powered by Rolls-Royce. The main Rolls-Royce programmes affected were the fleet of AE3007 powered Embraer 135 and 145 type regional aircraft, with around 100 powered by Rolls-Royce.

Reduced R&D charges, increased fee income from Risk and Revenue Sharing Partners (RRSP's) and favourable foreign exchange effects were more than offset by a weaker original equipment mix, reduced services revenues and increased unit costs. This resulted in lower reported margins and profits in the period.

Civil aerospace outlook

Air travel and airfreight remain at subdued levels. Although there are some signs of improvement in traffic, the sustainability of these trends is uncertain.

In 2010 further detrimental mix changes in revenues are expected as new programmes commence delivery with the consequent impact of launch costs. Services revenues are expected to increase by around ten per cent in 2010, partly benefiting from improved foreign exchange achieved rates. Increased charges from R&D are expected because of the higher activity levels associated with these early phase programmes, such as the Trent XWB. Improved GBP~USD achieved rates will help mitigate some of these effects.

As a result underlying profits are expected to be modestly lower in 2010 than in 2009.

Defence aerospace

	2009	2008
Order book (£bn)	**6.5**	5.5
Engine deliveries	**662**	517
Underlying revenues (£m)	**2,010**	1,686
Underlying services revenues (£m)	**1,046**	947
Underlying profit before financing (£m)	**253**	223

The Defence aerospace portfolio is characterised by its large installed fleet of engines across a broad range of applications and geographies in support of more than 160 customers in 103 countries.

A number of new programmes helped to further extend the portfolio in 2009. Three Augusta Westland helicopters, including the Lynx Wildcat, flew for the first time, all powered by the CTS800. In addition, the BAES MANTIS UAV, powered by the Model 250, and the Airbus A400M military multi-role aircraft, powered by the TP400, both flew for the first time in 2009. In the first few days of 2010 the Rolls-Royce LiftSystem™ on the JSF was successfully engaged for the first time in flight.

There is continuing uncertainty about the A400M programme. However, the TP400 engine has made good progress, with engine flight test results to date being encouraging. We believe that our estimated costs of completion adequately consider the remaining testing and delivery phases.

Investment in technology for the defence markets continued through 2009. Rolls-Royce was awarded funding under more than 20 different technology programmes from the U.S. Department of Defense (DoD) including the second phase of the ADVENT programme. This phase will include the integration of a variety of advanced technologies, component-testing culminating in the development of a new technology demonstrator engine. The demonstrator is designed to reduce fuel consumption significantly, enabling extended mission duration. This advanced engine is targeted for future U.S. military aerospace platforms.

The business continued to make good progress in 2009 with the order book growing strongly to £6.5bn. Orders of almost £3bn in the year included more than £1.7bn in service contracts.

A 28 per cent increase in engine deliveries, driven primarily by engines for the transport sector including the C130-J and V-22 Osprey, supported a 30 per cent increase in original equipment revenues. Services revenues increased by ten per cent, reflecting the utilisation of the large installed fleet and foreign exchange translation benefits.

In the military transport sector, engine contracts worth more than $720m for the V-22 Osprey covering delivery and in-service support were signed in the year, providing further evidence of the success of this programme.

In the combat sector, engine contracts worth more than £1.2bn for Tranche III Eurofighter production and an innovative 10-year service and support contract with the UK Ministry of Defence were signed. As in previous years, funding for the F136 engine contract, to power the JSF, remained uncertain. It was pleasing that funding for 2010 was ultimately confirmed although risks to 2011 funding remain.

Margins deteriorated slightly in 2009 as higher unit costs and one-off charges more than offset strong revenue growth and improvements from better USD translation rates. Despite this, a 13 per cent improvement in profits was a strong result in a challenging year.

Defence aerospace outlook

The expansion of the portfolio, the strong positions in military transport and access to a global customer base leave the defence portfolio well positioned to access growing markets. These factors provide resilience in an uncertain budgetary environment.

The defence portfolio remains well positioned to deliver a solid performance in 2010 with revenues and profits expected to be similar to those in 2009.

Marine

	2009	2008
Order book (£bn)	**3.5**	5.2
Underlying revenues (£m)	**2,589**	2,204
Underlying services revenues (£m)	**785**	712
Underlying profit before financing (£m)	**263**	183

The Marine business has continued to perform well, with further strong revenue and profit growth despite a challenging trading environment. £1.2bn of new orders were booked in the year. Modest cancellations of £385m and a further year of strong revenue growth caused the year-end order book to decline to £3.5bn.

The offshore oil and gas sector remains encouraging, with continued deepwater developments in a number of major offshore locations. These include Brazil, West Africa and Russia. The market for specialist vessels continues to offer good opportunities.

A number of important milestones were achieved during the year. The Littoral Combat Ship (LCS) completed sea trials, the WR21 powered Type 45 Destroyer entered service with the Royal Navy and the nuclear powered Astute class submarine progressed to its commissioning phase. In addition the Far Samson, the world's most powerful offshore vessel, designed and equipped by Rolls-Royce, entered service.

The Group continued to expand its network of service centres with six new facilities opened in Seattle, Galveston, Newfoundland, Rio de Janeiro, Genoa and Dubai and with a new customer training facility being developed in Norway.

Market leading positions in the offshore oil and gas sector were further extended with the acquisition of a 33 per cent holding in ODIM ASA, a specialist in marine handling systems.

Rolls-Royce and Royal Caribbean Cruises have settled the lawsuit regarding the Mermaid podded propulsion system which experienced technical issues that have been resolved. The costs and settlement of this claim were partially covered by provisions carried forward from prior years and had no significant effect on 2009 trading performance.

2009 saw strong growth in both original equipment revenues, which increased by 21 per cent, and service revenues, up by ten per cent. Services growth reflected the increasing installed base of equipment and the expanding service network.

Margins and profitability made progress in the year. A combination of better operational performance, lower input costs and more favourable contract pricing all contributed to a strong improvement in margins to more than ten per cent for the year, and a 44 per cent increase in underlying profits.

Marine outlook

The order book remains strong, despite a slow down in new order activity. Marine's market leading position in the offshore sector, demand for high specification vessels and the opportunity to continue to develop services provide good visibility of performance. In 2010 revenues and profits are expected to be similar to those in 2009.

Energy

	2009	2008
Order book (£bn)	**1.3**	1.3
Engine deliveries	**73**	64
Underlying revenues (£m)	**1,028**	755
Underlying services revenues (£m)	**470**	370
Underlying profit/(loss) before financing (£m)	**24**	(2)

Energy made solid progress in 2009, despite reduced demand and difficult financing conditions in the oil & gas and power generation markets. Improvements in operational performance were accompanied by exceptional revenue growth in the period. We continued to invest in low carbon technologies, including the tidal power demonstrator and the new civil nuclear business.

Despite the challenging environment, order intake of £0.9bn in the period enabled the order book to remain resilient at £1.3bn at the end of 2009. Revenues increased by 36 per cent and exceeded £1bn for the first time.

In the main, oil and gas companies continued to move ahead with substantial investment plans, albeit more cautiously than in previous years. The progress of new power generation programmes has slowed because of a lack of affordable project finance and lower demand for electricity.

Order growth in prior years and improved USD translation rates helped Energy deliver a 45 per cent improvement in original equipment revenues, with both oil and gas and power generation contributing.

The Group’s oil and gas activity has remained particularly robust, and a growing installed base and high utilisation rates contributed to a 27 per cent increase in service revenues across the oil & gas and power generation markets.

The Group continues to focus on improving operating performance and has invested in new assembly facilities and test beds to support both improved execution and future load growth.

In low carbon technology programmes, the tidal power demonstrator project in the Pentland Firth, Scotland is expected to commence trials within the next year. Ongoing development of the fuel cell technology programme continued with investment at a lower level than in prior years.

The Group’s civil nuclear ambitions made progress through 2009 as we continued to expand the civil nuclear team. Rolls-Royce announced that it will lead a UK Government-supported Nuclear Advanced Manufacturing Research Centre, and will develop a new UK based manufacturing facility.

As a result of strong growth in revenues, improving operational performance and reduced investment in fuel cells, profitability improved by £26m in the period.

Energy outlook

Improved operational performance and reduced investment in new programmes will cause profits to approximately double in 2010.

Financial Review – 2009 Performance

Foreign exchange:

The pace and extent of currency movements had a material effect on the Group's reported financial performance in 2009, with the GBP exchange rates against the USD and the Euro having the largest effect. These movements have influenced both the reported income statement and the cash flow and closing net cash position (as set out in the cash flow statement) in the following ways:

1. Income statement – the most meaningful impact was the period-end mark-to-market of outstanding financial instruments (foreign exchange contracts, interest rate, commodity and jet fuel swaps). The principal adjustments related to the GBP~USD hedge book.

The principal spot rate movements in the year were as follows:

	Jan 1 2009	**Dec 31 2009**
GBP ~ USD	£1~$1.438	£1~$1.615
GBP ~ Euro	£1~€1.034	£1~€1.126

The average rates throughout the year were:

	FY 2008	**FY 2009**
GBP ~ USD	£1~$1.854	£1~$1.566
GBP ~ Euro	£1~€1.258	£1~€1.123

The impact of the period-end mark-to-market on all of the outstanding financial instruments is the principal element included within net financing income in the income statement of £1,785m (2008 £2,754m net financing charge), contributing to a published profit before tax of £2,957m (compared to a loss before tax of £1,892m in 2008). These adjustments are non-cash accounting adjustments required under IAS 39 and do not, therefore, reflect the underlying trading performance of the Group for the period.

Underlying profit before tax of £915m benefited from £71m of foreign exchange benefits compared to 2008. The achieved rate on selling net USD income was around one and a half cents better in 2009 than 2008, contributing £16m of transactional benefits. In addition, the improvement in the average GBP~USD and GBP ~ Euro exchange rates, 29 and 14 cents respectively, contributed translation benefits totalling £55m to underlying profit before tax in the year.

2. Balance sheet and cash flow – The Group maintains a number of currency cash balances which vary throughout the financial year. Given the movements in foreign exchange rates in the period, a number of these cash balances were impacted by the stronger GBP exchange rates at the period-end, causing a reduction of £141m in the periodic cash flow and hence the closing balance sheet cash position.

Income statement:

The firm and announced order book, at constant exchange rates, was £58.3bn (2008 £55.5bn) after reflecting new order intake of £13.4bn in the period. Aftermarket services included in the order book totalled £16.5bn (2008 £14.5bn).

Revenues increased by 15 per cent, compared with 2008, to £10,414m. Revenues on an underlying basis grew by 11 per cent. Payments to industrial RRSPs, charged in cost of sales, amounted to £231m (2008 £268m).

Gross research and development investment was £864m (2008 £885m). Net research and development investment, charged to the income statement was £379m (2008 £403m) after net capitalisation of £92m (2008 £87m) on development programmes in the period. Receipts from RRSPs in respect of new programme developments, shown as other operating income, were £89m (2008 £79m), as key partners joined major new programmes, primarily the Trent XWB.

Restructuring costs of £55m (2008 £82m) were charged, reflecting the ongoing reduction in headcount and improvement programmes designed to improve future operational performance.

Underlying profit margins before financing fell by approximately 0.3 per cent to 9.7 per cent in the period, reflecting strong growth in lower margin original equipment and an increase in unit costs of around three per cent relative to 2008, partially offset by both transactional and translational foreign exchange benefits of £71m.

Net financing income was £1,785m (2008 charge of £2,754m) including the effects of mark to market revaluations. Underlying finance costs increased to £68m (2008 £39m), reflecting lower interest rates on cash deposits and increased funding costs associated with the £500m GBP bond issued in 2009.

Underlying profit before tax was £915m (2008 £880m). Underlying earnings per share increased by eight per cent, to 39.67p (2008 36.70p) (see note 3 on page 25).

The income statement tax charge of £740m (2008 credit of £547m), reflects the large mark-to-market gain caused by the revaluation of various financial instruments at the period end. The taxation charge on an underlying basis was £187m (2008 £217m), representing 20.4 per cent of underlying profit before tax. The underlying rate benefited from the settlement of certain overseas tax audits and is affected by the geographical mix of profits, changes in legislation and the benefit of research and development tax credits. The 2010 full year underlying tax rate is expected to be around 24 per cent.

Balance sheet:

Investment in intangibles during the period was £342m (2008 £393m) and included £123m (2008 £97m) for recoverable engine costs, £121m (2008 £113m) for capitalised development costs and a further £66m (2008 £55m) for certification costs and participation fees.

The continued development and replacement of operational facilities contributed to a total investment in property, plant and equipment of £291m (2008 £283m). Overall investment in tangible and intangible assets for the full year 2010 is expected to be similar to 2009.

The overall net position of assets and liabilities for TotalCare packages on the balance sheet was an asset of £970m (2008 £848m). The movements reflect new agreements, timing of overhauls and changes in foreign exchange rates.

Provisions were £442m (2008 £369m), including increased provisions against warranties and guarantees reflecting increased volumes. Provisions carried forward in respect of potential customer financing exposure were similar to 2008 at £71m.

Cash flow:

Working capital increased by £78m during the period. Lower inventory levels, reduced by £119m, partially offset financial working capital which increased by £197m.

Cash outflow in the period of £183m (2008 inflow £570m) included a £141m outflow (2008 £439m benefit), relating to the period end revaluation of foreign currency cash balances.

Cash flow for the period was £173m lower than 2008, excluding the effects of period end revaluations. The main changes from 2008 included increased cash payments to shareholders, higher pension scheme contributions and reduced customer deposits.

Average net cash for the period was £635m (2008 £375m). The net cash balance at the period-end was £1,275m (2008 £1,458m).

There were no material changes to the Group's gross and net contingent liabilities in the period. Contingent liabilities include commitments made to civil aerospace customers in the form of asset value guarantees (AVGs) and credit guarantees. At the end of 2009, the gross level of commitments on delivered aircraft was $1,137m (£704m), including $628m for AVGs and $509m for credit guarantees. The net exposure after reflecting the level of security was $217m (£134m).

The payment to shareholders will, as before, be made in the form of redeemable C Shares which shareholders may either choose to retain or redeem for a cash equivalent. The Registrar, on behalf of the Company, operates a C Share Reinvestment Plan (CRIP) and can, on behalf of shareholders, purchase ordinary shares from the market rather than delivering a cash payment. The proposed final payment to shareholders is equivalent to 9.00 pence per ordinary share (2008 8.58 pence), a five per cent increase over 2008, bringing the full year payment to 15 pence per share.

The final payment is payable on July 1, 2010 to shareholders on the register on April 23, 2010. The final day of trading with entitlement to C Shares is April 20, 2010.

Condensed consolidated income statement

For the year ended December 31, 2009

	Notes	2009 £m	Restated* 2008 £m
Revenue	1	**10,414**	9,082
Cost of sales		**(8,303)**	(7,278)
Gross profit		**2,111**	1,804
Other operating income		**89**	79
Commercial and administrative costs		**(740)**	(699)
Research and development costs		**(379)**	(403)
Share of profit of joint ventures and associates		**93**	74
Operating profit		**1,174**	855
(Loss)/profit on sale or termination of businesses		**(2)**	7
Profit before financing	1	**1,172**	862
Financing income		**2,276**	432
Financing costs		**(491)**	(3,186)
Net financing	2	**1,785**	(2,754)
Profit/(loss) before taxation [1]		**2,957**	(1,892)
Taxation		**(740)**	547
Profit/(loss) for the year		**2,217**	(1,345)
Attributable to:			
Equity holders of the parent		**2,221**	(1,340)
Minority interests		**(4)**	(5)
Profit/(loss) for the year		**2,217**	(1,345)

* During the year, the Group has reviewed the allocation of costs. As a result, costs of £33m classified as cost of sales in 2008 have been reclassified as commercial and administrative costs.

	Notes	2009	2008
Earnings per ordinary share	3		
Basic		**120.38p**	(73.63p)
Diluted		**119.09p**	(73.63p)
Underlying earnings per share are shown in note 3.			
Payments to shareholders in respect of the year	4		
Pence per share		**15.00**	14.30p
Total (£m)		**278**	263
[1] Underlying profit before taxation (£m)		**915**	880

Condensed consolidated statement of comprehensive income

For the year ended December 31, 2009

	2009 £m	Restated* 2008 £m
Profit/(loss) for the year	**2,217**	(1,345)
Other comprehensive income		
Foreign exchange translation differences on foreign operations	**(158)**	603
Net actuarial gains	**(1,148)**	944
Movement in unrecognised post-retirement surplus	**707**	(928)
Movement in post-retirement minimum funding liability	**40**	66
Transfers from transition hedging reserve	**(27)**	(80)
Net movements on cash flow hedging reserve in respect of joint ventures and associates	**22**	(41)
Related tax movements	**141**	(4)
Total comprehensive income for the year	**1,794**	(785)
Attributable to:		
Equity holders of the parent	**1,799**	(782)
Minority interests	**(5)**	(3)
Total comprehensive income for the year	**1,794**	(785)

* 2008 figures have been restated to reflect the adoption of IFRIC 14 with effect from January 1, 2008 - see note 8.

Condensed consolidated balance sheet

At December 31, 2009

	Notes	2009 £m	Restated * 2008 £m
ASSETS			
Non-current assets			
Intangible assets	5	**2,472**	2,286
Property, plant and equipment		**2,009**	1,995
Investments - joint ventures and associates		**437**	345
Other investments		**58**	53
Other financial assets	6	**637**	366
Deferred tax assets		**360**	804
Post-retirement scheme surpluses	8	**75**	453
		6,048	6,302
Current assets			
Inventory		**2,432**	2,600
Trade and other receivables		**3,877**	3,929
Taxation recoverable		**12**	9
Other financial assets	6	**80**	24
Short-term investments		**2**	1
Cash and cash equivalents		**2,962**	2,471
Assets held for sale		**9**	12
		9,374	9,046
Total assets		**15,422**	15,348
LIABILITIES			
Current liabilities			
Borrowings		**(126)**	(23)
Other financial liabilities	6	**(181)**	(316)
Trade and other payables		**(5,628)**	(5,735)
Current tax liabilities		**(167)**	(184)
Provisions		**(210)**	(181)
		(6,312)	(6,439)
Non-current liabilities			
Borrowings	7	**(1,787)**	(1,325)
Other financial liabilities	6	**(868)**	(2,525)
Trade and other payables		**(1,145)**	(1,318)
Non-current tax liabilities		**-**	(1)
Deferred tax liabilities		**(366)**	(307)
Provisions		**(232)**	(188)
Post-retirement scheme deficits	8	**(930)**	(1,020)
		(5,328)	(6,684)
Total liabilities		**(11,640)**	(13,123)
Net assets		**3,782**	2,225
EQUITY			
Capital and reserves			
Called-up share capital		**371**	369
Share premium account		**98**	82
Capital redemption reserves		**191**	204
Hedging reserves		**(19)**	(22)
Other reserves		**506**	663
Retained earnings		**2,635**	920
Equity attributable to equity holders of the parent		**3,782**	2,216
Minority interests		**-**	9
Total equity		**3,782**	2,225

* 2008 figures have been restated to reflect the adoption of IFRIC 14 with effect from January 1, 2008 (see note 8) and the adoption of Amendments to IAS 1 relating to the classification of derivative financial instruments as current or non-current (see note 6).

Condensed consolidated cash flow statement

For the year ended December 31, 2009

	Notes	2009 £m	2008 £m
Reconciliation of cash flows from operating activities			
Profit/(loss) before taxation		**2,957**	(1,892)
Share of profit of joint ventures and associates		**(93)**	(74)
Loss/(profit) on sale or termination of businesses		**2**	(7)
Profit on sale of property, plant and equipment		**(40)**	(11)
Net financing	2	**(1,785)**	2,754
Taxation paid		**(119)**	(117)
Amortisation of intangible assets		**121**	107
Depreciation and impairment of property, plant and equipment		**194**	208
Increase in provisions		**81**	39
Decrease/(increase) in inventories		**119**	(208)
Increase in trade and other receivables		**(14)**	(1,072)
(Decrease)/increase in trade and other payables		**(183)**	1,242
(Increase)/decrease in other financial assets and liabilities		**(303)**	144
Additional cash funding of post-retirement schemes		**(159)**	(117)
Share-based payments charge		**31**	40
Transfers of hedge reserves to income statement		**(27)**	(80)
Dividends received from joint ventures and associates		**77**	59
Net cash inflow from operating activities		**859**	1,015
Cash flows from investing activities			
Additions of unlisted investments		**(2)**	(1)
Disposals of unlisted investments		**-**	6
Additions to intangible assets		**(339)**	(389)
Disposals of intangible assets		**2**	-
Purchases of property, plant and equipment		**(258)**	(286)
Disposals of property, plant and equipment		**82**	68
Acquisitions of businesses		**(7)**	(47)
Disposals of businesses		**3**	6
Investments in joint ventures and associates		**(87)**	(32)
Disposals of joint ventures and associates		**-**	30
Net cash outflow from investing activities		**(606)**	(645)
Cash flows from financing activities			
Current borrowings – repayment		**(10)**	(1)
Non-current borrowings – increase/(repayment)		**693**	(22)
Capital element of finance lease payments		**(3)**	(4)
Net cash inflow/(outflow) from increase/(decrease) in borrowings		**680**	(27)
Interest received		**24**	52
Interest paid		**(66)**	(53)
Interest element of finance lease payments		**(1)**	(1)
(Increase)/decrease in government securities and corporate bonds		**(1)**	39
Issue of ordinary shares		**18**	17
Purchase of ordinary shares		**(17)**	(44)
Other transactions in ordinary shares		**(3)**	(4)
Redemption of B/C Shares		**(250)**	(200)
Net cash inflow/(outflow) from financing activities		**384**	(221)
Increase in cash and cash equivalents		**637**	149
Cash and cash equivalents at January 1		**2,462**	1,872
Foreign exchange		**(141)**	441
Cash and cash equivalents at December 31		**2,958**	2,462

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

	2009	2008
	£m	£m
Increase in cash and cash equivalents	637	149
Net cash (inflow)/outflow from (increase)/decrease in borrowings	(680)	27
Cash outflow/(inflow) from increase/(decrease) in government securities and corporate bonds	1	(39)
Change in net funds resulting from cash flows	(42)	137
Net funds (excluding cash and cash equivalents) of businesses acquired/disposed	-	(6)
Exchange adjustments	(141)	439
Fair value adjustments	110	(319)
Movement in net funds	(73)	251
Net funds at January 1 excluding the fair value of swaps	1,124	873
Net funds at December 31 excluding the fair value of swaps	1,051	1,124
Fair value of swaps hedging fixed rate borrowings	224	334
Net funds at December 31	1,275	1,458

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

	At January 1, 2009	Funds flow	Exchange adjustments	Fair value adjustments	Reclassi-fications	At December 31, 2009
	£m	£m	£m	£m	£m	£m
Cash at bank and in hand	940	358	(58)	-	-	1,240
Overdrafts	(9)	5	-	-	-	(4)
Short-term deposits	1,531	274	(83)	-	-	1,722
Cash and cash equivalents	2,462	637	(141)	-	-	2,958
Investments	1	1	-	-	-	2
Other current borrowings	(11)	10	-	-	(121)	(122)
Non-current borrowings	(1,324)	(693)	-	110	121	(1,786)
Finance leases	(4)	3	-	-	-	(1)
	1,124	(42)	(141)	110	-	1,051
Fair value of swaps hedging fixed rate borrowings	334			(110)		224
	1,458	(42)	(141)	-	-	1,275

Condensed statement of changes in equity

For the year ended December 31, 2009

	Attributable to equity holders of the parent								
	Share capital	Share premium	Capital redemption reserves	Hedging reserves[1]	Other reserves[2]	Retained earnings[3]	Total	Minority interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At January 1, 2008	**364**	**67**	**191**	**77**	**62**	**2,776**	**3,537**	**12**	**3,549**
Adoption of IFRIC 14 (note 8)	-	-	-	-	-	(353)	(353)	-	(353)
At January 1, 2008 restated	**364**	**67**	**191**	**77**	**62**	**2,423**	**3,184**	**12**	**3,196**
Loss for the year	-	-	-	-	-	(1,340)	(1,340)	(5)	(1,345)
Foreign exchange translation differences on foreign operations	-	-	-	-	601	-	601	2	603
Net actuarial gains	-	-	-	-	-	944	944	-	944
Movement in unrecognised post-retirement surplus	-	-	-	-	-	(928)	(928)	-	(928)
Movement in post-retirement minimum funding liability	-	-	-	-	-	66	66	-	66
Transfers from transition hedging reserve	-	-	-	(80)	-	-	(80)	-	(80)
Transfers to cash flow hedging reserve	-	-	-	(41)	-	-	(41)	-	(41)
Related tax movements	-	-	-	22	-	(26)	(4)	-	(4)
Total comprehensive income for the year	**-**	**-**	**-**	**(99)**	**601**	**(1,284)**	**(782)**	**(3)**	**(785)**
Arising on issues of ordinary shares	2	15	-	-	-	-	17	-	17
Issue of B Shares	-	-	(237)	-	-	-	(237)	-	(237)
Redemption of B Shares	-	-	200	-	-	(200)	-	-	-
Conversion of B Shares into ordinary shares	3	-	50	-	-	-	53	-	53
Ordinary shares purchased	-	-	-	-	-	(44)	(44)	-	(44)
Share-based payments adjustment [4]	-	-	-	-	-	36	36	-	36
Related tax movements - deferred tax	-	-	-	-	-	(11)	(11)	-	(11)
Other changes in equity in the year	**5**	**15**	**13**	**-**	**-**	**(219)**	**(186)**	**-**	**(186)**
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	-	-	-	-	(157)	-	(157)	(1)	(158)
Net actuarial gains	-	-	-	-	-	(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)
Transfers to cash flow hedging reserve	-	-	-	22	-	-	22	-	22
Related tax movements	-	-	-	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 adjustment [4]	-	-	-	-	-	28	28	-	28
Transactions with minority 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 December 31, 2009	**371**	**98**	**191**	**(19)**	**506**	**2,635**	**3,782**	**-**	**3,782**

1 Hedging reserves include nil (2008 £19m) in respect of the transition hedging reserve and £(19)m (2008 £(41)m) in respect of the cash flow hedging reserve.

2 Other reserves include a merger reserve of £3m (2008 £3m) and a translation reserve of £503m (2008 £660m).

3 At December 31, 2009, 7,156,497 ordinary shares with a net book value of £25m (2008 8,017,635 ordinary shares with a net book value of £34m) were held and included in retained earnings. During the year, 6,766,884 ordinary shares with a net book value of £25m (2008 8,782,658 shares with a net book value of £37m) vested in share based payment plans.

4 The share-based payment adjustment 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.

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, 2009 or 2008. Statutory accounts for 2008 have been delivered to the registrar of companies, and those for 2009 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 a statement under section 237(2) or (3) of the Companies Act 1985 in respect of the accounts for 2008, nor a statement under section 498(2) or (3) of the Companies Act 2006 in respect of the accounts for 2009.

The following revisions to Adopted IFRS have been adopted in the Group's financial statements in 2009:

- Amendments to IAS 1 *Presentation of Financial Statements* – these amendments revise requirements for the presentation of the financial statements and do not affect the Group's overall reported results.
- Improvements to IFRSs (2008) - The amendments to IAS 1 clarify the classification of derivative financial instruments as current or non-current. Previously the Group has classified all derivative financial instruments within the IAS 39 category 'held for trading' as current. As a result of these amendments, they have now been classified according to their maturity dates. The impact is shown in note 6.
- Amendments to IFRS 2 *Share-based Payments: Vesting Conditions and Cancellations* – these amendments concern certain aspects of the valuation of share-based payments and the impact of a cancellation by a grantee. These amendments have not had a significant impact on the charges recognised to date for share-based payments.
- Amendments to IFRS 7 *Financial Instruments: Disclosure* – these amendments require additional disclosure of the basis of fair value measurements and liquidity risks.
- IFRS 8 *Operating Segments* – this standard amends the requirements for disclosure of segmental performance and does not have any effect on the Group's overall reported results. Note 1 reflects the new requirements.
- Amendment to IAS 23 *Borrowing Costs* – the amendment generally eliminates the option to expense borrowing costs attributable to the acquisition, construction or production of a qualifying asset as incurred, and instead requires the capitalisation of such borrowing costs as part of the cost of the specific asset. There is no significant impact.
- IFRIC 12 *Service Concession Arrangements* – this interpretation is applicable to the Group's investments in the joint ventures operating the Future Strategic Tanker Aircraft contract with the UK Ministry of Defence. This contract commenced in 2008 and the adoption of IFRIC 12 does not have a material transitional impact.
- IFRIC 14 *IAS 19 The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* – this interpretation applies where regulatory funding requirements will result in an unrecognisable surplus arising in the future. It has been adopted with effect from January 1, 2008. The impact of the adoption of this interpretation is set out in note 8.

1 Analysis by business segment

The analysis by business segment is presented in accordance the basis set out in 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 analyses for 2008 have been restated on a consistent basis.

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 exclude the release of the foreign exchange transition hedging reserve and reflect the achieved exchange rates arising on settled derivative contracts.

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

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.

	2009			2008		
	Original equipment £m	**Services £m**	**Total £m**	Original equipment £m	Services £m	Total £m
Underlying revenues						
Civil aerospace	**1,855**	**2,626**	**4,481**	1,776	2,726	4,502
Defence aerospace	**964**	**1,046**	**2,010**	739	947	1,686
Marine	**1,804**	**785**	**2,589**	1,492	712	2,204
Energy	**558**	**470**	**1,028**	385	370	755
	5,181	**4,927**	**10,108**	4,392	4,755	9,147

	2009 £m	2008 £m
Underlying profit before financing		
Civil aerospace	**493**	566
Defence aerospace	**253**	223
Marine	**263**	183
Energy	**24**	(2)
Reportable segments	**1,033**	970
Central items	**(50)**	(51)
	983	919
Underlying net financing	**(68)**	(39)
Underlying profit before taxation	**915**	880
Underlying taxation	**(187)**	(217)
Underlying profit for the year	**728**	663
Attributable to:		
Equity holders of the parent	**732**	668
Minority interests	**(4)**	(5)
Total comprehensive income for the year	**728**	663

Net assets/(liabilities)

	Total assets		Total liabilities		Net assets	
	2009 £m	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m
Civil aerospace	**7,612**	7,543	**(4,918)**	(7,213)	**2,694**	330
Defence aerospace	**1,228**	1,037	**(1,573)**	(1,234)	**(345)**	(197)
Marine	**2,379**	2,339	**(1,738)**	(1,851)	**641**	488
Energy	**1,025**	834	**(492)**	(442)	**533**	392
Reportable segments	**12,244**	11,753	**(8,721)**	(10,740)	**3,523**	1,013
Eliminations	**(457)**	(477)	**457**	477	**-**	-
Net funds/(debt)	**3,188**	2,806	**(1,913)**	(1,348)	**1,275**	1,458
Tax assets/liabilities	**372**	813	**(533)**	(492)	**(161)**	321
Unallocated post-retirement scheme surpluses/deficits	**75**	453	**(930)**	(1,020)	**(855)**	(567)
Net assets	**15,422**	15,348	**(11,640)**	(13,123)	**3,782**	2,225

Group employees at year end

	2009 Number	2008 Number
Civil aerospace	**21,500**	22,600
Defence aerospace	**5,500**	5,700
Marine	**8,700**	8,300
Energy	**2,600**	2,300
	38,300	38,900

Reconciliation to reported results

	Total reportable segments £m	Underlying central items £m	Total underlying £m	Underlying adjustments £m	Group £m
Year ended December 31, 2009					
Revenue from sale of original equipment	5,181	-	5,181	128	**5,309**
Revenue from services	4,927	-	4,927	178	**5,105**
Total revenue	10,108	-	10,108	306	**10,414**
Operating profit excluding share of profit of joint ventures and associates	942	(50)	892	189	**1,081**
Share of profit of joint ventures and associates	93	-	93	-	**93**
Profit on sale 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**
Year ended December 31, 2008					
Revenue from sale of original equipment	4,392	-	4,392	(15)	4,377
Revenue from services	4,755	-	4,755	(50)	4,705
Total revenue	9,147	-	9,147	(65)	9,082
Operating profit excluding share of profit of joint ventures	893	(51)	842	(61)	781
Share of profit of joint ventures and associates	70	-	70	4	74
Profit on sale of businesses	7	-	7	-	7
Profit before financing and taxation	970	(51)	919	(57)	862
Net financing		(39)	(39)	(2,715)	(2,754)
Profit before taxation		(90)	880	(2,772)	(1,892)
Taxation		(217)	(217)	764	547
Profit for the year		(307)	663	(2,008)	(1,345)

Underlying adjustments

	2009				2008			
	Revenue £m	**Profit before financing £m**	**Net financing £m**	**Taxation £m**	Revenue £m	Profit before financing £m	Net financing £m	Taxation £m
Underlying performance	**10,108**	**983**	**(68)**	**(187)**	9,147	919	(39)	(217)
Release of transition hedging reserve	27	27	-	-	80	80	-	-
Recognise revenue at exchange rate on date of transaction	279	-	-	-	(145)	-	-	-
Realised gains on settled derivative contracts [1]	-	274	60	-	-	(185)	(107)	-
Net unrealised fair value changes to derivative contracts [2]	-	14	1,835	-	-	4	(2,479)	-
Effect of currency on contract accounting	-	(126)	-	-	-	44	-	-
Revaluation of trading assets and liabilities	-	-	(17)	-	-	-	14	-
Financial RRSPs - foreign exchange differences and changes in forecast payments	-	-	72	-	-	-	(121)	-
Net post-retirement scheme financing	-	-	(97)	-	-	-	(22)	-
Related tax effect	-	-	-	(553)	-	-	-	764
Total underlying adjustments	306	189	1,853	(553)	(65)	(57)	(2,715)	764
Reported per consolidated income statement	**10,414**	**1,172**	1,785	(740)	9,082	862	(2,754)	547

[1] Realised (gains)/losses on settled derivative contracts included in profit before tax:
- includes £15m of realised losses (2008 nil) deferred from prior years;
- excludes £6m of gains (2008 losses of £24m) realised in the year on derivative contracts settled in respect of trading cash flows that occurred after the year-end;
- excludes £14m of losses (2008 nil) 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 £5m of unrealised gains (2008 £4m) in respect of derivative contracts held by joint ventures and associates and £9m (2008 nil) 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.

2 Net financing

	2009		2008	
	£m	***Underlying net financing [1] £m***	£m	*Underlying net financing [1] £m*
Financing income				
Interest receivable	**21**	***21***	59	*59*
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	**52**	**-**	-	-
Expected return on post-retirement scheme assets	**305**	**-**	373	-
Net foreign exchange gains	**43**	**-**	-	-
	2,276	***21***	432	*59*
Financing costs				
Interest payable	**(64)**	***(64)***	(69)	*(69)*
Fair value losses on foreign currency contracts	**-**	**-**	(2,383)	-
Financial RRSPs - foreign exchange differences and changes in forecast payments	**-**	**-**	(121)	-
Financial charge relating to financial RRSPs	**(25)**	***(25)***	(26)	*(26)*
Fair value losses on commodity derivatives	**-**	**-**	(96)	-
Interest on post-retirement scheme liabilities	**(402)**	**-**	(395)	-
Net foreign exchange losses	**-**	**-**	(91)	-
Other financing charges	**-**	**-**	(5)	*(3)*
	(491)	***(89)***	(3,186)	*(98)*
Net financing	**1,785**	***(68)***	(2,754)	(39)
Analysed as:				
Net interest payable	**(43)**	***(43)***	(10)	*(10)*
Net post-retirement scheme financing	**(97)**	**-**	(22)	-
Net other financing	**1,925**	***(25)***	(2,722)	*(29)*
Net financing	**1,785**	***(68)***	(2,754)	*(39)*

[1] See note 1

3 Earnings per ordinary share (EPS)

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

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.

	2009			2008		
	Basic	**Potentially dilutive share options**	**Diluted**	Basic	Potentially dilutive share options [1]	Diluted
Profit/(loss) (£m)	**2,221**	**-**	**2,221**	(1,340)	-	(1,340)
Weighted average number of shares (millions)	**1,845**	**20**	**1,865**	1,820	-	1,820
EPS	**120.38p**	**(1.29p)**	**119.09p**	(73.63p)	-	(73.63p)

[1] As the 2008 basic EPS is negative, in accordance with IAS 33 *Earnings per Share*, share options are not considered dilutive.

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

	2009		2008	
	Pence	**£m**	Pence	£m
Underlying EPS/Underlying profit attributable to equity holders of the parent	**39.67**	**732**	36.70	668
Total underlying adjustments to profit before tax (note 1)	**110.68**	**2,042**	(152.31)	(2,772)
Related tax effects	**(29.97)**	**(553)**	41.98	764
EPS/Profit/ (loss)attributable to equity holders of the parent	**120.38**	**2,221**	(73.63)	(1,340)

4 Payments to shareholders in respect of the year

	2009		2008	
	Pence per share	**£m**	Pence per share	£m
Interim	**6.00**	**111**	5.72	105
Final	**9.00**	**167**	8.58	158
	15.00	**278**	14.30	263

5 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, 2009	**1,013**	**568**	**632**	**463**	**254**	**2,930**
Exchange adjustments	(28)	(3)	(2)	-	(2)	**(35)**
Additions	-	66	121	123	32	**342**
On acquisitions of businesses	6	-	-	-	-	**6**
Disposals	-	-	-	-	(11)	**(11)**
At December 31, 2009	**991**	**631**	**751**	**586**	**273**	**3,232**
Accumulated amortisation and impairment:						
At January 1, 2009	**5**	**165**	**176**	**250**	**48**	**644**
Exchange adjustments	-	(1)	-	-	(1)	**(2)**
Provided during the year	2	13	29	46	31	**121**
Disposals	-	-	-	-	(3)	**(3)**
At December 31, 2009	**7**	**177**	**205**	**296**	**75**	**760**
Net book value at December 31, 2009	**984**	**454**	**546**	**290**	**198**	**2,472**
Net book value at December 31, 2008	1,008	403	456	213	206	2,286

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.

6 Other financial assets and liabilities

Further to the amendments to IAS 1 in the Improvements to IFRS (2008), derivative contracts are now classified as current or non-current based on their maturity dates. Previously all 'held for trading' items were deemed to be current.

	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, 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)**
At December 31, 2008							
Non-current assets	88	-	278	366	-	-	366
Current assets	24	-	-	24	-	-	24
Current liabilities	(214)	(36)	(2)	(252)	(64)	-	(316)
Non current liabilities	(2,079)	(53)	(2)	(2,134)	(391)	-	(2,525)
	(2,181)	(89)	274	(1,996)	(455)	-	(2,451)

Foreign exchange and commodity financial instruments

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

	2009			2008
	Foreign exchange £m	**Commodity £m**	**Total £m**	Total £m
At January 1	**(2,181)**	**(89)**	**(2,270)**	418
Fair value (losses)/gains to fair value hedges	**(33)**	**-**	**(33)**	83
Fair value losses to net investment hedges	**(14)**	**-**	**(14)**	-
Fair value gains/(losses) to other derivative contracts	**1,783**	**52**	**1,835**	(2,479)
Fair value of contracts settled	**301**	**26**	**327**	(268)
Fair value of derivative contracts assumed on formation of joint venture	**-**	**-**	**-**	(24)
At December 31	**(144)**	**(11)**	**(155)**	(2,270)

Financial risk and revenue sharing partnerships (RRSPs)

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

	2009 £m	2008 £m
At January 1	**(455)**	(315)
Cash paid to partners	**55**	53
Addition	**(15)**	(40)
Exchange adjustments direct to reserves	**6**	(6)
Financing charge [1]	**(26)**	(26)
Excluded from underlying profit [1]		
Exchange adjustments	**45**	(118)
Restructuring of financial RRSP agreements and changes in forecast payments	**27**	(3)
At December 31	**(363)**	(455)

[1] Total credit included within finance in the income statement is £47m (2008 charge £147m). £1m (2008 nil) of the financing charge has been capitalised in intangible assets.

7 Borrowings

On February 5, 2009, the Group borrowed £200m from an existing facility. Interest is payable at 3 month LIBOR + 26.7bp and the loan matures in 2014. On April 30, 2009, the Group issued £500m 6.75% Notes maturing in 2019. There were no other significant changes in the Group's borrowings during the year ended December 2009.

8 Pensions and other post-retirement benefits

IFRIC 14 *IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* has been adopted in 2009. The interpretation requires that, where statutory funding requirements will result in surpluses arising in the future that cannot be recognised, a liability should be recognised. The rules of the Rolls-Royce Pension Fund are such that future contributions set out in the scheme's Recovery Plan will give rise to an unrecoverable surplus. In accordance with the transition rules of the interpretation, it has been applied from January 1, 2008, and the 2008 figures have been restated accordingly. The impact of adopting IFRIC 14 is as follows:

		Deferred tax			
	Net post-retirement liability £m	Assets £m	Liabilities £m	Total £m	Retained earnings £m
At January 1, 2008, as previously reported	(123)	81	(345)	(264)	2,776
Adoption of IFRIC 14	(491)	51	87	138	(353)
At January 1, 2008, restated	(614)	132	(258)	(126)	2,423
At December 31, 2008, as previously reported	(142)	685	(307)	378	1,226
Adoption of IFRIC 14	(425)	119	-	119	(306)
At December 31, 2008, restated	(567)	804	(307)	497	920
Movements in 2008 recognised in other comprehensive income	66	68	(87)	(19)	

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, 2009	**408**	**(550)**	**(142)**
Minimum funding liability at January 1, 2009	**(425)**	**-**	**(425)**
At January 1, 2009 restated	**(17)**	**(550)**	**(567)**
Exchange adjustments	**-**	**51**	**51**
Current service cost	**(94)**	**(29)**	**(123)**
Past service cost	**(2)**	**(4)**	**(6)**
Interest on post-retirement scheme liabilities	**(355)**	**(47)**	**(402)**
Expected return on post-retirement scheme assets	**285**	**20**	**305**
Contributions by employer	**232**	**56**	**288**
Actuarial (losses)/gains	**(1,176)**	**28**	**(1,148)**
Movement in unrecognised surplus [1]	**707**	**-**	**707**
Movement on minimum funding liability	**40**	**-**	**40**
At December 31, 2009	**(380)**	**(475)**	**(855)**
Analysed as:			
Post-retirement scheme surpluses - included in non-current assets	**75**	**-**	**75**
Post-retirement scheme deficits - included in non-current liabilities	**(455)**	**(475)**	**(930)**
	(380)	**(475)**	**(855)**

[1] Where a surplus has arisen on a scheme, in accordance with IAS 19, 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.

9 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.

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 value of the total gross contingent liabilities relating to delivered aircraft and other arrangements where financing is in place, less insurance arrangements and relevant provisions were:

	2009		2008	
	£m	***$m***	£m	*$m*
Gross contingent liabilities	**704**	***1,137***	775	*1,086*
Contingent liabilities net of relevant security [1]	**134**	***217***	155	*222*
Contingent liabilities net of relevant security reduced by 20% [2]	**233**	***376***	246	*354*
[1] Security includes unrestricted cash collateral of:	**77**	***124***	85	*123*

[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 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 deducted from the amounts recoverable on this contract an allowance of £43m, being the directors' best estimate of the expected loss on this programme. 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.

There is continuing uncertainty about the A400M programme. Airbus is currently in negotiation with its customers to determine the future of the programme. The timing and outcome of these negotiations, and their possible impact on EPI and the Group, is uncertain. In the event that the programme had been cancelled, at December 31, 2009, the Group's balance sheet included net assets of £17m in relation to the programme, which would have required impairment.

Principal risks and uncertainties

The Group continues to be exposed to a number of risks and has an established, structured approach to identifying, assessing and managing these.

The risk committee has accountability for the system of risk management and reports regularly to the Board on the key risks facing the business and the mitigating actions taken in order to manage them. The Group's consistent strategy and long-term programmes require that key sources of risk are identified and are kept under continuous review.

Risk profile

Over the past year the risk profile of the Group, in common with many other large companies, has changed to reflect the underlying global economic uncertainties. The Group continues to experience the negative effects of the recent economic downturn through a decline in the civil aviation sector, shipbuilding and other capital-intensive industries, which are prime markets for its products and services.

In the absence of a sustained and general return to growth, uncertainty remains across financial and industrial markets. This is reflected in the Group's risk profile.

The risks described below are among those that may have an impact on the Group's performance. This is notwithstanding other risks and uncertainties that are currently unknown to the Group, or which the Group does not presently consider to be material. The principal risks reflect the global nature of the business and the competitive and challenging business environment in which it operates. Risks, including those to the Group's reputation, are considered under four broad headings:

- Business environment risks
- Strategic risks
- Financial risks
- Operational risks

Business environment risks

Cyclical downturn – global recession
The Group's largest market, civil aerospace, is cyclical by nature, although services activity and revenue, which now represents some 60 per cent of annual revenue, have historically been less volatile in economic slowdowns and are considered more predictable and robust than the sales of engines for new aircraft.

The willingness of passengers to travel by air is influenced by a range of factors, including economic conditions, as well as health and security issues. Any prolonged reduction in air travel would impact airlines' revenues and cash flows, and potentially reduce their need for new engines, spare parts or aftermarket support services.

The strategy of growing revenues in other sectors with steady and substantial long-term growth will help offset this risk. Access to global markets with greater diversification by sector, such as the recently established civil nuclear business, customer and geography and an improved balance between original equipment and services revenue, are expected to help mitigate the effects of the slowing global economy in any one sector.

Tight control of the underlying cost base, the cost of managing operations and the unit cost of products, is essential to protect margins and maintain profitability. Even as the economy begins to recover, there will be continued pressure to reduce costs and improve the use of resources. The Group is focusing on identifying the principal drivers of unit costs and identifying actions to achieve sustainable cost reductions.

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. Rolls-Royce is determined to be part of the solution to these environmental challenges and continues to make significant investment in innovative solutions for the aviation, marine and energy markets. The challenge is being addressed through the enhancement of current product ranges and affordable research and development into low carbon technologies such as nuclear power, fuel cells and tidal energy. The Group continues to work closely with its customers, industry partners and other stakeholders to implement these development opportunities.

A robust governance structure headed by the Environment Council directs and monitors improvements in the environmental performance of the Group's products, and the Environmental Advisory Board reviews and makes recommendations on the environmental aspects of the Group's products and business operations.

Strategic risks

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

The Group has developed a balanced business portfolio and continues to maintain a steady focus on improvement in operational performance, for example through the modernisation of its facilities and an increased focus on managing the underlying cost of operations and products. Sustained investment in technology acquisition and robust protection of intellectual property, together with the establishment of long-term customer relationships, allow the Group to differentiate its products and services and protect margins in the face of competitive pressures.

Export controls
Rolls-Royce designs and supplies a number of products and services for the defence market. Many countries in which the Group conducts its business operate legislation controlling the export of specified goods and technology intended or adaptable for military application. The Group is committed to complying with the requirements from national governments in all jurisdictions when exporting goods, parts, technologies or information, although globalisation of the Group's operations brings with it complexities of concurrent but differing national export control legislation. Non-compliance with export controls is recognised as a principal risk to both programme performance and the Group's reputation.

The exports committee, chaired by the Chief Operating Officer, directs the Group's strategy and policy on exports. Export control managers are embedded throughout the business and export controls awareness training is provided to employees. The Group will continue to implement any necessary changes to ensure that it maintains the capability to monitor and comply with requirements.

Financial risks

The Group uses various financial instruments in order to manage the exposures that arise from its business operations as a result of movements in financial markets. All treasury activities are focused on the management and hedging of risk. It is the Group's policy not to trade financial instruments or to engage in speculative financial transactions. There have been no significant changes in the Group's policies in the last year.

The principal economic and market risks continue to be movements in foreign currency exchange rates, interest rates and commodity prices. The Board regularly reviews the Group's exposures and financial risk management and a specialist committee also considers these in detail. All such exposures are managed by the Group Treasury function, which reports to the Finance Director and which operates within written policies approved by the Board and within the internal control framework.

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 and manages its translational exposures through the currency matching of assets and liabilities where applicable. The matching is reviewed regularly, with appropriate risk mitigation performed where material mismatches arise.

The Group is exposed to a number of foreign currencies. The most significant transactional currency exposures are US dollars to sterling and US dollars to euros.

The Group manages its exposure to movements in exchange rates at two levels:

i) Revenues and costs are currency matched where it is economic to do so. The Group actively seeks to source suppliers with the relevant currency cost base to avoid the risk or to flow down the risk to those suppliers that are capable of managing it. Currency risk is also a prime consideration when deciding where to locate new facilities. US dollar income converted into sterling represented 23 per cent of Group revenues in 2009 (2008 26 per cent). US dollar income converted into euros represented 2 per cent of Group revenues in 2009 (2008 4 per cent).

ii) Residual currency exposure is hedged via the financial markets. The Group operates a hedging policy using a variety of financial instruments with the objective of minimising the impact of fluctuations in exchange rates on future transactions and cash flows.

Market exchange rates	**2009**	2008
USD per GBP		
- Year-end spot rate	**1.615**	1.438
- Average spot rate	**1.566**	1.854
EUR per GBP		
- Year-end spot rate	**1.126**	1.034
- Average spot rate	**1.123**	1.258

The permitted range of the amount of cover taken is determined by the written policies set by the Board, based on known and forecast income levels.

The forward cover is managed within the parameters of these policies in order to achieve the Group's objectives, having regard to the Group's view of long-term exchange rates. Forward cover is in the form of standard foreign exchange contracts and instruments on which the exchange rates achieved are dependent on future interest rates. The Group may also write currency options against a portion of the unhedged dollar income at a rate which is consistent with the Group's long-term target rate. At the end of 2009 the Group had US$18.8 billion of forward cover (2008 US$17.1 billion).

The consequence of this policy has been to maintain relatively stable long-term foreign exchange rates. Note 6 to the condensed financial statements includes the impact of revaluing forward currency contracts at market values on December 31, 2009, showing a negative value of £144 million (2008 negative value of £2,181 million) which will fluctuate with exchange rates over time. The Group has entered into these forward contracts as part of the hedging policy, described above, in order to mitigate the impact of volatile exchange rates.

Interest rate risk
The Group uses fixed rate bonds and floating rate debt as funding sources. The Group's policy is to maintain a proportion of its debt at fixed rates of interest having regard to the prevailing interest rate outlook. To implement this policy the Group may utilise a combination of interest rate swaps, forward-rate agreements and interest-rate caps to manage the exposure.

Counterparty credit risk
The Group has an established policy for managing counterparty credit risk. A common framework exists to measure, report and control exposures to counterparties across the Group using value-at-risk and fair-value techniques. The Group assigns an internal credit rating to each counterparty, which is assessed with reference to publicly available credit information, such as that provided by Moody's, Standard & Poor's, and other recognised market sources, and is reviewed regularly.

Financial instruments are only transacted with counterparties that have a publicly assigned long-term credit rating from Standard & Poor's of 'A-' or better and from Moody's of 'A3' or better.

Commodity risk
The Group has an ongoing exposure to the price of jet fuel and base metals arising from business operations. The Group's objective is to minimise the impact of price fluctuations. The exposure is hedged, on a similar basis to that adopted for currency risks, in accordance with parameters contained in written policies set by the Board.

Regulatory developments
In response to the financial crisis governments and regulators around the world are considering various regulatory reforms to the financial markets with the aim of improving transparency and reducing systemic risk. While the proposed reforms are predominantly directed at financial institutions some of them may have implications for non-financial institutions.

In particular, proposals by both US and European regulators to reform the Over-the-Counter (OTC) derivatives market could have implications for the Group in terms of future funding requirements and increased cash flow volatility, if parties to future OTC derivative transactions are required to post collateral to reduce counterparty risk.

Operational risks

Performance of supply chain
The Group's products and services are delivered through the effective operation of its facilities and key capabilities, including its supply chain. The Group's success in strengthening its market position and its presence on a number of high profile civil and defence aerospace programmes places increased demands on the performance of the supply chain. The Group manufactures approximately 30 per cent by value of its gas turbine products, the remainder being provided through external suppliers, including risk and revenue sharing partners. Meeting delivery commitments on schedule, cost and quality are critical to the achievement of business goals. Investment in developing world-class manufacturing processes is continuing in Asia, North America and Europe.

Global supply chains are complex with multiple inter-relationships across a wide network of organisations. While the Group's strategy is to improve integration and simplify the internal and external elements of its supply chain by building long-term strategic links with fewer, stronger suppliers, it remains at risk of disruption from financial or physical causes such as bankruptcy, natural disaster, armed conflict or pandemic. A significant disruption in any of these elements could adversely affect the Group's ability to deliver its operational commitments and would have the potential to affect financial returns.

The planning for, and management of, any such interruption is addressed through the Group's business continuity management process, which is well established and focused on critical facilities, activities, processes, skills and suppliers. The Group's crisis management plan and framework were significantly revised and exercised in 2009. In addition to the Group's comprehensive programme of business interruption insurance, significant investment is being undertaken to establish, where possible, dual sourcing of key components or processes. Increased focus is also being applied to understanding and addressing sources of risk arising in the external supply chain, particularly those associated with financial instability. Procedures are in place to monitor, assess and respond to risks.

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. There is also the possibility of unintentional loss of controlled data by authorised users. In either case, adverse impacts upon operational effectiveness, the value of intellectual property, legislative compliance or the reputation of the Group might arise. The active sharing of information through industry and government forums, commitment of additional specialist resources and the continual upgrading of security equipment and software mitigate these risks.

Ethics
The Group conducts 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 the Group's products and operations. Shortcomings in any of these areas could damage the Group's reputation, expose it to financial penalties and disrupt its business.

The Group is committed to maintaining high ethical standards. A Global Code of Business Ethics in 16 languages has been issued to all employees, supported by a training and engagement programme to strengthen employee awareness of the Group's values. A programme of technical training for specialist roles is underway. The Group's ethical standards are also communicated to the Group's first-tier supply base through a supplier code of conduct. Concerns regarding potentially unethical behaviours can be reported in confidence via dedicated global telephone and internet channels. All such reports are followed up and are monitored by the ethics committee.

Programme risk
The Group manages complex product programmes with demanding technical requirements against stringent, and sometimes fluctuating, customer schedules. This requires the 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. These implications include the risk of impairment of the carrying value of the Group's intangible assets and the impact of potential litigation.

The Group seeks continuous improvement of all its processes and employs project management controls to ensure that both technical and business objectives are achieved. All major programmes are subject to Board approval and are reviewed regularly by the Board with a particular focus on the nature and potential impact of emerging risks and the effective mitigation of previously identified threats.

The statements below have been prepared in connection with the Company's full Annual report for the year ended December 31, 2009. 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 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 £108 million is due to expire in 2010. 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
Chief Executive
February 10, 2010

Andrew Shilston
Finance Director
February 10, 2010