Regulatory Story

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ROLLS-ROYCE HOLDINGS PLC
HALF YEAR RESULTS

Group Highlights

- Tognum consolidated for the first time in the Group's half year results.
- First flight of the Trent XWB-powered Airbus A350.
- Order book of £69.2 billion, up 15%; up 12% excluding Tognum.
- Underlying revenue of £7.3 billion, up 27%; up 9% excluding Tognum.
- Underlying profit before tax of £840 million, up 34%; up 32% excluding Tognum.
- Reported profit before financing of £884 million, down 30% due to IAE disposal profit in 2012.
- Payment to shareholders of 8.6 pence per share, up 13%.

Rolls-Royce Holdings plc	including Tognum			excluding Tognum		
£ millions	H1 2013	H1 2012	Change	H1 2013	H1 2012	Change
Order book	69,247	60,146*	15%	67,449	60,146*	12%
Underlying revenue**	7,320	5,757	27%	6,249	5,757	9%
Underlying profit before tax**	840	628†	34%	787	596	32%
Return on sales***	11.9%	11.4%	0.5pp	13.1%	10.8%	2.3pp
Underlying earnings per share	33.33p	26.22p	27%			
Half year payment to shareholders	8.6p	7.6p	13%			
Reported revenue	7,345	5,720	28%			
Reported profit before financing	884	1,271†	-30%			
Net cash	921	1,317*	(396)			
Average net cash/(debt)	355	(590)	945			

* 2012 year-end data
** See note 2 on page 21 for explanation
*** By reference to underlying profit before financing costs and tax
† Restated by -£9m to reflect amendments to IAS 19

John Rishton, Chief Executive, said:

"Results in the first half show good progress against some of our priorities, as well as highlighting the need for further action in others. In terms of delivery on our promises, we were delighted to take management control of Tognum after nearly two years; the whole organisation was excited by the first flight of the Airbus A350 powered by our Trent XWB engines and we made good progress on our customer initiatives.

"While underlying profits were up 34%, primarily reflecting volume and the benefit from the IAE restructuring, it is clear we have a lot more to do on cost (and cash). Fortunately we have significant opportunities to improve both, but this will take time and firm resolve to deliver.

"We maintain our full year guidance for the Group."

Group Overview

Tognum is fully consolidated in the Group's results for the first time rather than equity accounted as it was in 2012. The contribution of Tognum to the Group's first half results is shown below:

Rolls-Royce Holdings plc £ millions	Group H1 2013	H1 2012	Change	Tognum contribution H1 2013	H1 2012	Change
Order book	69,247	60,146*	15%	1,798	n/a	
Underlying revenue**	7,320	5,757	27%	1,071	n/a	
Underlying profit before tax**	840	628†	34%	53	32	66%

* 2012 year-end data
** See note 2 on page 21 explanation
† Restated by -£9m to reflect amendments to IAS 19

In the first half of 2013, the Group increased its order book by 15%, underlying revenue by 27% and underlying profit by 34%.

Tognum's results are reported on page 10 in our new business segment called Power Systems. Power Systems comprises Tognum and Bergen Engines, together these make up Rolls-Royce Power Systems Holding GmbH, our joint venture with Daimler that has been renamed from Engine Holding GmbH.

In the first half of 2013 we made progress with our priorities, but there is plenty more to do.

1. Deliver on the promises we have made

Quality has shown improvement and the increased focus on delivery to our customers has led to significant progress in civil large engines and in Marine.

Significant milestones have been achieved in major programmes. These include: the first flight of the Trent XWB-powered Airbus A350, the certification of the A400M military transport aircraft powered by the TP400 and delivery of our first Environship.

2. Decide where to grow and where not to

We continue to invest in capacity and in technology.

We opened new services centres for Civil Aerospace at London Heathrow and for Marine in Guangzhou, China. In the UK, we are close to completing a turbine blade facility in Rotherham and an advanced disc factory in Washington, Tyne & Wear. In the USA, we are constructing a new turbine machining facility at Crosspointe, Virginia.

We acquired specialist composites company Hyper-Therm High Temperature Composites and PKMJ Technical Services, a US nuclear engineering services company.

Areas where we have decided not to invest include the announced sale of our 50% shareholding in the RTM322 military helicopter engine joint venture with Turbomeca and the completion of the sale of Tidal Generation to Alstom, as previously announced.

3. Improve financial performance

We continue to focus on margin progression. In the first half, margins at Group level improved to 11.9% (11.4% in H1 2012). Excluding Tognum, margins improved by 2.3 percentage points to 13.1%. Overall, profits grew by 34%, reflecting the benefits of volume and the 2012 IAE restructuring, with other, largely one-off, impacts broadly offsetting each other. While some progress has been made on cost, there is clearly more to do.

Our cash outflow of £461m, prior to Tognum, acquisitions, disposals and foreign exchange, reflects continued investment to support growth coupled with a £0.8bn increase in net working capital. The increase of £261m in inventory during the period was disappointing and more work needs to be done.

Group Trading Summary

Rolls-Royce Holdings plc £ millions	including Tognum H1 2013	H1 2012	Change	excluding Tognum H1 2013	H1 2012	Change
Order book	69,247	60,146*	15%	67,449	60,146*	12%
Underlying revenue**	7,320	5,757	27%	6,249	5,757	9%
Underlying OE revenue**	3,751	2,723	38%	3,011	2,723	11%
Underlying services revenue**	3,569	3,034	18%	3,238	3,034	7%
Underlying profit before tax**	840	628†	34%	787	596	32%
Return on sales***	11.9%	11.4%	0.5pp	13.1%	10.8%	2.3pp
Net cash	921	1,317*	(396)			
Average net cash/(debt)	355	(590)	945			

* 2012 year-end data
** See note 2 on page 21 for explanation
*** By reference to underlying profit before financing costs and tax
† Restated by -£9m to reflect amendments to IAS 19

Order Book

- The order book growth of 15% to £69.2bn includes a contribution of £1.8bn from Tognum. Excluding Tognum, growth of 12% reflects an increase in all segments except Defence Aerospace. The order intake in the first half of £15.3bn included new orders of £10.9bn in Civil Aerospace, £0.9bn in Defence Aerospace, £1.7bn in Marine, £0.5bn in Energy and £1.4bn in Power Systems.

Income Statement

- Underlying revenue growth of 27% to £7.3bn includes a contribution of £1.1bn from Tognum. Excluding Tognum, growth of 9% reflects increases in all segments: up 6% in Civil Aerospace to £3.2bn, up 9% in Defence Aerospace to £1.2bn, up 16% in Marine to £1.2bn and up 10% in Energy to £0.5bn. These increases were driven primarily by volume, mix and foreign exchange benefits.

- Underlying OE revenue growth of 38% to £3.8bn includes a contribution of £740m from Tognum. Excluding Tognum, growth of 11% reflects increases in all segments: up 8% in Civil Aerospace to £1.4bn reflecting increased engine deliveries, up 17% in Defence Aerospace to £0.7bn due to revenue mix and pricing, up 12% in Marine to £0.7bn due to growth in Offshore and foreign exchange benefits partially offset by pricing pressure in Offshore and Merchant, and up 6% in Energy to £0.2bn.

- Underlying services revenue growth of 18% to £3.6bn includes a contribution of £331m from Tognum. Excluding Tognum, growth of 7% reflects increases in all segments: up 3% in Civil Aerospace to £1.8bn broadly in line with installed thrust growth; up 1% in Defence Aerospace to £0.6bn due to higher sales of spare parts for military transport engines; up 21% in Marine to £0.5bn reflecting demand for spare parts sales in Offshore and in Naval submarines; and up 12% in Energy to £0.3bn due to increased market share.

- Underlying profit before tax growth of 34% to £840m includes a contribution of £53m from Tognum. Growth reflects the benefits of volume and £112m from the restructuring of IAE in 2012. In the business segments: Civil Aerospace increased by 59% to £486m; Defence Aerospace increased by 10% to £211m due to volume, revenue mix and cost improvement; and Marine decreased 8% to £135m due to adverse revenue mix and pricing pressure.

- Reported profit before financing of £884m (£1,271m in H1 2012) has fallen by 30% mainly due to the IAE disposal profit of £700m in 2012. Underlying to reported adjustments are further explained in note 2 on page 21.

- Both underlying profit before financing and reported profit before financing in 2012 have been restated by -£9m to reflect amendments to IAS 19, as further explained in note 9 on page 27.

Balance Sheet

- Net cash at the period end was £921m (£1.3bn at the end of 2012). The average net cash of £355m in the first half (average net debt of £590m in H1 2012) reflects the timing of the sale of our interest in IAE in 2012.

- The Group continues to have strong liquidity with £4bn of cash and committed facilities, including £1bn of additional funding raised in the first half. Debt maturities remain spread through to 2026.

- Pension liabilities increased by £425m on an accounting basis to £870m. This was primarily due to due to the consolidation of £397m of Tognum liabilities.

Cash Flow

- Our cash outflow of £461m, prior to Tognum, acquisitions, disposals and foreign exchange, reflects continued investment to support growth coupled with a £0.8bn increase in net working capital.

Full year 2013 Guidance

For the full year 2013, we maintain our guidance for the Group.

Excluding Tognum, we expect modest growth in underlying revenue and good growth in underlying profit, with cash flow around breakeven as we continue to invest for future growth.

In Civil Aerospace, we anticipate modest growth in revenue and strong growth in profit. In Defence Aerospace we expect modest growth in revenue and have changed our guidance on profit from a modest reduction to broadly flat. In Marine we expect modest growth in revenue and profit. And in Energy we expect some improvement in revenue and profit.

We expect Tognum's underlying revenue and underlying profit to be broadly flat, unchanged from previous guidance.

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Photographs and broadcast-standard video are available at www.rolls-royce.com.

A PDF copy of this report can be downloaded from www.rolls-royce.com/investors.

This Half Year Results Announcement contains forward-looking statements. Any statements that express forecasts, expectations and projections are not guarantees of future performance and will not be updated. By their nature, these statements involve risk and uncertainty, and a number of factors could cause material differences to the actual results or developments. This report is intended to provide information to shareholders, is not designed to be relied upon by any other party, or for any other purpose and the Company and its directors accept no liability to any other person other than under English law.

Business Segment Reviews[1]

Civil Aerospace

£ millions	H1 2013	H1 2012	Change
Order book	56,744	49,608*	14%
Engine deliveries	346	313**	11%
Underlying revenue	3,201	3,034	6%
Underlying OE revenue	1,422	1,314	8%
Underlying services revenue	1,779	1,720	3%
Underlying profit before financing	486	306	59%
Return on sales***	15.2%	10.1%	5.1pp

* 2012 year-end data
** Restated to exclude 220 V2500 deliveries
*** By reference to underlying profit before financing costs and tax

Financial

- The order book increased by 14% including new orders of £10.9bn (£6.0bn in H1 2012). Trent engines make up around 92% of our order book and we continue to grow market share. We remain committed to the narrow-body and corporate markets.

  Significant orders in the first half were:

  - Trent 700 engines and TotalCare for 20 Airbus A330s for Air China and Hong Kong Airlines.
  - Trent 1000 engines and TotalCare for 68 Boeing 787s for Singapore Airlines and International Airlines Group.
  - Trent XWB engines and TotalCare for 93 Airbus A350s for Singapore Airlines, Air Lease Corporation, International Airlines Group, CIT Group and United Airlines.

- Revenue increased by 6%, including an 8% increase in OE revenue which reflects an 11% increase in engine deliveries partly offset by adverse mix. Services revenue grew by 3%, broadly in line with the installed base of thrust.

- Profit increased by 59%. This includes the benefits of volume, £112m from the IAE restructuring completed in 2012 and £76m higher entry fees related to the Trent 1000-TEN and Trent XWB-97k programmes. These benefits were partially offset by product launch costs and restructuring charges.

Portfolio

- The Trent XWB powered the first flight of the Airbus A350 in June. The Trent XWB is the fastest-selling Trent engine, with orders for more than 1,400 engines already received.

- The Boeing 787-10 programme was launched with entry into service planned for 2016. The aircraft will be powered by the Trent 1000-TEN that will incorporate market-leading technology from the Trent XWB programme.

[1]Commentaries in all reviews relate to underlying revenue and underlying profits, unless specifically noted.

Defence Aerospace

£ millions	H1 2013	H1 2012	Change
Order book	4,936	5,157*	-4%
Engine deliveries	392	393	0%
Underlying revenue	1,236	1,134	9%
Underlying OE revenue	656	559	17%
Underlying services revenue	580	575	1%
Underlying profit before financing	211	192	10%
Return on sales**	17.1%	16.9%	0.2pp

* 2012 year-end data
** By reference to underlying profit before financing costs and tax

Financial

- The order book contracted by 4% reflecting the budgetary pressures on our major customers in Europe and North America. Although the order intake increased (£0.9bn compared with £0.6bn in H1 2012), this reflects the low level of orders in H1 2012 due primarily to the cancellation of C27J engines.

  Significant orders in the first half included:

  - A US$97m contract with the US Air Force for AE2100 engines to power C130J military transport aircraft.
  - An US$84m contract with the US Marine Corps and the US Air Force for AE1107C engines to power 19 V-22 Osprey military transport aircraft.
  - A $35m contract with the US Navy to service T56 engines for C130 and C2 military transport aircraft.
  - A contract with the Royal Saudi Air Force to service RB199 engines for Tornado combat aircraft.

- Revenue increased by 9%, reflecting a 17% increase in OE revenue and a 1% increase in services revenue. Growth in OE revenue was due to better revenue mix and pricing. Growth in services reflects higher sales of T56 and AE spare parts for military transport aircraft and repairs of engines for combat aircraft.

- Profit increased by 10%, reflecting the volume growth, favourable revenue mix, a lower R&D charge and cost improvement.

Portfolio

- We agreed to sell our 50% shareholding and interest in the RTM322 military helicopter engine programme to Turbomeca (a Safran company).

- US Navy achieved the first flight of the AE3007-powered Northrop Grumman Corporation-built MQ-4C Triton aircraft. Triton is a high-altitude, unmanned aircraft.

Marine

£ millions	H1 2013	H1 2012	Change
Order book	4,330	3,954*	10%
Underlying revenue	1,241	1,070	16%
Underlying OE revenue	697	622	12%
Underlying services revenue	544	448	21%
Underlying profit before financing	135	147	-8%
Return on sales**	10.9%	13.7%	-2.8pp

* 2012 year-end data
** By reference to underlying profit before financing costs and tax

Financial

- The order book increased 10% including an order intake of £1.7bn (£2.2bn in H1 2012). The decrease in new orders primarily reflects the UK Ministry of Defence £1.1bn order for submarine reactor core capability in H1 2012, partially offset by the new £0.8bn enabling contract this year for the Ministry of Defence submarines.

  Significant orders in the first half also included:

  - A 10-year enabling contract with the MoD that will sustain up to 2,000 jobs in the UK and deliver up to £200 million savings to the MoD for nuclear propulsion systems for the UK's existing and future submarine flotilla.
  - A contract with Detroit Chile SA for the delivery of offshore cranes to four platform supply vessels (PSVs) under construction at Detroit Brasil Ltda. shipyard, in Itajaì, Brazil.
  - An £11m contract with the Brazilian shipyard Aliança S/A Industria Naval e Empresa de Navegacao, a subsidiary of Fischer Group, and Brazilian ship owner Asgaard Navegação S.A for the design of and delivery of equipment to two offshore vessels for Asgaard.

- A contract for the Promas integrated rudder and propulsion system with ship builder Fincantieri Cantieri Navali Italiani S.p.A for two cruise ships for Viking Cruises.
- A contract to supply our innovative Promas Lite propulsion system to German based company AIDA Cruises as part of a technical upgrade of their Sphinx series cruise ships.

- Revenue increased by 16%, reflecting OE volume from improvement in the Offshore sector, services growth in Offshore and Naval and foreign exchange benefits.

- Profit decreased by 8% due to adverse revenue mix, pricing pressures and warranty charges, partially offset by cost reduction and favourable foreign exchange.

Portfolio

- We expanded our network of Marine services centres to 39 by opening a new facility in Guangzhou, to better serve our growing customer base in southern China.

- We delivered our first Environship, a revolutionary design and systems solution that reduces CO_2 emissions by up to 40% compared to similar diesel-powered vessels.

Energy

£ millions	H1 2013	H1 2012	Change
Order book	1,301	1,290*	1%
Underlying revenue	488	445	10%
Underlying OE revenue	189	179	6%
Underlying services revenue	299	266	12%
Underlying profit before financing	(3)	(6)	50%
Return on sales**	-0.6%	-1.3%	0.7pp

* 2012 year-end data
** By reference to underlying profit before financing costs and tax

Financial

- The order book increased 1%, with new orders of £0.5bn (£0.3bn in H1 2012). In Oil & Gas, high oil prices and global growth continue to sustain bid activity, albeit with pricing pressures and order deferrals by some customers. While the power generation market in mature economies remains suppressed, we are seeing growth in developing countries. We continue to invest for future growth in Civil Nuclear.

- Significant orders in the first half included:

  - A US$40m contract to supply Asia Trans Gas (ATG LLC), a joint venture between Uzbekistan's Uzbekneftegaz and China's National Petroleum Corporation, with three RB211 gas turbine driven pipeline compressor units.
  - A contract to supply CYDSA, the Mexican textile and chemicals conglomerate, with a Trent 60 industrial gas turbine to power its processing plants at Coatzacoalcos, Veracruz in Mexico.

- Revenue increased by 10%, reflecting a 6% increase in OE revenue and a 12% increase in services revenue. OE growth was driven by increased demand in Oil & Gas. Services growth was driven by higher spare parts sales and better capture of market share.

- Losses reduced by £3m.

Portfolio

- We announced the acquisition of PKMJ Technical Services, a nuclear engineering services business in the United States that develops innovative techniques and solutions to manage, enhance and extend the lifetime of nuclear power plants.

Power Systems (Tognum and Bergen)

£ millions	H1 2013	H1 2012
Order book	2,077	272*
Underlying revenue	1,239	142
Underlying OE revenue	826	66
Underlying services revenue	413	76
Underlying profit before financing	72	52
Return on sales**	5.8%	36.6%

* 2012 year-end data
** By reference to underlying profit before financing costs and tax

Rolls-Royce Power Systems Holding GmbH (Power Systems) is our joint venture with Daimler that was formerly known as Engine Holding GmbH. Power Systems comprises Tognum and Bergen Engines.

During 2012, we equity accounted for Tognum as a joint venture and for Bergen Engines on a consolidated basis. The following table shows a trading comparison as if both Tognum and Bergen Engines had been fully consolidated in 2012 as well as in 2013.

£ millions	H1 2013	H1 2012	Change

Order book	2,077	1,823*	14%
Underlying revenue	1,239	1,346	-8%
Underlying OE revenue	826	908	-9%
Underlying services revenue	413	438	-6%
Underlying profit before financing	72	132	-45%
Return on sales**	5.8%	9.8%	-4.0pp

* 2012 year-end data
** By reference to underlying profit before financing costs and tax

Financial (based on the trading comparison)

- The order book increased by 14%, with new orders of £1.4bn (£1.3bn in H1 2012). Significant orders in the first half included a contract with Alstom to supply over 300 railcar Powerpacks and contracts to supply 28 marine generator sets for Rolls-Royce offshore supply vessels in China and Brazil.
- Revenue decreased 8%, reflecting a 9% reduction in OE revenue and 6% lower services revenue. The lower OE revenue was due to weak sales in onshore Oil & Gas where the US fracking market and reduced gas prices have resulted in lower investments in new projects. Similarly, weak commodity prices have resulted in reduced activity in the mining sector where lower utilisation of equipment has depressed spare parts demand.
- Profit reduced by 45% due to lower revenue, higher R&D charges and lower fixed cost absorption.

Portfolio

- Work started on a new £50m R&D test facility at Plant 1 in Friedrichshafen, Germany that will develop new combustion processes, control systems and exhaust treatment for engines.
- MTU opened a new engine test cell facility at its service centre in Pune in India to test all MTU engines up to Series 4000 engines in the 300 to 4300kW power range for all applications.
- Tognum and JSC Transmasholding, one of Russia's biggest rolling stock manufacturers, agreed to set up a new joint venture to produce diesel engines in Kolomna, near Moscow. The new plant is expected to produce up to 1,000 engines a year for rail, mining and on-site power generation.

Additional Financial Information

Income statement

Underlying income statement extracts - £ millions	H1 2013	H1 2012	Change
Revenue	**7,320**	5,757	1,563
Civil Aerospace	**3,201**	3,034	167
Defence Aerospace	**1,236**	1,134	102
Marine	**1,241**	1,070	171
Energy	**488**	445	43
Power Systems	**1,239**	142	1,097
Intra-segment	**(85)**	(68)	(17)
Profit before financing costs and taxation	**872**	659	213
Civil Aerospace	**486**	306	180
Defence Aerospace	**211**	192	19
Marine	**135**	147	(12)
Energy	**(3)**	(6)	3
Power Systems	**72**	52	20
Intra-segment	**(2)**	(6)	4
Central costs	**(27)**	(26)	(1)
Net financing costs	**(32)**	(31)	(1)
Profit before taxation	**840**	628	212
Taxation	**(198)**	(137)	(61)
Profit for the period	**642**	491	151
EPS	**33.33p**	26.22p	7.11p
Payment to shareholders	**8.6p**	7.6p	1.0p
Other items			
Other operating income	**93**	17	76
Gross R&D investment	**558**	428	130
Net R&D charged to the income statement	**351**	285	66

- **Underlying revenue** increased by 27%, of which 18% is due to reporting Tognum revenue in 2013. The remaining 9% growth reflects 11% higher OE revenue and 7% higher services revenue with growth in all businesses. Further discussion is included in the business segment reports on pages 6 to 10.
- **Underlying profit before financing costs and taxation** increased by 32%. Further discussion of trading is included in the business segment reports on pages 6 to 10.
- **Underlying financing costs** increased by £1m to £32m, after including Tognum financing costs of £2m in 2013.
- **Underlying taxation** was £198m, an underlying tax rate of 23.6% compared with 21.8% in 2012.

- **Underlying EPS** increased 27% to 33.33 pence, lower than the corresponding increase in profit after tax after taking account of Daimler's 50% interest in Power Systems.

- **Payments to shareholders:** is made in the form of C Shares, which is explained on page 30. An interim payment to shareholders of 8.6 pence per share will be made, a 13% increase on 2012.

- **Other operating income** relates to programme receipts from partners, which reimburse past expenditure. These receipts increased by £76m due to the phasing of major new programmes.

- **Gross R&D investment** increased by 30%, of which 19% is due to consolidation of Tognum.

- **Net R&D charged to the income statement** increased by 23% to £351m reflecting consolidation of Tognum, increased investment and higher amortisation, partly offset by higher capitalisation due to the phasing of new programmes. (The reported R&D charge in the income statement includes the amortisation of development costs arising on the allocation of the Tognum purchase price. These are excluded from the underlying results.)

- **Foreign exchange** rate movements influence the reported income statement, the cash flow and closing net cash balance. The average and spot rates for the principal trading currencies of the Group are shown in the table below:

		H1 2013	H1 2012
	Opening spot rate	**1.63**	1.55
USD per GBP	Closing spot rate	**1.52**	1.57
	Average spot rate	**1.54**	1.58
	Opening spot rate	**1.23**	1.20
EUR per GBP	Closing spot rate	**1.17**	1.24
	Average spot rate	**1.18**	1.22

- The adjustments between the underlying income statement and the reported income statement are set out in note 2 to the condensed financial statements on page 21.

Balance sheet

Summary balance sheet - £ millions	H1 2013	FY 2012
Intangible assets	**4,993**	2,901
Property, plant and equipment	**3,231**	2,564
Net post-retirement scheme deficits	**(870)**	(445)
Net working capital	**253**	(1,100)
Net funds	**921**	1,317
Provisions	**(787)**	(461)
Net financial assets and liabilities	**(2,865)**	(127)
Investment in joint ventures and associates	**599**	1,800
(Liabilities)/assets held for sale	**(3)**	4
Other net assets and liabilities	**(342)**	(287)
Net assets	**5,130**	6,166
Other items		
USD hedge book	**$26,700**	$22,500
Net TotalCare assets	**1,550**	1,312
Gross customer finance contingent liabilities	**531**	569
Net customer finance contingent liabilities	**69**	70

- **Intangible assets** relate to goodwill, certification costs, participation fees, development expenditure, recoverable engine costs, software and other costs that represent long-term assets of the Group. These increased by £2.1bn. Of this £2.0bn arose on the consolidation of Tognum, with the balance of £0.1bn representing additional development, recoverable engine, certification and software costs, offset by annual amortisation charges. The carrying values of the intangible assets are assessed for impairment against the present value of forecast cash flows generated by the intangible asset. The principal risks remain: reductions in assumed market share; programme timings; increases in unit cost assumptions; and adverse movements in discount rates. There have been no significant impairments in the period. Further details are given in note 7 to the condensed financial statements on page 24.

- **Property, plant and equipment** increased by £667m of which £546m related to the consolidation of Tognum. Additions of £219m to the ongoing development and refreshment of facilities and tooling were largely offset by a depreciation charge of £176m. Foreign exchange movements increased the balance by £85m.

- **Net post-retirement scheme deficits** increased by £425m to £870m. This included deficits of £397m arising on the consolidation of Tognum. The remaining change largely reflects movements in the assumptions used to value the underlying assets and liabilities in accordance with IAS 19 - in particular the discount rate which is derived from AA corporate bond yields. The impact of the revisions to IAS 19 is described in note 9 to the condensed financial statements on pages 26 to 27.

- **Net working capital increased** by £1.35bn including £0.5bn due to the consolidation of Tognum, with the balance of £0.8bn primarily due to £261m higher inventory and £400m higher net long term contract debtors.

- **Net funds** reduced by £0.4bn to £0.9bn largely due to an increase in inventory and other working capital in advance of further growth in the second half of the year. Average net cash increased by £945m, largely as a result of the restructuring of IAE in June 2012.

- **Investment - joint ventures and associates** reduced by £1.2bn. This comprised a reduction of £1.3bn on the reclassification of Tognum to a subsidiary, offset by the Group's share of profits, net of dividends received, additions and foreign exchange movements of £97m.

- **Provisions -** increased by £326m primarily reflecting the inclusion of £290m provisions on the consolidation of Tognum.

- **Net financial assets and liabilities** relate to the fair value of foreign exchange, commodity and interest rate contracts and financial RRSPs and the put option on Power Systems, set out in detail in note 8 to the condensed financial statements. The change of £2.7bn reflects the impact of the change in the GBP/USD exchange rate on the valuation of foreign exchange contracts (£1bn) and the recognition of the put option on Tognum and subsequent movements on its value (£1.6bn).

- **USD hedge book** increased by 19% to US$26.7bn. This represents around five years of net exposure and has an average book rate of £1 to US$1.59.

- **Net TotalCare® assets** relate to long-term service agreement (LTSA) contracts in the civil aerospace business, including the flagship services product TotalCare. These assets represent the timing difference between the recognition of income and costs in the income statement and cash receipts and payments.

- **Customer financing** facilitates the sale of original equipment (OE) and services by providing financing support to certain customers. Where such support is provided by the Group, it is generally to customers of the civil aerospace business and takes the form of various types of credit and asset value guarantees. These exposures produce contingent liabilities that are outlined in note 10 to the condensed financial statements on page 27. The contingent liabilities represent the maximum aggregate discounted gross and net exposure in respect of delivered aircraft, regardless of the point in time at which such exposures may arise. During the period, the Group's gross exposure reduced modestly to £531m.

Condensed consolidated financial statements

Condensed consolidated income statement

For the half-year ended 30 June 2013

	Notes	**Half-year to 30 June 2013 £m**	Restated * Half-year to 30 June 2012 £m	Restated * Year to 31 December 2012 £m
Revenue	2	**7,345**	5,720	12,161
Cost of sales		**(5,815)**	(4,472)	(9,432)
Gross profit		**1,530**	1,248	2,729
Other operating income		**97**	17	33
Commercial and administrative costs		**(560)**	(476)	(993)
Research and development costs		**(380)**	(285)	(589)
Share of results of joint ventures and associates		**69**	67	173
Operating profit		**756**	571	1,353
Profit on disposal of businesses and reclassification of joint venture to subsidiary	12	**128**	700	699
Profit before financing and taxation		**884**	1,271	2,052
Financing income	3	**210**	309	1,173
Financing costs	3	**(1,585)**	(254)	(484)
Net financing		**(1,375)**	55	689
(Loss)/profit before taxation [1]		**(491)**	1,326	2,741
Taxation	5	**106**	(109)	(420)
(Loss)/profit for the period		**(385)**	1,217	2,321
Attributable to:				
Ordinary shareholders		**(358)**	1,211	2,307
Non-controlling interests		**(27)**	6	14
(Loss)/profit for the period		**(385)**	1,217	2,321
Earnings per ordinary share attributable to shareholders	4			
Basic		**(19.21p)**	65.46p	124.63p
Diluted		**(19.21p)**	64.53p	122.99p
Underlying earnings per ordinary share are shown in note 4.				
Payments to ordinary shareholders in respect of the period	6			
Pence per share		**8.6p**	7.6p	19.5p
Total		**162**	142	365
[1] Underlying profit before taxation	2	**840**	628	1,409

Condensed consolidated statement of comprehensive income

For the half-year ended 30 June 2013

	Half-year to June 30, 2013	Restated * Half-year to June 30, 2012	Restated * Year to December 31, 2012

	Notes	£m	£m	£m
(Loss)/profit for the period		**(385)**	1,217	2,321
Other comprehensive income (OCI)				
Items that will not be reclassified to profit or loss				
Movements in post-retirement schemes	9	**(4)**	(237)	(305)
Share of OCI of joint ventures and associates		**-**	-	(46)
Related tax movements		**6**	82	105
		2	(155)	(246)
Items that may be reclassified to profit or loss				
Foreign exchange translation differences on foreign operations		**258**	(102)	(118)
Share of OCI of joint ventures and associates		**(2)**	13	(12)
Related tax movements		**3**	(2)	(1)
		259	(91)	(131)
Total comprehensive (expense)/income for the period		**(124)**	971	1,944
Attributable to:				
Ordinary shareholders		**(133)**	966	1,931
Non-controlling interests		**9**	5	13
Total comprehensive (expense)/income for the period		**(124)**	971	1,944

* Restated to reflect the amendments to IAS 19 *Employee Benefits* - see note 9.

Condensed consolidated balance sheet

At 30 June 2013

			Restated *	
	Notes	**30 June 2013 £m**	30 June 2012 £m	31 December 2012 £m
ASSETS				
Non-current assets				
Intangible assets	7	**4,993**	2,865	2,901
Property, plant and equipment		**3,231**	2,394	2,564
Investments - joint ventures and associates		**599**	1,833	1,800
Investments - other		**28**	10	6
Other financial assets	8	**135**	302	592
Deferred tax assets		**633**	423	291
Post-retirement scheme surpluses	9	**251**	355	348
		9,870	8,182	8,502
Current assets				
Inventories		**3,894**	2,742	2,726
Trade and other receivables		**5,084**	4,015	4,119
Taxation recoverable		**29**	15	33
Other financial assets	8	**67**	73	115
Short-term investments		**948**	12	11
Cash and cash equivalents		**2,492**	2,160	2,585
Assets held for sale		**22**	5	4
		12,536	9,022	9,593
Total assets		**22,406**	17,204	18,095
LIABILITIES				
Current liabilities				
Borrowings		**(371)**	(4)	(149)
Other financial liabilities	8	**(2,021)**	(110)	(312)
Trade and other payables		**(7,304)**	(6,732)	(6,387)
Current tax liabilities		**(153)**	(177)	(126)
Provisions for liabilities and charges		**(432)**	(253)	(220)
Liabilities associated with assets held for sale		**(25)**	-	-
		(10,306)	(7,276)	(7,194)
Non-current liabilities				
Borrowings		**(2,221)**	(1,407)	(1,234)
Other financial liabilities	8	**(973)**	(803)	(418)
Trade and other payables		**(1,297)**	(659)	(1,465)
Deferred tax liabilities		**(1,003)**	(490)	(584)
Provisions for liabilities and charges		**(355)**	(204)	(241)
Post-retirement scheme deficits	9	**(1,121)**	(819)	(793)
		(6,970)	(4,382)	(4,735)
Total liabilities		**(17,276)**	(11,658)	(11,929)
Net assets		**5,130**	5,546	6,166
EQUITY				
Attributable to ordinary shareholders				
Called-up share capital		**376**	374	374
Share premium account		**79**	-	-
Capital redemption reserve		**166**	172	169
Cash flow hedging reserve		**(64)**	(58)	(63)
Other reserves		**540**	350	314
Retained earnings		**3,353**	4,654	5,355
		4,450	5,492	6,149
Non-controlling interests		**680**	54	17
Total equity		**5,130**	5,546	6,166

* Restated to reflect the amendments to IAS 19 *Employee Benefits* - see note 9.

Condensed consolidated cash flow statement

For the half-year ended 30 June 2013

Restated *

Year to

	Notes	Half-year to 30 June 2013 £m	Half-year to 30 June 2012 £m	31 December 2012 £m
Reconciliation of cash flows from operating activities				
Operating profit		**756**	571	1,353
Profit on disposal of property, plant and equipment		**-**	(9)	(9)
Share of results of joint ventures and associates		**(69)**	(67)	(173)
Dividends received from joint ventures and associates		**40**	65	129
Amortisation of intangible assets		**189**	115	231
Depreciation of property, plant and equipment		**176**	122	256
Impairment of investments		**-**	-	2
Increase/(decrease) in provisions		**11**	(38)	(40)
Increase in inventories		**(350)**	(200)	(158)
Increase in trade and other receivables		**(487)**	(248)	(284)
Increase/(decrease) in trade and other payables		**13**	(69)	267
Movement in other financial assets and liabilities		**39**	7	(29)
Net defined benefit post-retirement cost recognised in operating profit	9	**105**	85	173
Cash funding of defined benefit post-retirement schemes	9	**(160)**	(144)	(299)
Share-based payments		**14**	27	55
Net cash inflow from operating activities before taxation		**277**	217	1,474
Taxation paid		**(88)**	(69)	(219)
Net cash inflow from operating activities		**189**	148	1,255
Cash flows from investing activities				
Additions of unlisted investments		**(1)**	-	-
Disposals of unlisted investments		**3**	-	4
Additions of intangible assets	7	**(155)**	(126)	(250)
Disposals of intangible assets		**-**	-	1
Purchases of property, plant and equipment		**(283)**	(237)	(435)
Government grants received		**8**	8	10
Disposals of property, plant and equipment		**6**	26	30
Acquisitions of businesses	12	**(12)**	(2)	(20)
Cash and cash equivalents in joint venture reclassified to subsidiary	12	**240**	-	-
Buyout of preference shares in subsidiary		**(34)**	-	-
Restructuring of IAE	12	**-**	953	942
Disposals of businesses	12	**15**	-	-
Investments in joint ventures and associates		**(41)**	(16)	(24)
Transfer of subsidiary to associate		**-**	(1)	(1)
Repayment of loan to Rolls-Royce Power Systems Holding GmbH		**-**	167	167
Net cash inflow/(outflow) from investing activities		**(254)**	772	424
Cash flows from financing activities				
Repayment of loans		**-**	-	(99)
Proceeds from increase in loans	8	**1,037**	221	221
Net cash flow from increase in borrowings		**1,037**	221	122
Interest received		**7**	7	11
Interest paid		**(43)**	(40)	(52)
Increase in short-term investments		**(937)**	(1)	-
Issue of ordinary shares (net of expenses)		**-**	-	-
Purchase of ordinary shares		**(1)**	(94)	(94)
Dividend to NCI		**(60)**	-	-
Redemption of C Shares		**(138)**	(124)	(318)
Net cash outflow from financing activities		**(135)**	(31)	(331)
Net (decrease)/increase in cash and cash equivalents		**(200)**	889	1,348
Cash and cash equivalents at 1 January		**2,585**	1,291	1,291
Exchange gains/(losses) on cash and cash equivalents		**107**	(23)	(54)
Cash and cash equivalents at period end		**2,492**	2,157	2,585

* Restated to reflect the amendments to IAS 19 *Employee Benefits* - see note 9.

	Half-year to 30 June 2013 £m	Half-year to 30 June 2012 £m	Year to 31 December 2012 £m
Reconciliation of movements in cash and cash equivalents to movements in net funds			
Net (decrease)/increase in cash and cash equivalents	**(200)**	889	1,348
Net cash flow from increase in borrowings	**(1,037)**	(221)	(122)
Net cash flow from increase in short-term investments	**937**	1	-
Change in net funds resulting from cash flows	**(300)**	669	1,226
Net funds (excluding cash and cash equivalents) of businesses acquired	**(203)**	-	(78)
Exchange gains/(losses) on net funds	**107**	(23)	(54)
Fair value adjustments	**31**	(2)	2
Movement in net funds	**(365)**	644	1,096
Net funds at 1 January excluding the fair value of swaps	**1,213**	117	117
Net funds at period end excluding the fair value of swaps	**848**	761	1,213
Fair value of swaps hedging fixed rate borrowings	**73**	108	104
Net funds at period end	**921**	869	1,317

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

	At 1 January 2013 £m	Funds flow £m	Net funds of businesses acquired £m	Exchange differences £m	Fair value adjustments £m	Reclassification £m	At 30 June 2013 £m

Cash at bank and in hand	**674**	**135**		**36**	**-**	**-**	**845**
Money market funds	**408**	**101**		**-**	**-**	**-**	**509**
Short-term deposits	**1,503**	**(436)**		**71**	**-**	**-**	**1,138**
Cash and cash equivalents	**2,585**	**(200)**	**-**	**107**	**-**	**-**	**2,492**
Investments	**11**	**937**	**-**	**-**	**-**	**-**	**948**
Other current borrowings	**(149)**	**(14)**	**-**	**-**	**(8)**	**(200)**	**(371)**
Non-current borrowings	**(1,233)**	**(1,023)**	**(203)**	**-**	**39**	**200**	**(2,220)**
Finance leases	**(1)**	**-**	**-**	**-**	**-**	**-**	**(1)**
Net funds excluding the fair value of swaps	**1,213**	**(300)**	**(203)**	**107**	**31**	**-**	**848**
Fair value of swaps hedging fixed rate borrowings	**104**				**(31)**	**-**	**73**
Net funds	**1,317**	**(300)**	**(203)**	**107**	**-**	**-**	**921**

Condensed consolidated statement of changes in equity

For the half-year ended 30 June 30, 2013

	Attributable to ordinary shareholders								
	Share capital £m	Share premium £m	Capital redemption reserve £m	Cash flow hedging reserve £m	Other reserves [1] £m	Retained earnings [2] £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2012, as previously reported	**374**	**-**	**173**	**(52)**	**433**	**3,590**	**4,518**	**1**	**4,519**
Effect of amendments to IAS 19 - see note 9	-	-	-	-	-	67	67	-	67
At 1 January 2012, as restated	**374**	**-**	**173**	**(52)**	**433**	**3,657**	**4,585**	**1**	**4,586**
Total comprehensive income for the period	**-**	**-**	**-**	**(6)**	**(83)**	**1,055**	**966**	**5**	**971**
Issue of C Shares	-	-	(129)	-	-	2	(127)	-	(127)
Redemption of C Shares	-	-	128	-	-	(128)	-	-	-
Ordinary shares purchased	-	-	-	-	-	(94)	(94)	-	(94)
Share-based payments - direct to equity	-	-	-	-	-	35	35	-	35
Transactions with NCI [3]	-	-	-	-	-	115	115	48	163
Related tax movements	-	-	-	-	-	12	12	-	12
Other changes in equity in the period	**-**	**-**	**(1)**	**-**	**-**	**(58)**	**(59)**	**48**	**(11)**
At June 30, 2012	**374**	**-**	**172**	**(58)**	**350**	**4,654**	**5,492**	**54**	**5,546**
Total comprehensive income for the period	**-**	**-**	**-**	**(5)**	**(36)**	**1,006**	**965**	**8**	**973**
Issue of C Shares	-	-	(199)	-	-	2	(197)	-	(197)
Redemption of C Shares	-	-	196	-	-	(196)	-	-	-
Share-based payments - direct to equity	-	-	-	-	-	12	12	-	12
Transactions with NCI	-	-	-	-	-	1	1	-	1
Initial recognition of put option on NCI	-	-	-	-	-	(121)	(121)	(45)	(166)
Related tax movements	-	-	-	-	-	(3)	(3)	-	(3)
Other changes in equity in the period	**-**	**-**	**(3)**	**-**	**-**	**(305)**	**(308)**	**(45)**	**(353)**
At 31 December 2012	**374**	**-**	**169**	**(63)**	**314**	**5,355**	**6,149**	**17**	**6,166**
Total comprehensive (expense)/income for the period	**-**	**-**	**-**	**(1)**	**226**	**(358)**	**(133)**	**9**	**(124)**
Issue of ordinary shares [2]	2	79	-	-	-	(81)	-	-	-
Issue of C Shares	-	-	(142)	-	-	1	(141)	-	(141)
Redemption of C Shares	-	-	139	-	-	(139)	-	-	-
Ordinary shares purchased	-	-	-	-	-	(1)	(1)	-	(1)
Share-based payments - direct to equity [4]	-	-	-	-	-	46	46	-	46
Reclassification of Tognum to a subsidiary [5]	-	-	-	-	-	-	-	669	669
Initial recognition of put option on NCI [5]	-	-	-	-	-	(1,477)	(1,477)	45	(1,432)
Dividend paid to NCI	-	-	-	-	-	-	-	(60)	(60)
Related tax movements	-	-	-	-	-	7	7	-	7
Other changes in equity in the period	**2**	**79**	**(3)**	**-**	**-**	**(1,644)**	**(1,566)**	**654**	**(912)**
At 30 June 2013	**376**	**79**	**166**	**(64)**	**540**	**3,353**	**4,450**	**680**	**5,130**

[1] Other reserves include a merger reserve of £3m and a translation reserve of £537m.

[2] At 30 June 2013, 12,276,154 shares with a book value of £92m were held for the purposes of share-based payment plans and included in retained earnings. During the period, the Company issued 7,937,987 new ordinary shares at market value of £81m and acquired 171,035 ordinary shares through purchases on the London Stock Exchange for use in share-based payment plans. A charge of £1,598m relating to the initial recognition of the put option on the RRPSH NCI is included in retained earnings.

[3] On 2 January 2012, the Group contributed its interest in Bergen Engines AS to Rolls-Royce Power Systems Holding GmbH (previously Engine Holding GmbH), a company jointly held by Rolls-Royce and Daimler AG. Under the terms of agreement with Daimler, Rolls-Royce has retained certain rights such that Bergen Engines continues to be classified as a subsidiary and consolidated.

[4] Share-based payments- direct to equity is the net of the credit to equity in respect of the share-based charge to the income statement and the actual cost of shares vesting in the period, excluding those vesting from shares already held.

[5] On 1 January 2013, the Group exercised rights that resulted in Tognum AG being classified as a subsidiary and consolidated - see note 12. In addition, £45m of the initial recognition of the put option on NCI relating to Bergen Engines AS, recognised in 2012, has been reclassified from NCI to retained earnings.

1 Basis of preparation and accounting policies

Reporting entity

Rolls-Royce Holdings plc is a company domiciled in the UK. These condensed consolidated half-year financial statements of the Company as at and for the six months ended 30 June 2013 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in joint ventures and associates.

The consolidated financial statements of the Group as at and for the year ended 31 December 2012 (2012 Annual report) are available upon request from the Company Secretary, Rolls-Royce Holdings plc, 65 Buckingham Gate, London SW1E 6AT.

Statement of compliance

These condensed consolidated half-year financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union. They do not include all of the information required for full annual statements, and should be read in conjunction with the 2012 Annual report.

The comparative figures for the financial year 31 December 2012 are not the Group's statutory accounts for that financial year. Those accounts have been reported on by the Group's auditors and delivered to the registrar of companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The Board of directors approved the condensed consolidated half-year financial statements on 24 July 2013.

Significant accounting policies

Except as described below, the accounting policies applied by the Group in these condensed consolidated half-year financial statements are the same as those that applied to the consolidated financial statements of the Group for the year ended 31 December 2012 (International Financial Reporting Standards issued by the International Accounting Standards Board (IASB), as adopted for use in the EU effective at 31 December 2012).

With effect from 1 January 2013, the Group has adopted the amendments to IAS 19 *Employee Benefits* issued by the IASB in June 2011. A description of these amendments and their effect is set out in note 9. The comparative figures have been restated on the same basis.

Key sources of estimation uncertainty

In applying the accounting policies, management has made appropriate estimates in many areas, and the actual outcome may differ from those calculated. The key sources of estimation uncertainty at the balance sheet date were the same as those that applied to the consolidated financial statements of the Group for the year ended 31 December 2012.

2 Analysis by business segment

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

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

Underlying revenues - Where revenues are denominated in a currency other than the functional currency of the Group undertaking, these reflect the achieved exchange rates arising on settled derivative contracts.

Underlying profit before financing - Where transactions are denominated in a currency other than the functional currency of the Group undertaking, this reflects the transactions at the achieved exchange rates on settled derivative contracts. The revaluation effects of acquisition accounting are excluded. In 2013, the impact of the reclassification of Tognum to a subsidiary and the profit on disposal of Tidal Generation Limited (see note 12) have been excluded. In 2012, the profit arising on the restructuring of IAE was also excluded.

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

- Includes amounts realised from settled derivative contracts and revaluation of relevant assets and liabilities to exchange rates forecast to be achieved from future settlement of derivative contracts; and
- Excludes unrealised amounts arising from revaluations required by IAS 39 *Financial Instruments: Recognition and Measurement*, changes in value of financial RRSP contracts arising from changes in forecast payments, changes in the value of put options on NCI and the net impact of financing costs related to post-retirement scheme benefits. In 2013, the effect of revaluing preference shares in Tognum, prior to their acquisition by the Group, has also been excluded.

This analysis also includes a reconciliation of the underlying results to those reported in the consolidated income statement. The 2012 figures have been restated to reflect the amendments to IAS 19 - see note 9.

	Half-year to 30 June 2013			Half-year to 30 June 2012			Year to 31 December 2012		
	Original equipment £m	**Aftermarket £m**	**Total £m**	Original equipment £m	Aftermarket £m	Total £m	Original equipment £m	Aftermarket £m	Total £m
Underlying revenues									
Civil aerospace	**1,422**	**1,779**	**3,201**	1,314	1,720	3,034	2,934	3,503	6,437
Defence aerospace	**656**	**580**	**1,236**	559	575	1,134	1,231	1,186	2,417
Marine	**697**	**544**	**1,241**	622	448	1,070	1,288	961	2,249
Energy	**189**	**299**	**488**	179	266	445	344	618	962
Power Systems	**826**	**413**	**1,239**	66	76	142	118	169	287
Eliminate intra-segment revenue	**(39)**	**(46)**	**(85)**	(17)	(51)	(68)	(22)	(121)	(143)
	3,751	**3,569**	**7,320**	2,723	3,034	5,757	5,893	6,316	12,209

	Half-year to 30 June 2013 £m	Half-year to 30 June 2012 £m	Year to 31 December 2012 £m
Underlying profit before financing			
Civil aerospace	**486**	306	718
Defence aerospace	**211**	192	395
Marine	**135**	147	294
Energy	**(3)**	(6)	19
Power Systems	**72**	52	109
Eliminate intra-segment profit	**(2)**	(6)	(11)
Reportable segments	**899**	685	1,524
Underlying central items	**(27)**	(26)	(54)
Underlying profit before financing and taxation	**872**	659	1,470
Underlying net financing	**(32)**	(31)	(61)
Underlying profit before taxation	**840**	628	1,409
Underlying taxation	**(198)**	(137)	(311)
Underlying profit for the period	**642**	491	1,098
Attributable to:			
Ordinary shareholders	**621**	485	1084
Non-controlling interests	**21**	6	14
Total comprehensive income for the period	**642**	491	1,098

	Total assets			**Total liabilities**			**Net assets/(liabilities)**		
	30 June 2013 £m	30 June 2012 £m	31 December 2012 £m	**30 June 2013 £m**	30 June 2012 £m	31 December 2012 £m	**30 June 2013 £m**	30 June 2012 £m	31 December 2012 £m
Civil aerospace	**9,189**	8,585	9,123	**(6,047)**	(5,701)	(5,598)	**3,142**	2,884	3,525
Defence aerospace	**1,534**	1,360	1,412	**(1,765)**	(1,773)	(1,797)	**(231)**	(413)	(385)
Marine	**2,139**	2,167	2,063	**(1,476)**	(1,458)	(1,467)	**663**	709	596
Energy	**1,544**	1,295	1,329	**(660)**	(528)	(570)	**884**	767	759
Power Systems	**4,133**	1,543	1,478	**(3,005)**	(120)	(282)	**1,128**	1,423	1,196
Eliminations	**(579)**	(819)	(682)	**566**	819	671	**(13)**	-	(11)
Reportable segments	**17,960**	14,131	14,723	**(12,387)**	(8,761)	(9,043)	**5,573**	5,370	5,680
Net funds	**3,533**	2,280	2,700	**(2,612)**	(1,411)	(1,383)	**921**	869	1,317
Tax assets/(liabilities)	**662**	438	324	**(1,156)**	(667)	(710)	**(494)**	(229)	(386)
Post-retirement scheme surpluses/(deficits)	**251**	355	348	**(1,121)**	(819)	(793)	**(870)**	(464)	(445)
	22,406	17,204	18,095	**(17,276)**	(11,658)	(11,929)	**5,130**	5,546	6,166

	30 June 2013	30 June 2012	31 December 2012
Group employees at period end			

Civil aerospace	**23,600**	21,100	23,500
Defence aerospace	**7,800**	7,800	8,100
Marine	**9,100**	8,800	9,100
Energy	**3,900**	3,600	4,000
Power Systems	**11,200**	1,000	1,000
	55,600	42,300	45,700

Underlying revenue adjustments	**Half-year to 30 June 2013 £m**	Half-year to 30 June 2012 £m	Year to 31 December 2012 £m
Underlying revenue	**7,320**	5,757	12,209
Recognise revenue at exchange rate on date of transaction	**25**	(37)	(48)
Revenue per consolidated income statement	**7,345**	5,720	12,161

Underlying profit adjustments	**Half-year to 30 June 2013**			Half-year to 30 June 2012			Year to 31 December 2012		
	Profit before financing £m	Net financing £m	Taxation £m	Profit before financing £m	Net financing £m	Taxation £m	Profit before financing £m	Net financing £m	Taxation £m
Underlying performance	**872**	**(32)**	**(198)**	659	(31)	(137)	1,470	(61)	(311)
Realised losses/(gains) on settled derivative contracts[1]	**14**	**(54)**	**-**	(26)	26	-	(25)	-	-
Net unrealised fair value changes to derivative contracts[2]	**(1)**	**(1,057)**	**-**	(6)	66	-	-	747	-
Effect of currency on contract accounting	**(1)**	**-**	**-**	(14)	-	-	(23)	-	-
Revaluation of trading assets and liabilities	**-**	**(7)**	**-**	-	(4)	-	-	-	-
Put option on NCI and financial RRSPs - exchange differences and changes in forecast payments	**-**	**(202)**	**-**	-	2	-	-	11	-
Effect of acquisition accounting	**(128)**		**-**	(42)	-	-	(69)	-	-
Net post-retirement scheme financing	**-**	**(15)**	**-**	-	(4)	-	-	(8)	-
Gain on reclassification of joint venture to subsidiary	**115**	**-**	**-**	-	-		-	-	
Other[3]	**13**	**(8)**	**-**	-	-		-	-	
Related tax effect	**-**	**-**	**304**	-	-	(9)	-	-	(146)
IAE restructuring	**-**	**-**	**-**	700	-	37	699	-	37
Total underlying adjustments	**12**	**(1,343)**	**304**	612	86	28	582	750	(109)
Reported per consolidated income statement	**884**	**(1,375)**	**106**	1,271	55	(109)	2,052	689	(420)

[1] The adjustments for realised losses/(gains) on settled derivative contracts include adjustments to reflect the losses/(gains) in the same period as the related trading cash flows. The adjustments in 2012 exclude amounts settled in respect of the IAE restructuring (£6m loss).

[2] The adjustments for unrealised fair value changes to derivative contracts include those included in equity accounted joint ventures and exclude those for which the related trading contracts have been cancelled when the fair value changes are recognised immediately in underlying profit.

[3] Other includes the exclusion of a gain on the disposal of Tidal Generation Limited and the revaluation of preference shares in Tognum AG, which have now been acquired.

3 Net financing

	Half-year to 30 June 2013		Restated * Half-year to 30 June 2012		Restated * Year to 31 December 2012	
	Per consolidated income statement £m	***Underlying financing £m***	Per consolidated income statement £m	*Underlying financing £m*	Per consolidated income statement £m	*Underlying financing £m*
Financing income						
Interest receivable	**7**	***7***	5	*5*	10	*10*
Fair value gains on foreign currency contracts	**-**	**-**	79	-	750	-
Put option on NCI and financial RRSPs - foreign exchange differences and changes in forecast payments	**-**	**-**	2	-	11	-
Financing on post-retirement scheme assets	**203**	**-**	201	-	402	-
Net foreign exchange gains	**-**	**-**	22	-	-	-
	210	***7***	309	*5*	1,173	*10*
Financing costs						
Interest payable	**(28)**	***(28)***	(25)	*(25)*	(51)	*(51)*
Fair value losses on foreign currency contracts	**(1,016)**	**-**	-	-	-	-
Put option on NCI and financial RRSPs - foreign exchange differences and changes in forecast payments	**(202)**	**-**	-	-	-	-
Financial charge relating to financial RRSPs	**(4)**	***(4)***	(5)	*(5)*	(10)	*(10)*
Fair value losses on commodity derivatives	**(41)**	**-**	(13)	-	(3)	-
Financing on post-retirement scheme liabilities	**(218)**	**-**	(205)	-	(410)	-
Net foreign exchange losses	**(61)**	**-**	-	-	-	-
Other financing charges	**(15)**	***(7)***	(6)	*(6)*	(10)	*(10)*
	(1,585)	***(39)***	(254)	*(36)*	(484)	*(71)*
Net financing	**(1,375)**	***(32)***	55	*(31)*	689	*(61)*
Analysed as:						
Net interest payable	**(21)**	***(21)***	(20)	*(20)*	(41)	*(41)*
Net post-retirement scheme financing	**(15)**	**-**	(4)	-	(8)	-
Net other financing	**(1,339)**	***(11)***	79	*(11)*	738	*(20)*
Net financing	**(1,375)**	***(32)***	55	*(31)*	689	*(61)*

* Restated to reflect the amendments to IAS 19 *Employee Benefits* - see note 9.

4 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 period, excluding ordinary shares held under trust, which have been treated as if they had been cancelled. Diluted EPS are calculated by adjusting the weighted average number of ordinary shares in issue during the period for the bonus element of share options.

	Half-year to 30 June 2013			Restated * Half-year to 30 June 2012			Restated * Year to 31 December 2012		
	Basic	**Potentially dilutive share options[1]**	**Diluted**	Basic	Potentially dilutive share options	Diluted	Basic	Potentially dilutive share options	Diluted
Profit/(loss) (£m)	**(358)**	**-**	**(358)**	1,211	-	1,211	2,307	-	2,307
Weighted average shares (millions)	**1,863**	**-**	**1,863**	1,850	27	1,877	1,851	25	1,876

EPS (pence)	**(19.21)**	**-**	**(19.21)**	65.46	(0.93)	64.53	124.63	(1.64)	122.99

[1] As the basic EPS was negative, in accordance with IAS 33 *Earnings per Share*, share options were not considered dilutive. For diluted underlying EPS, the diluted weighted average number of shares is 1,888m.

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

			Restated *			
	Half-year to 30 June 2013		Half-year to 30 June 2012		Year to 31 December 2012	
	Pence	**£m**	Pence	£m	Pence	£m
Underlying EPS / Underlying profit attributable to ordinary shareholders	**33.33**	**621**	26.22	485	58.56	1,084
Non-controlling interest on non-underlying movements	**2.58**	**48**	-	-	-	-
Total underlying adjustments to profit before tax (note 2)	**(71.43)**	**(1,331)**	37.73	698	71.96	1,332
Related tax effects	**16.31**	**304**	1.51	28	(5.89)	(109)
EPS / Profit attributable to ordinary shareholders	**(19.21)**	**(358)**	65.46	1,211	124.63	2,307
Excluding IAE restructuring	**(19.21)**	**(358)**	25.62	474	84.88	1,571
IAE restructuring	**-**	**-**	39.84	737	39.75	736
Diluted underlying EPS	**32.90**		25.84		57.78	

* Restated to reflect the amendments to IAS 19 *Employee Benefits* - see note 9.

5 Taxation

The effective tax rate for the half year is 21.6% (2012 re-stated: half-year 8.2%, full year 15.3%).

The UK corporation tax rate reduced from 24% to 23% on 1 April 2013 and the effective tax rate takes this into account. The impact of the reduction to 23% was reflected in the 2012 closing deferred tax balances as the rate change was substantively enacted prior to the year end. The future reductions in the rate to 21% and 20% were substantively enacted on 2 July 2013 and will be reflected in the second half of 2013. It is not possible to assess the impact of the reduction in the tax rate on the full year closing deferred tax position, as this will be dependent on market conditions on 31 December 2013.

The impact of the reduction on the underlying effective tax rate for the full year is not expected to be significant.

6 Payments to shareholders in respect of the period

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

	Half-year to 30 June 2013		Year to 31 December 2012	
	Pence per share	**£m**	Pence per share	£m
Interim (issued in January)	**8.6**	**162**	7.6	142
Final (issued in July)			11.9	223
	8.6	**162**	19.5	365

7 Intangible assets

	Goodwill £m	**Certification costs and participation fees £m**	**Development expenditure £m**	**Recoverable engine costs £m**	**Software and other £m**	**Total £m**
Cost:						
At 1 January 2013	**1,111**	**740**	**981**	**499**	**619**	**3,950**
Exchange differences	**75**	**5**	**35**	**-**	**40**	**155**
Additions	**-**	**42**	**66**	**21**	**26**	**155**
On acquisition of business	**773**	**-**	**473**	**-**	**730**	**1,976**
Disposal of business	**(5)**	**-**	**-**	**-**	**-**	**(5)**
At 30 June 2013	**1,954**	**787**	**1,555**	**520**	**1,415**	**6,231**
Accumulated amortisation:						
At 1 January 2013	**9**	**225**	**312**	**295**	**208**	**1,049**
Exchange differences	**-**	**-**	**-**	**-**	**1**	**1**
Charge for the period	**-**	**19**	**62**	**14**	**94**	**189**
Impairment	**-**	**-**	**-**	**-**	**1**	**1**
Disposal of business	**(2)**	**-**	**-**	**-**	**-**	**(2)**
At 30 June 2013	**7**	**244**	**374**	**309**	**304**	**1,238**
Net book value at:						
30 June 2013	**1,947**	**543**	**1,181**	**211**	**1,111**	**4,993**
31 December 2012	1,102	515	669	204	411	2,901

Certification costs and participation fees, development expenditure 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% (2012 full year 11%), 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 (discount rate, exchange rate and airframe delays), could result in impairment in future periods.

8 Financial assets and liabilities

Other financial assets and liabilities comprise:

	Derivatives							
	Foreign exchange contracts	**Commodity contracts**	**Interest rate contracts**	**Total**	**Put option on NCI**	**Financial RRSPs**	**C Shares**	**Total**
At 30 June 2013								
Non-current assets	**73**	**-**	**62**	**135**	**-**	**-**	**-**	**135**
Current assets	**62**	**2**	**3**	**67**	**-**	**-**	**-**	**67**

Current liabilities	**(145)**	**(37)**	**-**	**(182)**	**(1,791)**	**(35)**	**(13)**	**(2,021)**
Non-current liabilities	**(762)**	**(17)**	**(22)**	**(801)**	**(2)**	**(170)**	**-**	**(973)**
	(772)	**(52)**	**43**	**(781)**	**(1,793)**	**(205)**	**(13)**	**(2,792)**
At 30 June 2012								
Non-current assets	210	3	89	302	-	-	-	302
Current assets	69	4	-	73	-	-	-	73
Current liabilities	(80)	(11)	(3)	(94)	-	(9)	(7)	(110)
Non-current liabilities	(567)	(21)	-	(588)	-	(215)	-	(803)
	(368)	(25)	86	(307)	-	(224)	(7)	(538)
At 31 December 2012								
Non-current assets	498	4	90	592	-	-	-	592
Current assets	104	6	5	115	-	-	-	115
Current liabilities	(97)	(8)	-	(105)	(167)	(30)	(10)	(312)
Non-current liabilities	(233)	(15)	(7)	(255)	-	(163)	-	(418)
	272	(13)	88	347	(167)	(193)	(10)	(23)

Derivative financial instruments

	Half-year to 30 June 2013				Half-year to 30 June 2012	Year to 31 December 2011
	Foreign exchange £m	**Commodity £m**	**Interest rate £m**	**Total £m**	Total £m	Total £m
At January 1	272	(13)	88	**347**	(378)	(378)
Business acquisition	4	(1)	-	**3**		
Movements in fair value hedges	14	-	(45)	**(31)**	3	(2)
Movements in cash flow hedges	-	-	-	**-**	(3)	(4)
Movements in other derivative contracts	(1,016)	(41)	-	**(1,057)**	67	748
Contracts settled	(46)	3	-	**(43)**	4	(17)
At period end	**(772)**	**(52)**	**43**	**(781)**	(307)	347

Put option on NCI and financial risk and revenue sharing partnerships (RRSPs)

	Put option on NCI		**Financial RRSPs**		
	Half-year to 30 June 2013 £m	Year to 31 December 2012 £m	**Half-year to 30 June 2013 £m**	Half-year to 30 June 2012 £m	Year to 31 December 2012 £m
At January 1	**(167)**	-	**(193)**	(230)	(230)
Cash paid to partners			4	6	35
On acquisition of business [1]	(2)				
Additions	(1,432)	(167)		-	-
Exchange adjustments included in OCI			(2)	3	1
Financing charge [2]			(4)	(5)	(10)
Excluded from underlying profit: [2]					
Change in put option value	(95)	(5)			
Exchange adjustments	(97)	5	(10)	1	9
Changes in forecast payments			-	1	2
At period end	**(1,793)**	(167)	**(205)**	(224)	(193)

[1] Arising on the reclassification of Tognum AG to a subsidiary - see note 12.

[2] Included in net financing.

Fair values of financial instruments equate to book values with the following exceptions:

	Half-year to 30 June 2013		Half-year to 30 June 2012		Year to 31 December 2012	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m	Book value £m	Fair value £m
Borrowings	**(2,592)**	**(2,806)**	(1,408)	(1,560)	(1,383)	(1,542)
Financial RRSPs	**(205)**	**(224)**	(224)	(247)	(193)	(215)

Fair values

The fair value of a financial instrument is the price at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms-length transaction. Fair values have been determined with reference to available market information at the balance sheet date, using the methodologies described below.

- Unlisted non-current investments primarily comprise bank deposits where the fair value approximates to the book value.
- The fair values of trade receivables and payables, short-term investments and cash and cash equivalents are assumed to approximate to cost either due to the short-term maturity of the instruments or because the interest rate of the investments is reset after periods not exceeding six months.
- Fair values of derivative financial assets and liabilities are estimated by discounting expected future contractual cash flows using prevailing interest rate curves. Amounts denominated in foreign currencies are valued at the exchange rate prevailing at the balance sheet date. These financial instruments are included on the balance sheet at fair value, derived from observable market prices (Level 2 as defined by IFRS 13 *Fair Value Measurement*).
- Borrowing and financial RRSPs are carried at amortised cost. Fair values are estimated by discounting expected future contractual cash flows using prevailing interest rate curves. Amounts denominated in foreign currencies are valued at the exchange rate prevailing at the balance sheet date. For financial RRSPs, the contractual cash flows are based on future trading activity, which is estimated based on latest forecasts.
- The fair value of the put option on NCI is determined in accordance with the contractual terms (Level 3 as defined by IFRS 13).

Borrowings

On 18 June 2013, the Group issued €750m 2.125% Notes maturing in 2021 and £375m 3.375% Notes maturing in 2026.

There were no other significant changes in the Group's borrowings during the six months ended 30 June 2013.

9 Pensions and other post-retirement benefits

The net post-retirement scheme deficit as at 30 June 2013 is calculated on a year to date basis, using the latest valuation as at 31 December 2012, updated to 30 June 2013 for the principal schemes.

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

	UK schemes £m	**Overseas schemes £m**	**Total £m**
At 1 January 2013, restated	**199**	**(644)**	**(445)**
Exchange adjustments	**-**	**(64)**	**(64)**
Current service cost	**(73)**	**(27)**	**(100)**

Past service cost	**(1)**	**(4)**	**(5)**
Net financing	**5**	**(20)**	**(15)**
Contributions by employer	**128**	**32**	**160**
Acquisition of business	**-**	**(397)**	**(397)**
Actuarial losses	**(389)**	**44**	**(345)**
Movement in unrecognised surplus [1]	**186**	**-**	**186**
Movement on minimum funding liability [2]	**155**	**-**	**155**
At 30 June 2013	**210**	**(1,080)**	**(870)**
Analysed as:			
Post-retirement scheme surpluses - included in non-current assets	**239**	**12**	**251**
Post-retirement scheme deficits - included in non-current liabilities	**(29)**	**(1,092)**	**(1,121)**
	210	**(1,080)**	**(870)**

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

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

Amendments to IAS 19

Prior period figures have been restated to reflect the adoption of the amendments to IAS 19 *Employee benefits*. Consequential tax effects have been reflected in deferred tax.

		As previously reported			Amendments			As restated		
	Note	UK	Overseas	Total	UK	Overseas	Total	UK	Overseas	Total
At 1 January 2012	A	252	(649)	(397)	17	93	110	269	(556)	(287)
Exchange adjustments		-	24	24	-	-	-	-	24	24
Current-service cost	B	(123)	(38)	(161)	(6)	(4)	(10)	(129)	(42)	(171)
Past-service cost	A	(2)	12	10	-	(12)	(12)	(2)	-	(2)
Net financing	C	(41)	(23)	(64)	58	(2)	56	17	(25)	(8)
Contributions by employer		250	47	297	2	-	2	252	47	299
Acquisition of business		5	-	5	-	-	-	5	-	5
Actuarial gains/(losses)	C	(689)	(98)	(787)	(125)	6	(119)	(814)	(92)	(906)
Movement in unrecognised surplus	C	465	-	465	64	-	64	529	-	529
Movement in minimum funding liability	C	63	-	63	9	-	9	72	-	72
At 31 December 2012		180	(725)	(545)	19	81	100	199	(644)	(445)
Post-retirement scheme surpluses		317	12	329				336	12	348
Post-retirement scheme deficits		(137)	(737)	(874)				(137)	(656)	(793)
		180	(725)	(545)				199	(644)	(445)

A Previously, the Group had an unrecognised past-service credit related to the restructuring of certain overseas healthcare schemes in 2011. This has now been recognised in full at 1 January 2012. As a consequence, the amortisation of this past-service credit in 2012 is eliminated. In addition, an adjustment has been made in the calculation of the defined benefit obligation on one of the UK schemes to put it on a consistent basis with the other schemes.

B Previously, all administrative costs were offset against the expected return on scheme assets. The amendments only allow this in respect of the costs of managing scheme assets, other administrative expenses are now included in the current service cost.

C Previously, net financing comprised the expected return on scheme assets based on the actual assets held and a financing charge on scheme liabilities calculated using a 'AA' corporate bond rate. The amendments require net financing to be calculated on the net asset or liability recognised on the balance sheet using a 'AA' corporate bond rate. The net financing charge has reduced principally because the Group's UK scheme assets include significant liability driven investment portfolios. The expected return on these is largely driven by UK Government gilt rates and this was lower than the 'AA corporate bond rates required by the amendments. The amendments to financing have a consequential impact on amounts recognised in OCI: (i) the change in assumed return on scheme assets affects the related actuarial gains or losses; and (ii) the implicit financing on movements in the unrecognised surplus and the minimum funding liability is now included in OCI rather than the income statement.

10 Contingent liabilities and contingent assets

In connection with the sale of its products the Group will, on some occasions, provide financing support for its customers. The Group's contingent liabilities related to financing arrangements are spread over many years and relate to a number of customers and a broad product portfolio.

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

	30 June 2013		31 December 2012	
	£m	***$m***	£m	*$m*
Gross contingent liabilities[1]	**531**	***806***	569	*925*
Contingent liabilities net of relevant security	**69**	***104***	70	*114*
Contingent liabilities net of relevant security reduced by 20% [2]	**114**	***172***	133	*216*

1 Gross contingent liabilities do not exclude insurance and indemnity arrangements

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.

On 6 December 2012 the Company announced that it had disclosed matters of concern to the Serious Fraud Office (SFO) relating to the use of intermediaries in certain overseas markets. The Company is continuing its investigations into its use of intermediaries across its business and is engaged with relevant government agencies in the UK and elsewhere regarding its findings.

The consequence of these disclosures will be decided by the regulatory authorities. It is too early to predict the outcomes, but these could include the prosecution of individuals and of the company. Accordingly, the potential for fines or other penalties cannot currently be assessed. As the investigation is ongoing, it is not possible to identify the timescale in which these issues might be resolved.

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. 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.

11 Related party transactions

Transactions with related parties are shown on page 119 of the annual report 2012. Significant transactions in the current financial period are as follows:

	Half-year to 30 June 2013 £m	Half-year to 30 June 2012 £m	Year to 31 December 2012 £m
Sales of goods and services to joint ventures and associates	**1,523**	1,976	2,937
Purchases of goods and services from joint ventures and associates	**(1,531)**	(1,410)	(3,082)

12 Acquisitions and disposals

Tognum

On 1 January 2013, conditions were fulfilled which gave the Group certain rights that result in Tognum AG being classified as a subsidiary and consolidated. Rolls-Royce and Daimler AG each hold 50% of the shares of Rolls-Royce Power Systems Holding GmbH (RRPSH), which itself held over 99% of the shares of Tognum AG. From 25 August 2011 to 31 December 2012 the Group's interest in Tognum was classified as a joint venture and equity accounted. Tognum is a premium supplier of engines, propulsion systems and components for Marine, Energy, Defence, and other industrial applications (often described as "off-highway" applications).

Accordingly, Rolls-Royce's current joint venture interest in RRPSH has been reclassified as a subsidiary. The fair values of the identifiable assets and liabilities assumed are £1,339 million, giving rise to goodwill of £773 million, as set out in the table below.

Identifiable assets acquired and liabilities assumed

	£m
Intangible assets	1,190
Property, plant and equipment	546
Investments in joint ventures, associates and other unlisted investments	53
Inventory	736
Trade and other receivables	480
Taxation recoverable	48
Cash and cash equivalents	240
Trade and other payables	(684)
Current tax liabilities	(75)
Borrowings	(203)
Other financial assets and liabilities	(27)
Deferred tax	(278)
Provisions	(290)
Post-retirement schemes	(397)
Total identifiable assets and liabilities	1,339
Goodwill arising	773
Total consideration	2,112
Put option on NCI	(1,432)
	680

Consideration satisfied by:	
Existing shareholding	1,443
NCI	669
	2,112

Net cash flow arising on acquisition:	
Cash consideration	-
Less: cash and cash equivalents acquired	(240)
Cash flow per cash flow statement	(240)

Identifiable intangible assets comprise:	
Development cost	53
Other	85
Trademark	104
Technology, patents and licenses	420
Customer relationships	434
Order backlog	94
	1,190

In accordance with the provisions of IFRS 3 *Business Combinations*, the Group has opted not to recognise goodwill in respect of the non-controlling interest. The existing joint venture investment holding in RRPSH has been revalued, giving rise to a gain of £115 million.

As part of the RRPSH shareholders' agreement, Daimler has the option to sell its shares in RRPSH to Rolls-Royce for a period of six years from 1 January 2013. The initial fair value of the exercise price of this option in respect of Tognum has been recognised as a liability (£1,432 million), which has been charged to NCI and retained earnings. Subsequent movements in the value of this liability will be included in the income statement, but excluded from the underlying results.

Other

On 30 April 2013, the Group acquired 100% of the issued share capital of Hyper-Therm High-Temperature Composites, Inc., a producer of state-of-the-art composite materials, including ceramic matrix composites (CMCs), engineered coatings and thermal-structural components. The acquisition cost (net of cash and borrowings acquired) has been allocated to identifiable assets and liabilities - principally other intangible assets.

On 29 January 2013, Alstom acquired the Group's wholly owned subsidiary Tidal Generation Limited. The Group recognised a profit before tax of £13m on the disposal.

On June 29, 2012, the Group sold its equity, programme share and related goodwill in IAE to Pratt & Whitney for US$1.5 billion, which gave rise to a profit before tax of £699 million.

Principal risks and uncertainties

Whilst the Group has a consistent strategy and long performance cycles, it continues to be exposed to a number of risks and has an established, structured approach to identifying, assessing and managing those risks.

The principal risks facing the Group for the remaining six months of the financial year are unchanged from those reported on page 18 and 19 of the annual report 2012, as set out below:

Product failure
Product not meeting safety expectations, or causing significant impact to customers or the environment through failure in quality control.

Business continuity
Complete breakdown of external supply chain or internal facilities that could be caused by destruction of key facilities, natural disaster, regional conflict, financial insolvency of a critical supplier or scarcity of materials which would reduce the ability to meet

Compliance
Non-compliance by the Group with legislation or other regulatory requirements in the heavily regulated environment in which it operates (for example: export controls; use of controlled chemicals and substances; and anti-bribery and corruption legislation) compromising the ability to conduct business in certain jurisdictions and exposing the Group to potential: reputational damage; financial penalties; debarment from government contracts for a period of time; and/or suspension of export privileges (including export credit financing), each of which could have a material adverse effect.

customer commitments, win future business or achieve operational results.

Competitor action
The presence of large, financially strong competitors in the majority of our markets means that the Group is susceptible to significant price pressure even where our markets are mature or the competitors are few. Our main competitors have access to significant government funding programmes as well as the ability to invest heavily in capability.

International trade friction
Geopolitical factors that lead to significant tensions between major trading parties or blocs which could impact the Group's operations. For example: explicit trade protectionism; differing tax or regulatory regimes; potential for conflict; or broader political issues.

Major product programme delivery
Failure to deliver a major product programme on time, to specification or technical performance falling significantly short of customer expectations would have potentially significant adverse financial and reputational consequences, including the risk of impairment of the carrying value of the Group's intangible assets and the impact of potential litigation.

Market shock
The Group is exposed to a number of market risks: some of which are of a macro-economic nature, for example, foreign currency exchange rates, and some which are more specific to the Group, for example, liquidity and credit risks or disruption to aircraft or other operations. Significant extraneous market events could also materially damage the Group's competitiveness and/or credit worthiness. This would affect operational results or the outcomes of financial transactions.

IT vulnerability
Breach of IT security causing controlled data to be lost, made inaccessible, corrupted or accessed by unauthorised users, impacting the Group's reputation.

Going concern

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the consolidated financial statements. The financial risk management objectives and policies of the Group and its exposure to price, credit, liquidity and cash flow risks are considered in the *Chief Financial Officer's review* on pages 12 to 15 and in *Additional financial information* on pages 37 and 38 of the annual report 2012.

Payments to shareholders

The Company makes payments to shareholders by allotting non-cumulative redeemable preference shares of 0.1 pence each (C Shares). Shareholders can opt to redeem the C Shares for a cash payment, or reinvest the cash proceeds by purchasing additional ordinary shares via the C Share Reinvestment Plan (CRIP), which is operated by our Registrar, Computershare Investor Services PLC. On 2 January 2014, 86 C Shares, with a total nominal value of 8.6 pence, will be allotted for each ordinary share to those shareholders on the register on 25 October 2013. The final day of trading with entitlement to C Shares is 23 October 2013. Shareholders wishing to redeem their C Shares, or participate in the CRIP, must lodge instructions with our Registrar to arrive no later than 5.00 pm on 2 December 2013. The payment of C Shares redemption monies will be made on 6 January 2014.

Statement of directors' responsibilities

The directors confirm that, to the best of their knowledge:

- the condensed consolidated half-year financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU;
- the interim management report includes a fair review of the information required by:

  (a) DTR 4.2.7R of the *Disclosure and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed consolidated half-year financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

  (b) DTR 4.2.8R of the *Disclosure and Transparency Rules*, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last Annual report that could do so.

The directors of Rolls-Royce Holdings plc at 13 February 2013 are listed in its annual report 2012 on pages 40 and 41. Since that date, the following changes have taken place:

- Sir Simon Roberson retired as non-executive Chairman at the conclusion of the AGM on 2 May 2013;
- Ian Davis was appointed as a non-executive director on 1 March 2013 and succeeded Sir Simon Robertson as Chairman at the conclusion of the AGM on 2 May 2013;
- Peter Byrom and Ian Strachan retired as non-executive directors at the conclusion of the AGM on 2 May 2013.

By order of the Board

John Rishton
Chief Executive
24 July 2013

Mark Morris
Chief Financial Officer
24 July 2013

Independent review report to Rolls-Royce Holdings plc

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2013 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated cash flow statement, the condensed consolidated statement of changes in equity and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA"). Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

Our responsibility
Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review
We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2013 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

Jimmy Daboo
for and on behalf of KPMG Audit Plc
Chartered Accountants, London
24 July 2013

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