News Release

Rolls-Royce

Trusted to deliver excellence

31 July, 2014

ROLLS-ROYCE HOLDINGS PLC
2014 HALF-YEAR RESULTS

Group Highlights

- Order book of £70.4bn, down 2%
- Underlying revenue of £6.8 billion, down 7%
- Underlying profit before tax of £644 million, down 20%
- Reported profit before tax of £717 million
- Announced the sale of the Energy business to Siemens, completion expected end 2014
- £1bn share buyback - conditional upon the Energy sale
- Agreed the acquisition of Daimler's 50% ownership in Power Systems
- Payment to shareholders of 9.0 pence per share, up 5%
- Group guidance maintained

£ millions	H1 2013*	H1 2014	Change
Order book**	71,612	70,439	-2%
Underlying revenue	7,320	6,836	-7%
Underlying profit before tax	804	644	-20%
Return on sales	11.4%	9.9%	-1.5pp
Underlying EPS	31.88p	25.64p	-20%
Half-year payment to shareholders	8.6p	9.0p	+ 5%
Reported revenue	7,345	6,632	-10%
Reported profit before tax	(527)	717	1,244
Reported EPS	(20.66)p	29.06p	49.72p
Net cash**	1,939	1,177	-762

* Restated to reflect the new accounting treatment for Risk & Revenue Sharing Arrangements
** 2013 H1 Order book and Net cash figures are 2013 year-end.

John Rishton, Chief Executive, said:

"Results for the first six months of 2014 are consistent with our guidance, reflecting the expected reduction in our Defence business and weaker trading in Marine, as well as adverse foreign exchange. We expect significant improvement in profit for the second half driven by higher revenue and cost reduction. While there are challenges, we maintain our full-year guidance for the Group.

The prospects for long-term growth remain outstanding across the Group and in particular in civil large engines where our market share of engines on order is over 50%. However, we will experience growing pains. For example, we are investing in new capacity ahead of delivering our order book and restructuring existing facilities to improve efficiency."

Group Overview[1]

In the first half of 2014, the Group order book was £70.4bn (£71.6bn at year-end 2013). We received a net order intake of £6.5bn and delivered £644m in underlying profit before tax.

As previously guided, the Group's financial performance in 2014 is weighted towards the second half. Our confidence for the rest of the year is based on good order cover for OE and for Aerospace services. While we have less visibility of the Marine & Industrial Power Systems (MIPs) aftermarket, this is traditionally weighted towards the second half.

This is a long-term business and we remain confident in its growth trajectory. We continue to make investments to deliver the £70bn order book and to deliver cost reduction. Among our investments in the first half, we opened a new £100m disc facility at Washington, Tyne and Wear in the UK. This plant has the capacity to manufacture 2,500 fan and turbine discs a year. Advanced manufacturing techniques and robotics will reduce disc manufacturing times by 50%.

Customer: In Aerospace, the Trent XWB engines that will power the first commercial flight of the A350 have been delivered to Airbus for the launch customer, Qatar Airways. More than 1,400 XWBs are on order, our fastest selling Trent engine. Technology drawn from the XWB has delivered thrust and efficiency improvements for the Trent 1000-TEN, that ran on a test bed for the first time in June this year and is on course for certification by the end of 2015.

In July at the Farnborough Airshow, we were pleased to announce a seventh member of the Trent family, the Trent 7000, that will exclusively power the new Airbus A330neo. It will bring together the experience of the Trent 700 with technology drawn from the Trent 1000 and the Trent XWB. Since this announcement, commitments for 127 aircraft have been announced.

The Group's on-time delivery of gas turbines to customers improved to 81% at the half-year from 74% at this time last year. There was also progress in Marine and in Power Systems. Better performance strengthens relationships with our customers and, over time, will help to reduce inventory and cost.

Concentration: The sale of our Energy gas turbine and compressor business to Siemens was announced in May and we expect this to complete around year-end. This agreement will give the Energy business greater opportunities as part of a much larger company and will allow Rolls-Royce to concentrate on the areas of business where we can add most value. Separately, we expect to complete our acquisition of the remaining 50% of Power Systems in the second half.

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[1] Group references to 'underlying profit' relate to 'underlying profit before tax'

Cost: We continue to focus on cost reduction to improve profitability. We have 600 engineers working to reduce cost, with 400 focused on original equipment and 200 on aftermarket. This is yielding benefits. On product cost, we are working hard to offset escalation. On aftermarket, we continue to drive cost down, for example, in our Civil Large Engine business we have improved the reliability of our Trent 700 engines, reducing maintenance costs.

Restructuring costs in the first half were £67m compared with £35m in H1 2013, most of which were severance costs that will produce benefits from the second half. Commercial and Administrative (C&A) costs were lower in the first half, including the benefit of lower indirect headcount. This was reduced by 11% by the end of 2013, and with a similar amount targeted by the end of 2014.

In the last five years, the Group has invested over £2 billion in infrastructure to support future growth, with new facilities often being built alongside the older ones. As these new more efficient facilities come on line with new tooling and modern processes, we will retire older facilities and reduce our operational footprint by 20% by 2020.

Cash: Cost reduction will drive cash improvements. In addition, we continue to make progress on inventory efficiency. Inventory turns were 3.2 times at the half year, an improvement of 0.4 turns from a year ago. This is slightly down on the 2013 full year figure of 3.4 times due to the expected seasonality of inventory and load patterns in the first half. This excludes Power Systems.

Foreign Exchange

The Group has significant exposure to foreign currencies and the strength of sterling has impacted our results.

About half of the Group’s underlying revenue is exposed to the effects of translational foreign exchange. This relates mainly to US$ and Euro revenues recognised by our overseas entities, where revenue and profits are translated into sterling at the prevailing spot rate.

A one cent movement in the average US$ rate will affect underlying revenue and profit on an annual basis by £15m and £2.5m respectively. A one cent movement in the average Euro rate will affect underlying revenue and profit on an annual basis by £40m and £4m respectively.

The principal foreign exchange rates during the first half of 2014 were:

Average rates	H1 2013	H1 2014
US$/GBP	1.54	1.67
Euro/GBP	1.18	1.22

Changes in average spot rates have had the impact of reducing underlying revenue in the first half by £226m and underlying profit before tax by £21m, compared with the first half of 2013.

The group is also exposed to the US$ through the revenue generated in US$ by our UK entities. To hedge against short to medium term volatility, we maintain a US$ hedge book. This book was $23.9bn at the half year, with an average rate of $1.59. This represents around 4.5 years of net exposure. There has been no significant impact from transactional foreign exchange in the period compared with 2013.

Order Book

The Group's order book reduced during the first half by £1.2bn to £70.4bn, reflecting a net order intake of £6.5bn, less deliveries during the period. We continue to see good demand for our products and services, many of which will remain in service and generate aftermarket revenue for decades. Our Defence Aerospace order book grew for the first time since 2010 and our Marine order book grew for the first time since 2012.

Income Statement

Underlying revenue reduced by 7% to £6.8bn compared with H1 2013 (down 4% at constant foreign exchange). OE revenue was down 9% and services revenue was down 4%. OE revenue was down largely due to the expected reduction in Defence Aerospace OE deliveries and weaker trading in Marine. Services revenue was down because of lower time & materials revenue in Civil Aerospace and a slower services run rate in Marine and in Power Systems. Services revenue increased in Defence Aerospace.

Underlying profit reduced by 20% to £644m compared with H1 2013 (down 17% at constant foreign exchange). Profit was affected by lower volume, a one-off product quality charge in Marine, higher restructuring costs, a higher R&D charge and lower entry fees from Risk & Revenue Sharing Arrangements.

Balance Sheet

The Group remains committed to maintaining a strong balance sheet and an investment grade credit rating. Standard & Poor's retains a rating of A/Stable and Moody's a rating of A3/Stable. In June, we announced a £1bn share buyback, that will return to shareholders the proceeds from the sale of the Energy gas turbine and compressor business. The Group continues to have good liquidity, with £1.2bn in net funds and £3.5bn in committed facilities.

The TotalCare net debtor at the half year was £1.8bn, an increase of £165m. The increase primarily reflects the delivery of new engines with linked TotalCare contracts.

Free Cash Flow

A cash outflow of £432m in the first half (outflow of £326m in H1 2013) reflects the expected lower trading volume and the phasing of capital expenditure, higher R&D and higher restructuring. We expect cash to improve in the second half.

Guidance

Group guidance is maintained. Excluding adverse foreign exchange translation effects (estimated at £500m on revenue and £70m on profit, at current exchange rates) and a one-off charge in Marine (estimated at £30m) to rectify a product quality issue, the Group continues to expect revenue and profit to be flat for the full year, with free cash flow similar to 2013.

Segmental guidance is provided in the new format below as communicated at our recent Investor Briefing:

At constant FX	**Revenue**	**Profit**
Civil Aerospace	+2% to +5%	+8% to +12%
Defence Aerospace	-15% to -20%	-15% to -20%
Marine	c. -10%	-15% to -25%*
Nuclear & Energy	+5% to +10%	+30% to +40%
Power Systems	+/- 2%	+5% to +10%

* Prior to the impact of the £30m one off charge

At a segmental level guidance is maintained, except in Marine. We now expect Marine profit to be down 15%-25% prior to the one-off charge, reflecting a change in revenue mix (previously guided at down 10% including the impact of the one-off charge). The change in Marine profit guidance is compensated at the Group level by improvements across the other businesses.

The guidance assumes that the Energy business remains in the Group for the full year. Our free cash flow guidance is prior to the effect of acquisitions and disposals.

We expect to complete the acquisition of the remaining 50% shareholding in Rolls-Royce Power Systems later this year. Daimler relinquished its economic interest with effect 25 March 2014, and therefore underlying earnings per share includes 100% of its profits from that date.

We expect the Group will resume growth in 2015.

Further Information

For further information, please visit our website at:

www.rolls-royce.com/investors

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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.

Business Reviews[2]

Civil Aerospace

£ millions	H1 2013*	H1 2014	Change
Order book**	60,296	58,820	-2%
Engine deliveries	346	342	-1%
Underlying revenue	3,201	3,197	0%
Underlying OE revenue	1,422	1,476	4%
Underlying services revenue	1,779	1,721	-3%
Underlying profit before financing	450	405	-10%
Return on sales	14.1%	12.7%	-1.4ppts

* Restated to reflect the new accounting treatment for Risk & Revenue Sharing Arrangements
** 2013 Order book figures are 2013 year-end.

Financial

A net order intake of £2.6bn compares with £10.9bn in H1 2013. The order book reduced by 2%, due to deliveries made during H1 and cancellations, primarily by Emirates of A350s. The order book contains 2,554 Trent engines that will drive the growth in aftermarket revenue over the next decade.

Significant orders in the first half included:

- A US$1.1bn contract with All Nippon Airways to power 25 Boeing 787 Dreamliner with our Trent 1000-TEN;
- A TotalCare contract with Cathay Pacific for Trent 700 engines that power Cathay's fleet of 60 A330s in service and on order; and
- A US$400m TotalCare contract with new customer Azul Brazilian Airlines for its planned fleet of six A330s and five A350 XWBs.

Underlying revenue was flat (up 1% at constant foreign exchange). Underlying OE revenue increased by 4%, reflecting 16% higher Trent deliveries, partially offset by a 10% reduction in engines for large corporate jets. Underlying services revenue fell by 3%, driven by 32% lower RB211 revenue and fewer time & materials sales of Life Limited Parts (LLPs) due to the improved time on wing of Trent 700 engines. This has the effect of deferring LLP revenue in the short term, but will deliver better margins as shop visits arise.

Underlying profit decreased by 10% (down 7% at constant foreign exchange). This reflects adverse mix from higher deliveries of Trent 1000s for launch customers, lower deliveries of large corporate jet engines, a higher net charge for R&D and higher restructuring.

For the full year, at constant foreign exchange, we expect growth in underlying revenue of 2-5% and in underlying profit of 8-12%. Our confidence for the second half is underpinned by good visibility of OE and services revenue. For OE, we have 95% order cover with higher volumes of Trent and large corporate engines. For services, we expect an increase in revenue driven by higher engine flying hours and increased time & material sales including LLPs.

Portfolio

- We were selected to power Gulfstream's new ultra long-range business jet, the G650ER.
- Our Trent 1000-TEN ran for the first time in June. This engine will power all variants of the Boeing 787 Dreamliner and will enter service in 2016.
- Our Trent XWB-97 engine ran for the first time. This 97,000lb-thrust engine is the sole powerplant for the Airbus A350-1000 aircraft and will enter service in 2017.

[2] Business references to 'underlying profit' relate to 'underlying profit before financing costs and tax'

Defence Aerospace

£ millions	H1 2013	H1 2014	Change
Order book*	4,071	4,423	9%
Engine deliveries	392	365	-7%
Underlying revenue	1,236	983	-20%
Underlying OE revenue	656	376	-43%
Underlying services revenue	580	607	5%
Underlying profit before financing	211	188	-11%
Return on sales	17.1%	19.1%	2.0pp

*2013 Order book figures are 2013 year-end.

Financial

A net order intake of £1.4bn compares with £0.9bn in H1 2013. Our traditional markets continue to be affected by Government budget reductions. We continue to work with our customers to help them to operate more effectively within their spending constraints. The order book increased for the first time since 2010.

Significant orders in the first half included:

- A multi-year US$1bn contract with Lockheed Martin for AE2100 engines to power the C-130J military transport aircraft; and
- Aftermarket contracts worth over US$370m, including contracts to support the US Navy's fleet of T-45 trainer aircraft and the US Air Force's fleet of C-130J aircraft.

In the first half, underlying revenue fell 20% as anticipated (down 17% at constant foreign exchange), driven by reductions in OE sales, which declined 43%. The largest reductions were on the sale of engines to power the Eurofighter Typhoon, the Hawk trainer, the C-130J and the V-22 Osprey. Underlying services revenue increased 5%, as our large installed base of over 16,000 engines generated continued demand for parts and services.

Underlying profit decreased by 11% (down 8% at constant at FX), reflecting the lower underlying revenue. We have taken actions to resize the business and have made good progress on cost reduction: we have reduced headcount by around 900 and have reduced our footprint in Ansty in the UK and Indianapolis in the US. We have improved the reliability of critical aftermarket parts, lowering our maintenance costs and enabling a first-half underlying profit improvement on some of our long-term service agreements. Margins benefited from higher aftermarket sales that were 62% of underlying revenue in the first half (up from 47% H1 2013).

Guidance for the full-year at constant foreign exchange remains a 15-20% reduction in underlying revenue and underlying profit. Our confidence is underpinned by the improvement in the order book and cost reduction.

Portfolio

- We delivered our 1,500th AE2100 engine to power the C-130J military transport aircraft.
- Our TP400 engine powered the A400M into service with our second customer, the Turkish Air Force.
- In Indianapolis we launched our 24/7 Operations Centre to enhance support for our 4,500 civil helicopter customers.

Marine

£ millions	H1 2013*	H1 2014	Change
Order book**	1,622	1,766	9%
Underlying revenue	1,017	818	-20%
Underlying OE revenue	637	494	-22%
Underlying services revenue	380	324	-15%
Underlying profit before financing	110	40	-64%
Return on sales	10.8%	4.9%	-5.9pp

***2013 figures restated to exclude Nuclear Submarines, now part of Nuclear & Energy
****2013 Order book figures are 2013 year-end.

Financial

A net order intake of £1bn is 5% higher than last year. The order book grew by 9% with the net order intake higher in Offshore where demand was particularly strong in propulsion, automation, controls and engines for large anchor handling vessels.

Significant orders in the first half included:

- More than £500m of contracts to design and equip offshore vessels, including £100m in China, an increasingly important market;
- A £50m contract with Edison Chouest Offshore to deliver deck machinery for four large anchor handlers; and
- An order to provide gas turbine gensets and controllable pitch propellers to power a US Naval DDG 51 destroyer.

Underlying revenue in the first half fell 20% (down 13% at constant foreign exchange) reflecting weaker pricing and lower OE volumes in Offshore and Merchant, as well as a slower run rate for services.

Underlying profit decreased due to lower revenue and a £30m charge for a product quality issue.

As part of our activities to reduce cost, we have announced our intention to close facilities in Portsmouth in the UK, and Busan in South Korea. We are in consultation regarding the restructuring of plants at Brattvaag in Norway, and Pascagoula in the United States.

Revenue guidance for the full year remains unchanged, at around a 10% reduction at constant foreign exchange. We now expect Marine profit to be down 15%-25% prior to the one-off charge, reflecting a change in revenue mix.

Our second half performance is underpinned by good visibility of OE revenue with order cover at 98%, a gradual recovery in the services run-rate in Offshore and improvements on cost.

Portfolio

- We opened a new facility in Duque de Caxias, Brazil to assemble and test large thrusters and other propulsion equipment for use on complex offshore vessels.
- We secured our first order for commercial delivery of tunnel thrusters powered by permanent magnet technology from our 2013 acquisition of SmartMotor AS.

Nuclear & Energy

£ millions	H1 2013*	H1 2014	Change
Order book**	3,843	3,546	-8%
Underlying revenue	712	701	-2%
Underlying OE revenue	249	276	11%
Underlying services revenue	463	425	-8%
Underlying profit before financing	22	15	-32%
Return on sales	3.1%	2.1%	-1.0pp

*2013 figures restated to include Submarines, previously in Marine
**2013 Order book figures are 2013 year-end.

Financial

A net order intake of £0.4bn compares with £1.2bn in H1 2013. This reduction was mainly due to the large £0.8bn Submarines contract secured in 2013.

Significant orders in the first half included:

- A contract agreement with Finnish nuclear operator, Fortum, to provide Instrumentation & Controls upgrades for two reactors in Finland; and
- A US$43m contract with Petronas Baronia to provide two Oil & Gas RB211 units.

Underlying revenue declined 2% (up 3% at constant foreign exchange) driven by an increase in OE as the business completed several major programmes. This was offset by reductions in the sale of Oil & Gas aftermarket parts and services.

Underlying profit was £7m lower in the first half, reflecting lower services revenue and a one-off charge of £10m to resolve contractual disclosure issues.

For the full year, at constant foreign exchange, we expect underlying revenue growth of 5-10% and growth in underlying profit of 30-40%. As announced in May, we intend to sell our gas turbine and compressor businesses to Siemens. As the exact timing of this sale is not certain, our guidance assumes a full year of underlying revenue, profit and cashflow from these businesses. Following the sale, the retained business will represent around 40% of underlying revenue and profit.

Our confidence in a stronger second half is underpinned by higher expected revenue in Oil & Gas, Power Generation, increased aftermarket and good progress on cost reduction.

Portfolio

- We signed Memoranda of Understanding with three Chinese nuclear reactor vendors CGN, CNNC and SNPTC. The MOUs will explore engineering support, provision of components and systems, emergency diesel generators, supply chain management and instrumentation and control technology.
- We continue to support Brazil’s development of the Santos Basin oil reserves. In the first half, we delivered our first gas turbines that were assembled and tested in our new facility in Santa Cruz.

Power Systems

£ millions	H1 2013	H1 2014	Change
Order book*	1,927	2,042	6%
Underlying revenue	1,239	1,214	-2%
Underlying OE revenue	826	837	1%
Underlying services revenue	413	377	-9%
Underlying profit before financing	72	62	-14%
Return on sales	5.8%	5.1%	-0.7pp

*****2013 Order book figures are 2013 year-end.

Financial

Net order intake of £1.3bn compares with £1.4bn in H1 2013, driven by strong defence-related sales, with some weakness in oil & gas, mining and commercial marine markets. The order book increased by 6%.

Significant orders in the first half included:

- A second order for the UK's Intercity Express Programme to deliver engines to power the East Coast Main Line; and
- A contract to provide Bergen engines for a power station in Mozambique, Africa.

Underlying revenue declined by 2% (up 1% at constant foreign exchange). OE revenue increased by 1% (up 5% at constant foreign exchange), driven by higher defence and naval sales, partially offset by lower demand in commercial marine, oil & gas, and mining. Services revenue was down 9% (down 6% at constant foreign exchange) driven by lower demand in medium speed, marine and industrial land power markets.

Underlying profit declined by 14% (down 11% at constant foreign exchange). The reduction was driven by adverse OE product mix, higher Research & Development and restructuring charges. We expect better OE volume and mix, along with improved aftermarket revenue in the second half, driving better margins.

We expect to complete the acquisition of the remaining 50% shareholding in Rolls-Royce Power Systems this year. We are making progress on synergies and our expanded engine range creates new opportunities for ancillary systems and equipment. For example, our ship design capabilities in Marine are being extended to cover Power Systems engines, creating additional opportunities for technology pull-through.

For the full year, at constant foreign exchange, we expect underlying revenue to be in a range of plus or minus 2% with underlying profit growth of 5-10%. Our confidence is underpinned by 80% order cover for higher OE volumes, expected recovery in the oil & gas, mining and power generation markets and a higher run rate for services.

Portfolio

- We announced our collaboration with Weir to build on our market leading positions in hydraulic fracturing and offer 'frac packs' that integrate engines, transmissions & pumps.
- In Chile, our MTU engines will power our first biogas power generation plant.

Additional Financial Information

Comparative figures have been restated to reflect:

i) the change in accounting policy for Risk and Revenue Sharing Arrangements described in the 2013 annual report; and

ii) the changes in reported segments as described in note 2 of the condensed financial statements.

Underlying income statement

£ millions		Restated H1 2013	**H1 2014**	Change	
Revenue		7,320	**6,836**	(484)	(7%)
Aerospace	Civil	3,201	**3,197**	(4)	-
	Defence	1,236	**983**	(253)	(20%)
		4,437	**4,180**	(257)	(6%)
MIPS	Marine	1,017	**818**	(199)	(20%)
	Nuclear & Energy	712	**701**	(11)	(2%)
	Power Systems	1,239	**1,214**	(25)	(2%)
	Intra-segment	(85)	**(77)**	8	
		2,883	**2,656**	(227)	(8%)
Profit before financing and taxation		836	**674**	(162)	(19%)
Aerospace	Civil	450	**405**	(45)	(10%)
	Defence	211	**188**	(23)	(11%)
		661	**593**	(68)	(10%)
MIPS	Marine	110	**40**	(70)	(64%)
	Nuclear & Energy	22	**15**	(7)	(32%)
	Power Systems	72	**62**	(10)	(14%)
	Intra-segment	(2)	**(9)**	(7)	
		202	**108**	(94)	(47%)
Central costs		(27)	**(27)**	-	-
Net financing		(32)	**(30)**	2	6%
Profit before taxation		804	**644**	(160)	(20%)
Taxation		(189)	**(157)**	32	17%
Profit for the year		615	**487**	(128)	(21%)
EPS		31.88p	**25.64p**	(6.24p)	(20%)
Payments to shareholders		8.6p	**9.0p**	0.4p	5%
Other items					
Gross R&D investment		558	**566**	8	1%
Net R&D charged to the income statement		294	**348**	54	18%

Underlying revenue decreased by £0.5bn to £6.8bn. This reduction of 7% reflects a 9% reduction in OE revenue and a 4% reduction in services revenue. Original equipment performance included decreases of 43% in Defence Aerospace and 22% in Marine, partially offset by growth of 4% in Civil Aerospace and by 11% in Nuclear & Energy. Underlying services revenue continues to represent around half of the Group's underlying revenue.

Underlying profit before financing and taxation decreased by 19% to £674m. The decrease was due to lower volume, a higher level of restructuring, a charge for a Marine product quality issue, adverse foreign exchange effects and additional research and development expenditure.

Underlying financing costs were broadly stable at £30m.

Underlying taxation was £157m, an underlying tax rate of 24.4% compared with 23.5% in 2013.

Underlying EPS decreased 20% to 25.64 pence, in line with the profit for the year.

Payments to shareholders: is made in the form of C Shares, details of which are set out on page 28. An interim payment of 9.0 pence per share will be made, up 5%.

Underlying net R&D charged to the income statement (note 3) increased by 18% due to additional expenditure on Civil Aerospace new programmes, combined with lower recognition of entry fees and lower capitalisation of development costs.

Reported profit before tax has increased from a loss of £527m to a profit of £717m. In addition to the reduction in underlying profit before tax of £160m described above, the principal impact to reported profit before tax are: (i) the impact of mark-to-market adjustments on derivative contracts (£1.4bn increase); (ii) the revaluation of the put option on NCI (£110m increase); offset by the impact of acquisitions and disposals (£81m reduction). The **reported tax charge** is affected by the related tax impact of these items and the reduction of tax rates in the UK, a reduction of £332m. This is set out in more detail in notes 2 and 6 to the condensed consolidated financial statements.

Summary balance sheet

£ millions	31 December 2013	**30 June 2014**
Intangible assets	4,987	**4,951**
Property, plant and equipment	3,392	**3,357**
Net post-retirement scheme deficits	(793)	**(225)**
Net working capital	(970)	**(142)**
Net funds	1,939	**1,177**
Provisions	(733)	**(739)**
Net financial assets and liabilities	(1,587)	**(1,436)**
Joint ventures and associates	601	**583**
Other net assets and liabilities	(533)	**(785)**
Net assets	6,303	**6,741**
Other items		
US$ hedge book (US$bn)	$24.7	**$23.9**
TotalCare assets	1,901	**2,107**
TotalCare liabilities	(314)	**(355)**
Net TotalCare assets	1,587	**1,752**
Gross customer finance commitments	356	**328**
Net customer finance commitments	59	**56**

Intangible assets (note 8) represent long-term assets of the Group. These assets reduced by £36m with additions (£239m) to certification, development, software and other assets being offset by annual amortisation charges (£179m) and exchange differences (£98m).

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 – see note 8. There have been no impairments in 2014.

Property, plant and equipment decreased by £35m. Additions of £198m were offset by depreciation of £177m and foreign exchange differences of £56m. The Group continues to develop and refresh its facilities and tooling as it prepares for increased production volumes.

Net post-retirement scheme deficits (note 10) reduced by £546m as a result of the Group agreeing with the Trustees of the Rolls-Royce Pension Fund (the largest UK defined benefits scheme) to amend the rules. As a result of this change, the previously unrecognised surplus is now recognised and the minimum funding liability eliminated. In addition, during the period, the net deficit improved by £22m. The contributions paid in excess of the operating charge of £80m were offset by actuarial losses of £80m.

Movements in **net funds** are shown overleaf.

Investments in joint ventures and associates decreased by 3%. Retained profits of £59m were offset by dividends of £31m, a reclassification of £24m and foreign exchange differences of £16m.

Provisions largely relate to warranties and guarantees provided to secure the sale of OE and services and remained stable in the period.

Net financial assets and liabilities relate to the fair value of foreign exchange, commodity and interest rate contracts, financial RRSAs and the put option on the 50% of Rolls-Royce Power Systems Holding GmbH, set out in detail in note 9. Largely due to the increase in the strength of sterling during the period, foreign exchange contracts have increased in value by £198m. Following the decision by Daimler AG to exercise its put option, this is valued at the agreed exercise price of €2.43bn, an increase of £90m after foreign exchange gains of £76m.

The US$ hedge book decreased 3% to US$23.9bn. This represents around four and a half 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 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 11. 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 slightly to £328m, due largely to the expiry of guarantees. On a net basis, exposures remained broadly unchanged.

Summary funds flow statement

£ millions	H1 2013	**H1 2014**	Change
Underlying Profit Before Tax (PBT)	804	**644**	(160)
Depreciation and amortisation	277	**281**	4
Movement in net working capital	(843)	**(634)**	209
Expenditure on property, plant and equipment and intangible assets	(430)	**(541)**	(111)
Other	9	**7**	(2)
Trading cash flow	(183)	**(243)**	(60)
Contributions to defined benefit pensions in excess of PBT charge	(55)	**(80)**	(25)
Tax	(88)	**(109)**	(21)
Free cash flow	(326)	**(432)**	(106)
Shareholder payments	(198)	**(236)**	(38)
Base cash flow	(524)	**(668)**	(144)
Acquisitions	(16)	**(3)**	13
Net funds of businesses acquired	37	**(29)**	(66)
Foreign exchange	107	**(62)**	(169)
Change in net funds	(396)	**(762)**	(366)
Opening net funds	1,317	**1,939**	622
Closing net funds	921	**1,177**	256
Average net funds	355	**715**	360

Movement in working capital – the £634m increase includes higher levels of inventory ahead of an increase in deliveries in the second half of the year. The increase is lower than the previous year reflecting lower volume and improved efficiencies.

Expenditure on property, plant and equipment and intangibles – the increase largely reflects additional expenditure on participation fees and certification costs (£49m) and timing effects on payments for property plant and equipment (£39m).

Pensions – contributions to defined benefit pension schemes included £33m to UK pension schemes to fund the discretionary increases agreed in 2013.

Shareholder payments – the increase reflects the increased C Share issue in January 2014 (£22m) and an increased RRPS dividend to Daimler AG (£16m).

Condensed consolidated financial statements

Condensed consolidated income statement

For the half-year ended 30 June 2014

	Notes	**Half-year to 30 June 2014 £m**	Restated * Half-year to 30 June 2013 £m	Year to 31 December 2013 £m
Revenue	2	**6,632**	7,345	15,513
Cost of sales		**(5,231)**	(5,731)	(12,197)
Gross profit		**1,401**	1,614	3,316
Other operating income		**3**	-	65
Commercial and administrative costs		**(594)**	(644)	(1,323)
Research and development costs	3	**(380)**	(319)	(683)
Share of results of joint ventures and associates		**59**	69	160
Operating profit		**489**	720	1,535
Profit on reclassification of joint venture to subsidiary		**2**	115	119
Profit on disposal of businesses		**-**	13	216
Profit before financing and taxation		**491**	848	1,870
Financing income		**380**	19	327
Financing costs		**(154)**	(1,394)	(438)
Net financing	4	**226**	(1,375)	(111)
Profit/(loss) before taxation [1]	2	**717**	(527)	1,759
Taxation	6	**(185)**	115	(380)
Profit/(loss) for the period		**532**	(412)	1,379
Attributable to:				
Ordinary shareholders		**544**	(385)	1,367
Non-controlling interests		**(12)**	(27)	12
Profit for the period		**532**	(412)	1,379
Earnings per ordinary share attributable to shareholders	5			
Basic		**29.06p**	(20.66p)	73.26p
Diluted		**28.81p**	(20.66p)	72.44p
Underlying earnings per ordinary share are shown in note 5.				
Payments to ordinary shareholders in respect of the period	7			
Pence per share		**9.0p**	8.6p	22.0p
Total		**170**	162	414
[1] Underlying profit before taxation		**644**	804	1,759

Condensed consolidated statement of comprehensive income

For the half-year ended 30 June 2014

	Notes	**Half-year to June 30, 2014 £m**	Restated * Half-year to June 30, 2013 £m	Year to December 31, 2013 £m
Profit/(loss) for the period		**532**	(412)	1,379
Other comprehensive income (OCI)				
Items that will not be reclassified to profit or loss				
Movements in post-retirement schemes	10	**466**	(4)	48
Share of OCI of joint ventures and associates		**1**	-	-
Related tax movements		**(163)**	6	10
		304	2	58
Items that may be reclassified to profit or loss				
Foreign exchange translation differences on foreign operations		**(176)**	258	(64)
Share of OCI of joint ventures and associates		**(7)**	(2)	(6)
Related tax movements		**(1)**	3	1
		(184)	259	(69)
Total comprehensive income for the period		**652**	(151)	1,368
Attributable to:				
Ordinary shareholders		**686**	(160)	1,356
Non-controlling interests		**(34)**	9	12
Total comprehensive income for the period		**652**	(151)	1,368

* Restated to reflect the amendments to risk and revenue sharing arrangements as described on page 80 of the 2013 annual report. In addition, the classification of costs between cost of sales and C&A in RRPS has been revised to put them on a consistent basis with the rest of the Group.

Condensed consolidated balance sheet

At 30 June 2014

	Notes	30 June 2014 £m	Restated * 30 June 2013 £m	31 December 2013 £m
ASSETS				
Non-current assets				
Intangible assets	8	**4,951**	4,993	4,987
Property, plant and equipment		**3,357**	3,231	3,392
Investments – joint ventures and associates		**583**	599	601
Investments – other		**26**	28	27
Other financial assets	9	**924**	135	674
Deferred tax assets		**288**	693	316
Post-retirement scheme surpluses	10	**793**	251	248
		10,922	9,930	10,245
Current assets				
Inventories		**3,450**	3,894	3,319
Trade and other receivables		**5,029**	5,084	5,092
Taxation recoverable		**19**	29	16
Other financial assets	9	**60**	67	74
Short-term investments		**8**	948	321
Cash and cash equivalents		**3,354**	2,492	3,990
Assets held for sale		**5**	22	6
		11,925	12,536	12,818
Total assets		**22,847**	22,466	23,063
LIABILITIES				
Current liabilities				
Borrowings		**(32)**	(371)	(207)
Other financial liabilities	9	**(2,107)**	(2,021)	(1,976)
Trade and other payables		**(6,593)**	(7,318)	(7,045)
Current tax liabilities		**(189)**	(153)	(204)
Provisions for liabilities and charges		**(382)**	(432)	(348)
Liabilities associated with assets held for sale		**-**	(25)	-
		(9,303)	(10,320)	(9,780)
Non-current liabilities				
Borrowings		**(2,161)**	(2,221)	(2,164)
Other financial liabilities	9	**(305)**	(973)	(360)
Trade and other payables		**(1,848)**	(1,540)	(2,138)
Tax liabilities		**(10)**	-	(10)
Deferred tax liabilities		**(1,104)**	(1,003)	(882)
Provisions for liabilities and charges		**(357)**	(355)	(385)
Post-retirement scheme deficits	10	**(1,018)**	(1,121)	(1,041)
		(6,803)	(7,213)	(6,980)
Total liabilities		**(16,106)**	(17,533)	(16,760)
Net assets		**6,741**	4,933	6,303
EQUITY				
Attributable to ordinary shareholders				
Called-up share capital		**377**	376	376
Share premium account		**141**	79	80
Capital redemption reserve		**162**	166	163
Cash flow hedging reserve		**(74)**	(64)	(68)
Other reserves		**89**	540	250
Retained earnings		**6,042**	3,156	4,804
		6,737	4,253	5,605
Non-controlling interests		**4**	680	698
Total equity		**6,741**	4,933	6,303

* Restated to reflect the amendments to risk and revenue sharing arrangements as described on page 80 of the 2013 annual report.

Condensed consolidated cash flow statement

For the half-year ended 30 June 2014

	Notes	**Half-year to 30 June 2014 £m**	Restated * Half-year to 30 June 2013 £m	Year to 31 December 2013 £m
Reconciliation of cash flows from operating activities				
Operating profit		**489**	720	1,535
Profit on disposal of property, plant and equipment		**(12)**	-	7
Share of results of joint ventures and associates		**(59)**	(69)	(160)
Dividends received from joint ventures and associates		**31**	40	99
Amortisation of intangible assets	8	**180**	189	428
Depreciation of property, plant and equipment		**177**	176	372
Increase /(decrease) in provisions		**26**	11	(17)
(Increase)/decrease in inventories		**(195)**	(350)	119
Decrease/(increase) in trade and other receivables		**2**	(487)	(533)
(Decrease)/increase in trade and other payables		**(439)**	49	376
Movement in other financial assets and liabilities		**71**	39	9
Net defined benefit post-retirement cost recognised in operating profit	10	**98**	105	279
Cash funding of defined benefit post-retirement schemes	10	**(178)**	(160)	(315)
Share-based payments		**20**	14	79
Net cash inflow from operating activities before taxation		**211**	277	2,278
Taxation paid		**(109)**	(88)	(238)
Net cash inflow from operating activities		**102**	189	2,040
Cash flows from investing activities				
Additions of unlisted investments		**(2)**	(1)	(1)
Disposals of unlisted investments		**2**	3	1
Additions of intangible assets	8	**(239)**	(155)	(503)
Purchases of property, plant and equipment		**(303)**	(283)	(669)
Government grants received		**1**	8	21
Disposals of property, plant and equipment		**46**	6	7
Acquisitions of businesses		**(3)**	(12)	(37)
Cash and cash equivalents in joint venture reclassified to subsidiary		**1**	240	245
Buyout of preference shares in subsidiary		**-**	(34)	(34)
Disposals of businesses		**-**	15	273
Investments in joint ventures and associates		**(2)**	(41)	(43)
Net cash outflow from investing activities		**(499)**	(254)	(740)
Cash flows from financing activities				
Repayment of loans	9	**(230)**	-	(133)
Proceeds from increase in loans	9	**26**	1,037	1,013
Capital element of finance lease payments		**(1)**	-	-
Net cash flow from (decrease)/increase in borrowings		**(205)**	1,037	880
Interest received		**10**	7	15
Interest paid		**(46)**	(43)	(58)
Decrease/(increase) in short-term investments		**313**	(937)	(313)
Issue of ordinary shares		**-**	-	32
Purchase of ordinary shares		**(1)**	(1)	(3)
Dividend to NCI		**(76)**	(60)	(60)
Redemption of C Shares		**(160)**	(138)	(357)
Net cash outflow from financing activities		**(165)**	(135)	136
Net (decrease)/increase in cash and cash equivalents		**(562)**	(200)	1,436
Cash and cash equivalents at 1 January		**3,987**	2,585	2,585
Exchange (losses)/gains on cash and cash equivalents		**(71)**	107	(34)
Cash and cash equivalents at period end		**3,354**	2,492	3,987

* Restated to reflect the amendments to risk and revenue sharing arrangements as described on page 80 of the 2013 annual report.

	Half-year to 30 June 2014 £m	Half-year to 30 June 2013 £m	Year to 31 December 2013 £m
Reconciliation of movements in cash and cash equivalents to movements in net funds			
Net (decrease)/increase in cash and cash equivalents	**(562)**	(200)	1,436
Net cash flow from decrease/(increase) in borrowings	**205**	(1,037)	(880)
Net cash flow from (decrease)/increase in short-term investments	**(313)**	937	313
Change in net funds resulting from cash flows	**(670)**	(300)	869
Net funds (excluding cash and cash equivalents) of businesses acquired	**(30)**	(203)	(204)
Exchange (losses)gains on net funds	**(62)**	107	(43)
Fair value adjustments	**(9)**	31	105
Movement in net funds	**(771)**	(365)	727
Net funds at 1 January excluding the fair value of swaps	**1,940**	1,213	1,213
Net funds at period end excluding the fair value of swaps	**1,169**	848	1,940
Fair value of swaps hedging fixed rate borrowings	**8**	73	(1)
Net funds at period end	**1,177**	921	1,939

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

	At 1 January 2014 £m	**Funds flow £m**	**Net funds of businesses acquired £m**	**Exchange differences £m**	**Fair value adjustments £m**	**Reclass-ification £m**	**At 30 June 2014 £m**
Cash at bank and in hand	**982**	**32**		**(26)**	**-**	**-**	**988**
Money market funds	**1,157**	**(242)**		**(12)**	**-**	**-**	**903**
Short-term deposits	**1,851**	**(355)**		**(33)**	**-**	**-**	**1,463**
Overdrafts	**(3)**	**3**		**-**	**-**	**-**	**-**
Cash and cash equivalents	**3,987**	**(562)**		**(71)**	**-**	**-**	**3,354**
Investments	**321**	**(313)**	**-**	**-**	**-**	**-**	**8**
Other current borrowings	**(204)**	**204**	**(30)**	**-**	**-**	**(2)**	**(32)**
Non-current borrowings	**(2,163)**	**-**	**-**	**9**	**(9)**	**2**	**(2,161)**
Finance leases	**(1)**	**1**	**-**	**-**	**-**	**-**	**-**
Net funds excluding the fair value of swaps	**1,940**	**(670)**	**(30)**	**(62)**	**(9)**	**-**	**1,169**
Fair value of swaps hedging fixed rate borrowings	**(1)**				**9**		**8**
Net funds	**1,939**	**(670)**	**(30)**	**(62)**	**-**	**-**	**1,177**

Condensed consolidated statement of changes in equity

For the half-year ended 30 June 30, 2014

	Attributable to ordinary shareholders								
	Share capital	Share premium	Capital redemption reserve	Cash flow hedging reserve	Other reserves [1]	Retained earnings [2]	Total	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2013	**374**	**-**	**169**	**(63)**	**314**	**5,185**	**5,979**	**17**	**5,996**
Total comprehensive income for the period [3]	**-**	**-**	**-**	**(1)**	**226**	**(385)**	**(160)**	**9**	**(151)**
Arising on issue of ordinary shares	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	-	-	-	-	-	46	46	-	46
Reclassification of RRPS from JV to subsidiary [4]	-	-	-	-	-		-	669	669
Initial recognition of put-option on NCI [4]	-	-	-	-	-	(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 June 30, 2013 [3]	**376**	**79**	**166**	**(64)**	**540**	**3,156**	**4,253**	**680**	**4,933**
Total comprehensive income for the period	**-**	**-**	**-**	**(4)**	**(290)**	**1,810**	**1,516**	**3**	**1,519**
Arising on issue of ordinary shares	-	1	-	-	-	-	1	-	1
Issue of C Shares	-	-	(224)	-	-	2	(222)	-	(222)
Redemption of C Shares	-	-	221	-	-	(221)	-	-	-
Ordinary shares purchased	-	-	-	-	-	(2)	(2)	-	(2)
Share-based payments – direct to equity	-	-	-	-	-	53	53	-	53
Transactions with NCI	-	-	-	-	-	-	-	15	15
Related tax movements	-	-	-	-	-	6	6	-	6
Other changes in equity in the period	**-**	**1**	**(3)**	**-**	**-**	**(162)**	**(164)**	**15**	**(149)**
At 31 December 2013	**376**	**80**	**163**	**(68)**	**250**	**4,804**	**5,605**	**698**	**6,303**
Total comprehensive (expense)/income for the period	**-**	**-**	**-**	**(6)**	**(161)**	**853**	**686**	**(34)**	**652**
Issue of ordinary shares	1	61	-	-	-	(62)	-	-	-
Issue of C Shares	-	-	(162)	-	-	1	(161)	-	(161)
Redemption of C Shares	-	-	161	-	-	(161)	-	-	-
Ordinary shares purchased	-	-	-	-	-	(1)	(1)	-	(1)
Share-based payments – direct to equity [5]	-	-	-	-	-	20	20	-	20
Dividend paid to NCI	-	-	-	-	-	-	-	(76)	(76)
Transaction with NCI [6]	-	-	-	-	-	584	584	(584)	-
Related tax movements	-	-	-	-	-	4	4	-	4
Other changes in equity in the period	**1**	**61**	**(1)**	**-**	**-**	**385**	**446**	**(660)**	**(214)**
At 30 June 2014	**377**	**141**	**162**	**(74)**	**89**	**6,042**	**6,737**	**4**	**6,741**

[1] Other reserves include a merger reserve of £3m and a translation reserve of £86m.

[2] At 30 June 2014, 10,466,068 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 6,000,000 new ordinary shares at market value of £62m and acquired 80,696 ordinary shares through purchases on the London Stock Exchange for use in share-based payment plans.

[3] Restated to reflect the amendments to risk and revenue sharing arrangements as described on page 80 of the 2013 annual report.

[4] On 1 January 2013, the Group exercised rights that resulted in Rolls-Royce Power Systems AG being classified as a subsidiary and consolidated.

[5] 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.

[6] On 7 March 2014, Daimler AG announced its intention to exercise its put option on Rolls-Royce Power Systems Holding GmbH (RRPSH). Formal notice of this intention was served on 24 March 2014. From this date, the Group has an effective economic interest in RRPSH of 100% and the non-controlling interest in RRPSH of £584m has been transferred 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 2014 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 2013 (2013 annual report) are available upon request from the Company Secretary, Rolls-Royce Holdings plc, 65 Buckingham Gate, London SW1E 6AT or at www.rolls-royce.com/investors.

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 2013 annual report.

The comparative figures for the financial year 31 December 2013 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 30 July 2014.

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 2013 (International Financial Reporting Standards issued by the International Accounting Standards Board (IASB), as adopted for use in the EU effective at 31 December 2013).

From 1 January 2014, the Group has adopted: IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities* and amendments to IAS 17 *Separate Financial Statements*. This has had no impact on the amounts recognised in the financial statements. The principal potential effect is that certain entities previously classified as joint ventures might be classified as joint operations, requiring the Group's share of the individual assets and liabilities of these entities to be included in the financial statements rather than the equity accounting method previously applied. The Group has reviewed its material joint ventures and has concluded that none are to be classified as joint operations under the requirements of IFRS 11.

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 2013.

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. As described in the 2013 annual report, the management structure of the business has been revised and the internal reporting structure has been developed to reflect this. The analysis below reflects this new internal reporting structure and the amount for the half-year to 30 June 2013 have been re-presented on a comparable basis. In addition, the 2013 half-year figures have been restated to reflect the amendments to risk and revenue sharing arrangements as described on page 80 of the 2013 annual report.

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. Gains and losses on acquisitions and disposals and the revaluation effects of acquisition accounting are excluded. From 2014, exceptional restructuring costs have been 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 RRSA 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 RRPS, prior to their acquisition by the Group, was also excluded.

		Half-year to 30 June 2014			Half-year to 30 June 2013			Year to 31 December 2013		
		Original equipment £m	**Aftermarket £m**	**Total £m**	Original equipment £m	Aftermarket £m	Total £m	Original equipment £m	Aftermarket £m	Total £m
Underlying revenues										
Aerospace	Civil	**1,476**	**1,721**	**3,197**	1,422	1,779	3,201	3,035	3,620	6,655
	Defence	**376**	**607**	**983**	656	580	1,236	1,385	1,206	2,591
		1,852	**2,328**	**4,180**	2,078	2,359	4,437	4,420	4,826	9,246
MIPS	Marine [1]	**494**	**324**	**818**	637	380	1,017	1,288	749	2,037
	Nuclear & Energy [1]	**276**	**425**	**701**	249	463	712	565	973	1,538
	Power Systems	**837**	**377**	**1,214**	826	413	1,239	2,004	827	2,831
	Intra-segment	**(40)**	**(37)**	**(77)**	(39)	(46)	(85)	(72)	(75)	(147)
		1,567	**1,089**	**2,656**	1,673	1,210	2,883	3,785	2,474	6,259
		3,419	**3,417**	**6,836**	3,751	3,569	7,320	8,205	7,300	15,505

[1] The split between original and aftermarket revenue for the year-ended 31 December 2013 has been amended compared with that included on page 123 of the 2013 annual report.

		Half-year to 30 June 2014 £m	Half-year to 30 June 2013 £m	Year to 31 December 2013 £m
Underlying profit before financing				
Aerospace	Civil	**405**	450	844
	Defence	**188**	211	438
		593	661	1,282
MIPS	Marine	**40**	110	233
	Nuclear & Energy	**15**	22	74
	Power Systems	**62**	72	294
	Intra-segment	**(9)**	(2)	2
		108	202	603
Reportable segments		**701**	863	1,885
Underlying central items		**(27)**	(27)	(54)
Underlying profit before financing and taxation		**674**	836	1,831
Underlying net financing		**(30)**	(32)	(72)
Underlying profit before taxation		**644**	804	1,759
Underlying taxation		**(157)**	(189)	(434)
Underlying profit for the period		**487**	615	1,325
Attributable to:				
Ordinary shareholders		**480**	594	1,224
Non-controlling interests		**7**	21	101
Total comprehensive income for the period		**487**	615	1,325

		Total assets			Total liabilities			Net assets/(liabilities)		
		30 June 2014 £m	30 June 2013 £m	31 December 2013 £m	**30 June 2014 £m**	30 June 2013 £m	31 December 2013 £m	**30 June 2014 £m**	30 June 2013 £m	31 December 2013 £m
Aerospace	Civil	**10,556**	9,189	10,082	**(5,685)**	(6,304)	(6,243)	**4,871**	2,885	3,839
	Defence	**1,313**	1,534	1,454	**(1,527)**	(1,765)	(1,660)	**(214)**	(231)	(206)
		11,869	10,723	11,536	**(7,212)**	(8,069)	(7,903)	**4,657**	2,654	3,633
MIPS	Marine	**1,671**	1,969	1,706	**(934)**	(1,181)	(985)	**737**	788	721
	Nuclear & Energy	**1,547**	1,714	1,671	**(809)**	(955)	(1,015)	**738**	759	656
	Power Systems	**3,705**	4,133	3,956	**(3,034)**	(3,005)	(3,034)	**671**	1,128	922
	Intra-segment	**(18)**	(13)	(10)	**-**	-	-	**(18)**	(13)	(10)
		6,905	7,803	7,323	**(4,777)**	(5,141)	(5,034)	**2,128**	2,662	2,289
Inter-segment		**(432)**	(566)	(734)	**432**	566	733	**-**	-	(1)
Reportable segments		**18,342**	17,960	18,125	**(11,557)**	(12,644)	(12,204)	**6,785**	5,316	5,921
Net funds		**3,405**	3,533	4,358	**(2,228)**	(2,612)	(2,419)	**1,177**	921	1,939
Tax assets/(liabilities)		**307**	722	332	**(1,303)**	(1,156)	(1,096)	**(996)**	(434)	(764)
Post-retirement scheme surpluses/(deficits)		**793**	251	248	**(1,018)**	(1,121)	(1,041)	**(225)**	(870)	(793)
		22,847	22,466	23,063	**(16,106)**	(17,533)	(16,760)	**6,741**	4,933	6,303

Group employees at period end

		30 June 2014	30 June 2013	31 December 2013
Aerospace	Civil	**23,500**	23,600	23,500
	Defence	**7,000**	7,800	7,900
		30,500	31,400	31,400
MIPS	Marine	**6,500**	6,600	6,800
	Nuclear & Energy	**6,500**	6,400	6,500
	Power Systems	**10,600**	11,200	10,700
		23,600	24,200	24,000
		54,100	55,600	55,400

Underlying revenue adjustments

	Half-year to 30 June 2014 £m	Half-year to 30 June 2013 £m	Year to 31 December 2013 £m
Underlying revenue	**6,836**	7,320	15,505
Recognise revenue at exchange rate on date of transaction	**(204)**	25	8
Revenue per consolidated income statement	**6,632**	7,345	15,513

Underlying profit adjustments

	Half-year to 30 June 2014			Half-year to 30 June 2013			Year to 31 December 2013		
	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	**674**	**(30)**	**(157)**	836	(32)	(189)	1,831	(72)	(434)
Realised losses/(gains) on settled derivative contracts [1]	**(90)**	**16**	**-**	14	(54)	-	(10)	(5)	-
Net unrealised fair value changes to derivative contracts [2]	**-**	**319**	**-**	(1)	(1,057)	-	-	250	-
Effect of currency on contract accounting	**(3)**	**-**	**-**	(1)	-	-	(18)	-	-
Revaluation of trading assets and liabilities	**-**	**27**	**-**	-	(7)	-	-	-	-
Put option on NCI and financial RRSAs – exchange differences and changes in forecast payments	**-**	**(92)**	**-**	-	(202)	-	-	(251)	-
Effect of acquisition accounting [3]	**(83)**	**-**	**-**	(128)		-	(265)	-	-
Gain on reclassification of joint venture to subsidiary	**2**	**-**	**-**	115	-	-	119	-	-
Pension discretionary increase [4]	**-**	**-**	**-**	-	-	-	(64)	-	-
Net post-retirement scheme financing	**-**	**(14)**	**-**	-	(15)	-	-	(26)	-
Profit on disposal of business	**-**	**-**	**-**	13	-		216	-	-
Other [5]	**(9)**	**-**	**-**	-	(8)	-	61	(7)	-
Related tax effect	**-**	**-**	**(28)**	-	-	304	-	-	54
Total underlying adjustments	**(183)**	**256**	**(28)**	12	(1,343)	304	39	(39)	54
Reported per consolidated income statement	**491**	**226**	**(185)**	848	(1,375)	115	1,870	(111)	(380)

1 Realised gains on settled derivative contracts include adjustments to reflect (gains)/losses in the same period as the related trading cash flows.
2 Unrealised fair value changes to derivative contracts: (i) include those included in equity accounted joint ventures; and (ii) exclude those for which the related trading contracts have been cancelled when the fair value changes are recognised immediately in underlying profit.
3 The adjustment eliminates charges recognised as a result of recognising assets in acquired businesses at fair value.
4 Discretionary increase of £64m on unindexed pensions.
5 Other excludes fees on the anticipated disposal of the Energy business and exceptional restructuring costs (2013 the exclusion of other operating income of £63m, relating to the decision not to proceed with a partnership with United Technologies Corp. to develop an engine to power future mid-size aircraft, and the revaluation of preference shares in RRPS).

3 Other income and expenses

Research and development expenditure	**Half-year to 30 June 2014 £m**	Restated * Half-year to 30 June 2013 £m	Year to 31 December 2013 £m
Expenditure in the period	**(398)**	(384)	(750)
Capitalised as intangible assets	**44**	66	110
Amortisation of capitalised costs	**(64)**	(62)	(130)
Net research and development cost	**(418)**	(380)	(770)
Entry fees received	**36**	97	126
Entry fees deferred in respect of charges in future periods	**(24)**	(42)	(50)
Recognition of previously deferred entry fees	**26**	6	11
Net cost recognised in the income statement	**(380)**	(319)	(683)
Underlying adjustments relating to the effects of acquisition accounting and foreign exchange	**32**	25	59
Net underlying cost recognised in the income statement	**(348)**	(294)	(624)

* Restated to reflect the amendments to risk and revenue sharing arrangements as described on page 80 of the 2013 annual report.

4 Net financing

	Half-year to 30 June 2014		Half-year to 30 June 2013		Year to 31 December 2013	
	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	**10**	***10***	7	*7*	15	*15*
Fair value gains on foreign currency contracts	**281**	**-**	-	-	287	-
Fair value gains on commodity derivatives	**38**	**-**	-	-	-	-
Put option on NCI and financial RRSAs – foreign exchange differences and changes in forecast payments	**-**	**-**	-	-	8	-
Financing income on post-retirement scheme surpluses [1]	**7**	**-**	12	-	17	-
Net foreign exchange gains	**44**	**-**	-	-	-	-
	380	***10***	19	*7*	327	*15*
Financing costs						
Interest payable	**(33)**	***(33)***	(28)	*(28)*	(58)	*(58)*
Fair value losses on foreign currency contracts	**-**	**-**	(1,016)	-	(3)	-
Put option on NCI and financial RRSAs – foreign exchange differences and changes in forecast payments	**(92)**	**-**	(202)	-	(259)	-
Financial charge relating to financial RRSAs	**(3)**	***(3)***	(4)	*(4)*	(9)	*(9)*
Fair value losses on commodity derivatives	**-**	**-**	(41)	-	(34)	-
Financing costs on post-retirement scheme deficits [1]	**(21)**	**-**	(27)	-	(43)	-
Net foreign exchange losses	**-**	**-**	(61)	-	(5)	-
Other financing charges	**(5)**	***(4)***	(15)	*(7)*	(27)	*(20)*
	(154)	***(40)***	(1,394)	*(39)*	(438)	*(87)*
Net financing	**226**	***(30)***	(1,375)	*(32)*	(111)	*(72)*
Analysed as:						
Net interest payable	**(23)**	***(23)***	(21)	*(21)*	(43)	*(43)*
Net post-retirement scheme financing	**(14)**	**-**	(15)	-	(26)	-
Net other financing	**263**	***(7)***	(1,339)	*(11)*	(42)	*(29)*
Net financing	**226**	***(30)***	(1,375)	*(32)*	(111)	*(72)*

[1] The classification of financing income and costs on post-retirement schemes for the six months ended 30 June 2013 has been revised to put it on the same basis as that included in the 2013 annual report. There is no impact on net financing

5 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 2014			Half-year to 30 June 2013 [1]			Year to 31 December 2013		
	Basic	**Potentially dilutive share options**	**Diluted**	Basic	Potentially dilutive share options [2]	Diluted	Basic	Potentially dilutive share options	Diluted
Profit/(loss) (£m)	**544**	**-**	**544**	(385)	-	(385)	1,367	-	1,367
Weighted average shares (m)	**1,872**	**16**	**1,888**	1,863	-	1,863	1,866	21	1,887
EPS (pence)	**29.06**	**(0.25)**	**28.81**	(20.66)	-	(20.66)	73.26	(0.82)	72.44

[1] Restated to reflect the amendments to risk and revenue sharing arrangements as described on page 80 of the 2013 annual report.
[2] 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 was 1,888m.

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

	Half-year to 30 June 2014		Half-year to 30 June 2013		Year to 31 December 2013	
	Pence	**£m**	Pence	£m	Pence	£m
Underlying EPS / Underlying profit attributable to ordinary shareholders	**25.64**	**480**	31.88	594	65.59	1,224
Total underlying adjustments to profit before tax (note 2)	**3.90**	**73**	(71.43)	(1,331)	-	-
Related tax effects	**(1.50)**	**(28)**	16.31	304	2.89	54
Non-controlling interest on non-underlying movements	**1.02**	**19**	2.58	48	4.78	89
EPS / Profit attributable to ordinary shareholders	**29.06**	**544**	(20.66)	(385)	73.26	1,367
Diluted underlying EPS	**25.42**		31.46		64.86	

6 Taxation

The effective tax rate for the half year is 25.8% (2013 restated half-year 21.8%, full year 21.6%).

The UK corporation tax rate reduced from 23% to 21% on 1 April 2014 and the effective tax rate takes this into account. The tax rate will further reduce to 20% on 1 April 2015. The impact of the rate reduction to 20% was reflected in the 2013 closing deferred tax balances as the rate change was substantively enacted prior to the year end.

7 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 2014		Year to 31 December 2013	
	Pence per share	**£m**	Pence per share	£m
Interim (issued in January)	**9.0**	**170**	8.6	162
Final (issued in July)			13.4	252
	9.0	**170**	22.0	414

8 Intangible assets

	Goodwill £m	**Certification costs and participation fees £m**	**Development expenditure £m**	**Contractual aftermarket rights [1] £m**	**Customer relationships £m**	**Software £m**	**Other £m**	**Total £m**
Cost:								
At 1 January 2014	**1,861**	**928**	**1,646**	**551**	**475**	**453**	**532**	**6,446**
Reclassifications [2]	**(8)**	**-**	**4**	**-**	**11**	**19**	**(28)**	**(2)**
Exchange differences	**(49)**	**(4)**	**(25)**	**-**	**(16)**	**(4)**	**(14)**	**(112)**
Additions	**-**	**91**	**57**	**28**	**-**	**40**	**23**	**239**
On acquisition of business	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**1**
At 30 June 2014	**1,805**	**1,015**	**1,682**	**579**	**470**	**508**	**513**	**6,572**
Accumulated amortisation:								
At 1 January 2014	**23**	**265**	**444**	**323**	**69**	**198**	**137**	**1,459**
Reclassifications [2]	**(8)**	**-**	**4**	**-**	**(11)**	**5**	**6**	**(4)**
Exchange differences	**(4)**	**-**	**(5)**	**-**	**(5)**	**-**	**-**	**(14)**
Charge for the period	**-**	**23**	**64**	**9**	**21**	**30**	**32**	**179**
Impairment	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**1**
At 30 June 2014	**12**	**288**	**507**	**332**	**74**	**233**	**175**	**1,621**
Net book value at:								
30 June 2014	**1,793**	**727**	**1,175**	**247**	**396**	**275**	**338**	**4,951**
31 December 2013	1,838	663	1,202	228	406	255	395	4,987

[1] Previously referred to as 'recoverable engine costs'.
[2] In 2013, following the acquisition of RRPS, the Group revised the classification of intangible assets. During 2014, a number of minor inconsistencies in these classifications have been identified and amended. The net movement of £2m relates to software previously included in properly, plant and equipment.

The goodwill relating to Rolls-Royce Power Systems Holding AG has been assessed for impairment during 2013 by reference to its value in use. The principal value in use assumptions are: volume of equipment deliveries, pricing achieved and cost escalation. These are based on current and known future programmes, estimates of capture of market share and long-term economic forecasts. For the purposes of the impairment assessment only, cash flows beyond the ten-year forecasts are assumed to grow at 2%

The pre-tax cash flow projections have been discounted at 13% (2013 13%), based on the discount rate used to value the put option. Changes in the key assumptions which could cause the value of goodwill to fall below its carrying value include a reduction in the level of cash generation of 34% or an increase in the assumed discount rate of 5%. These have increased following the elimination of the non-controlling interest on 27 March 2014.

Certification costs and participation fees, development expenditure and contractual aftermarket rights 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% (2013 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.

9 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 RRSAs**	**C Shares**	**Total**
At 30 June 2014								
Non-current assets	**870**	**11**	**43**	**924**	**-**	**-**	**-**	**924**
Current assets	**55**	**5**	**-**	**60**	**-**	**-**	**-**	**60**
Current liabilities	**(106)**	**(6)**	**-**	**(112)**	**(1,948)**	**(30)**	**(17)**	**(2,107)**
Non-current liabilities	**(123)**	**(4)**	**(37)**	**(164)**	**-**	**(141)**	**-**	**(305)**
	696	**6**	**6**	**708**	**(1,948)**	**(171)**	**(17)**	**(1,428)**
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 31 December 2013								
Non-current assets	631	-	43	674	-	-	-	674
Current assets	72	2	-	74	-	-	-	74
Current liabilities	(63)	(16)	(1)	(80)	(1,858)	(22)	(16)	(1,976)
Non-current liabilities	(142)	(25)	(48)	(215)	-	(145)	-	(360)
	498	(39)	(6)	453	(1,858)	(167)	(16)	(1,588)

Derivative financial instruments

	Half-year to 30 June 2014				Half-year to 30 June 2013	Year to 31 December 2013
	Foreign exchange £m	**Commodity £m**	**Interest rate £m**	**Total £m**	Total £m	Total £m
At January 1	**498**	**(39)**	**(6)**	**453**	347	347
Business acquisition	-	-	-	**-**	3	3
Movements in fair value hedges	(3)	-	12	**9**	(31)	(88)
Movements in other derivative contracts	280	38	-	**318**	(1,057)	250
Contracts settled	(79)	7	-	**(72)**	(43)	(59)
At period end	**696**	**6**	**6**	**708**	(781)	453

Put option on NCI and financial risk and revenue sharing arrangements (RRSAs)

	Put option on NCI			Financial RRSAs		
	Half-year to 30 June 2014 £m	Half-year to 30 June 2013 £m	Year to 31 December 2013 £m	**Half-year to 30 June 2014 £m**	Half-year to 30 June 2013 £m	Year to 31 December 2013 £m
At January 1	**(1,858)**	(167)	(167)	**(167)**	(193)	(193)
Cash paid to partners				2	4	33
On acquisition of business	-	(2)	(2)	-	-	-
Additions	-	(1,432)	(1,432)	-	-	-
Exchange adjustments included in OCI				(1)	(2)	(4)
Financing charge [1]				(3)	(4)	(9)
Excluded from underlying profit: [1]						
Change in put option value	(166)	(95)	(212)			
Exchange adjustments	76	(97)	(45)	(2)	(10)	4
Changes in forecast payments				-	-	2
At period end	**(1,948)**	(1,793)	(1,858)	**(171)**	(205)	(167)

[1] Included in net financing.

On 7 March 2014, Daimler AG announced its intention to exercise its put option on its 50% share of Rolls-Royce Power Systems Holding GmbH. On 16 April 2014, the valuation of the exercise price was agreed at €2.43bn. The transaction is expected to complete in the second half of 2014, subject to the usual regulatory requirements. The put option above is valued at this agreed valuation, which accrues interest at 0.62% per annum from 25 June 2014.

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

	Half-year to 30 June 2014		Half-year to 30 June 2013		Year to 31 December 2013	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m	Book value £m	Fair value £m
Borrowings	**(2,193)**	**(2,319)**	(2,592)	(2,806)	(2,371)	(2,495)
Financial RRSAs	**(171)**	**(173)**	(205)	(224)	(167)	(184)

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 (Level 2). For financial RRSPs, the contractual cash flows are based on future trading activity, which is estimated based on latest forecasts (Level 3).
- The put option was previously valued at an estimate of its exercise price (Level 3). As described above, its value has now been agreed.

Borrowings

During the period, the Group has repaid £230m of bank loans, including $49m arising on acquisition of Gate Leasing Limited, and Rolls-Royce Power Systems AG borrowed €30m of its revolving credit facility, which remains outstanding at the period end.

10 Pensions and other post-retirement benefits

The net post-retirement scheme deficit as at 30 June 2014 is calculated on a year to date basis, using the latest valuation as at 31 December 2013, updated to 30 June 2014 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 2014	**196**	**(989)**	**(793)**
Exchange adjustments	**-**	**36**	**36**
Current service cost	**(79)**	**(23)**	**(102)**
Past service cost	**(1)**	**5**	**4**
Net financing	**5**	**(19)**	**(14)**
Contributions by employer	**146**	**32**	**178**
Actuarial losses	**(28)**	**(52)**	**(80)**
Movement in unrecognised surplus [1, 3]	**499**	**-**	**499**
Movement on minimum funding liability [2, 3]	**47**	**-**	**47**
At 30 June 2014	**785**	**(1,010)**	**(225)**
Analysed as:			
Post-retirement scheme surpluses - included in non-current assets	**786**	**7**	**793**
Post-retirement scheme deficits - included in non-current liabilities	**(1)**	**(1,017)**	**(1,018)**
	785	**(1,010)**	**(225)**

[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.
[3] During the period, the Group agreed with the Trustee of the Rolls-Royce Pension Fund to amend the rules. As a result of this change, the surplus arising on this scheme can be recognised and no minimum funding liability is required.

11 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 2014		31 December 2013	
	£m	***$m***	£m	*$m*
Gross commitments	**328**	***559***	356	*589*
Value of security	**(190)**	***(325)***	(217)	*(360)*
Indemnities	**(82)**	***(139)***	(80)	*(132)*
Net commitments	**56**	***95***	59	*97*
Net commitments with security reduced by 20% [1]	**72**	***123***	78	*129*

[1] 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 passed information to the Serious Fraud Office (SFO), following a request from the SFO for information about allegations of malpractice in overseas markets. On 23 December 2013, the Company announced that it had been informed by the SFO that it had commenced a formal investigation. Since the initial announcement, the Company has continued its investigations and is engaging with the SFO and other authorities in the UK, the USA and elsewhere in relation to the matters of concern.

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 Group. Accordingly, the potential for fines, penalties or other consequences cannot currently be assessed. As the investigation is ongoing, it is not yet 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.

12 Related party transactions

Transactions with related parties are shown on page 120 of the annual report 2013. Significant transactions in the current financial period are as follows:

	Half-year to 30 June 2014 £m	Half-year to 30 June 2013 £m	Year to 31 December 2013 £m
Sales of goods and services to joint ventures and associates	**957**	**1,523**	3,149
Purchases of goods and services from joint ventures and associates	**(1,271)**	**(1,531)**	(3,269)

13 Acquisitions and disposals

On 5 March 2014, the Group acquired the 50% of Gate Leasing Limited that it did not already own for $5m.

On 6 May 2014, the Group announced that it had signed an agreement to sell its Energy gas turbine and compressor business to Siemens for a £785m cash consideration. The business being sold supplies aero-derivative gas turbines, compressor systems and related services to customers in the Oil and Gas and Power Generation sectors. On completion of the transaction, the Group will receive a further £200m for a 25 year licensing agreement, granting Siemens access to relevant Rolls-Royce aero-derivative technology for use in the 4 to 85 megawatt power output gas turbine range. The Group's Energy gas turbine and compressor business has around 2,400 employees. In 2013, it was reported within the results of the Energy business where it contributed £871m of revenue and £72m of underlying profit. The transaction excludes certain smaller Power Generation sector assets. On completion of the transaction, the Group's shareholding in the Rolls Wood Group (Repair and Overhauls) Limited (RWG) joint venture, that provides maintenance, repair and overhaul services, will be transferred to Siemens. The transaction is expected to complete before the end of December 2014, subject to closing conditions, including regulatory approvals.

The Group is currently restructuring the business subject to the agreement to enable it to be separated from the Group's ongoing activities. Accordingly, the Energy gas turbine and compressor business is not, at 30 June 2014, available for immediate sale as defined by IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* and has not been classified as a disposal group.

Principal risks and uncertainties

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 set out below. With the exception of the following two amendments, the principal risks are unchanged from those reported on pages 32 to 34 of the 2013 annual report. Following review by the Risk Committee, two risks have been re-named: Political Risk (previously 'International Trade Friction') to reflect better the nature of the risk and Major Programme Delivery (previously 'Major Product Programme Delivery') which now also includes the risk of failure to deliver non-product transformation programmes.

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

Business continuity
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 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 for original equipment or services 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 technology and industrial capability.

Political risk
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 programme delivery
Failure to deliver a major programme on time, to specification, within budget or technical performance falling significantly short of customer expectations or not delivering the planned business benefits 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.

Compliance
Non-compliance by the Group with legislation or other regulatory requirements in the regulated environment in which it operates (for example: export controls; offset; use of controlled chemicals and substances; and anti-bribery and corruption legislation) compromising our 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 or export credit financing, any of which could have a material adverse effect.

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, reduction in air travel or disruption to other customer 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.

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 10 to 13 and in *Additional financial information* on pages 137 and 138 of the 2013 annual report.

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 2015, 90 C Shares, with a total nominal value of 9.0 pence, will be allotted for each ordinary share to those shareholders on the register on 24 October 2014. The final day of trading with entitlement to C Shares is 23 October 2014. 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 1 December 2014. The payment of C Shares redemption monies will be made on 6 January 2015.

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 12 February 2014 are listed in its 2013 annual report on pages 36 and 37. Since that date, Iain Conn retired as a non-executive director at the conclusion of the AGM on 1 May 2014.

By order of the Board

John Rishton
Chief Executive
30 July 2014

Mark Morris
Chief Financial Officer
30 July 2014

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 2014 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 2014 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 LLP
Chartered Accountants, London
30 July 2014