

Additional Financial Information

Income statement

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

- **Underlying revenue** increased by 27%, of which 18% is due to reporting Tognum revenue in 2013. The remaining 9% growth reflects 11% higher OE revenue and 7% higher services revenue with growth in all businesses. Further discussion is included in the business segment reports on pages 6 to 10.
- **Underlying profit before financing costs and taxation** increased by 32%. Further discussion of trading is included in the business segment reports on pages 6 to 10.
- **Underlying financing costs** increased by £1m to £32m, after including Tognum financing costs of £2m in 2013.
- **Underlying taxation** was £198m, an underlying tax rate of 23.6% compared with 21.8% in 2012.
- **Underlying EPS** increased 27% to 33.33 pence, lower than the corresponding increase in profit after tax after taking account of Daimler's 50% interest in Power Systems.
- **Payments to shareholders:** is made in the form of C Shares, which is explained on page 30. An interim payment to shareholders of 8.6 pence per share will be made, a 13% increase on 2012.
- **Other operating income** relates to programme receipts from partners, which reimburse past expenditure. These receipts increased by £76m due to the phasing of major new programmes.

- **Gross R&D investment** increased by 30%, of which 19% is due to consolidation of Tognum.
- **Net R&D charged to the income statement** increased by 23% to £351m reflecting consolidation of Tognum, increased investment and higher amortisation, partly offset by higher capitalisation due to the phasing of new programmes. (The reported R&D charge in the income statement includes the amortisation of development costs arising on the allocation of the Tognum purchase price. These are excluded from the underlying results.)
- **Foreign exchange** rate movements influence the reported income statement, the cash flow and closing net cash balance. The average and spot rates for the principal trading currencies of the Group are shown in the table below:

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

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

Balance sheet

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

- Intangible assets** relate to goodwill, certification costs, participation fees, development expenditure, recoverable engine costs, software and other costs that represent long-term assets of the Group. These increased by £2.1bn. Of this £2.0bn arose on the consolidation of Tognum, with the balance of £0.1bn representing additional development, recoverable engine, certification and software costs, offset by annual amortisation charges. The carrying values of the intangible assets are assessed for impairment against the present value of forecast cash flows generated by the intangible asset. The principal risks remain: reductions in assumed market share; programme timings; increases in unit cost assumptions; and adverse movements in discount rates. There have been no significant impairments in the period. Further details are given in note 7 to the condensed financial statements on page 24.
- Property, plant and equipment** increased by £667m of which £546m related to the consolidation of Tognum. Additions of £219m to the ongoing development and refreshment of facilities and tooling were largely offset by a depreciation charge of £176m. Foreign exchange movements increased the balance by £85m.
- Net post-retirement scheme deficits** increased by £425m to £870m. This included deficits of £397m arising on the consolidation of Tognum. The remaining change largely reflects movements in the assumptions used to value the underlying assets and liabilities in accordance with IAS 19 — in particular the discount rate which is derived from AA corporate bond yields. The impact of the revisions to IAS 19 is described in note 9 to the condensed financial statements on pages 26 to 27.
- Net working capital increased** by £1.35bn including £0.5bn due to the consolidation of Tognum, with the balance of £0.8bn primarily due to £261m higher inventory and £400m higher net long term contract debtors.
- Net funds** reduced by £0.4bn to £0.9bn largely due to an increase in inventory and other working capital in advance of further growth in the second half of the year. Average net cash increased by £945m, largely as a result of the restructuring of IAE in June 2012.
- Investment – joint ventures and associates** reduced by £1.2bn. This comprised a reduction of £1.3bn on the reclassification of Tognum to a subsidiary, offset by the Group's share of profits, net of dividends received, additions and foreign exchange movements of £97m.

- **Provisions** – increased by £326m primarily reflecting the inclusion of £290m provisions on the consolidation of Tognum.
- **Net financial assets and liabilities** relate to the fair value of foreign exchange, commodity and interest rate contracts and financial RRSPs and the put option on Power Systems, set out in detail in note 8 to the condensed financial statements. The change of £2.7bn reflects the impact of the change in the GBP/USD exchange rate on the valuation of foreign exchange contracts (£1bn) and the recognition of the put option on Tognum and subsequent movements on its value (£1.6bn).
- **USD hedge book** increased by 19% to US\$26.7bn. This represents around five years of net exposure and has an average book rate of £1 to US\$1.59.
- **Net TotalCare® assets** relate to long-term service agreement (LTSA) contracts in the civil aerospace business, including the flagship services product TotalCare. These assets represent the timing difference between the recognition of income and costs in the income statement and cash receipts and payments.
- **Customer financing** facilitates the sale of original equipment (OE) and services by providing financing support to certain customers. Where such support is provided by the Group, it is generally to customers of the civil aerospace business and takes the form of various types of credit and asset value guarantees. These exposures produce contingent liabilities that are outlined in note 10 to the condensed financial statements on page 27. The contingent liabilities represent the maximum aggregate discounted gross and net exposure in respect of delivered aircraft, regardless of the point in time at which such exposures may arise. During the period, the Group's gross exposure reduced modestly to £531m.

Condensed consolidated financial statements

Condensed consolidated income statement

For the half-year ended 30 June 2013

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

Condensed consolidated statement of comprehensive income

For the half-year ended 30 June 2013

	Notes	Half-year to June 30, 2013 £m	Restated *	
			Half-year to June 30, 2012 £m	Year to December 31, 2012 £m
(Loss)/profit for the period		(385)	1,217	2,321
Other comprehensive income (OCI)				
Items that will not be reclassified to profit or loss				
Movements in post-retirement schemes	9	(4)	(237)	(305)
Share of OCI of joint ventures and associates		-	-	(46)
Related tax movements		6	82	105
		2	(155)	(246)
Items that may be reclassified to profit or loss				
Foreign exchange translation differences on foreign operations		258	(102)	(118)
Share of OCI of joint ventures and associates		(2)	13	(12)
Related tax movements		3	(2)	(1)
		259	(91)	(131)
Total comprehensive (expense)/income for the period		(124)	971	1,944
Attributable to:				
Ordinary shareholders		(133)	966	1,931
Non-controlling interests		9	5	13
Total comprehensive (expense)/income for the period		(124)	971	1,944

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

Condensed consolidated balance sheet

At 30 June 2013

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

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

Condensed consolidated cash flow statement

For the half-year ended 30 June 2013

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

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

Condensed consolidated financial statements (continued)

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

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

	At 1 January 2013 £m	Funds flow £m	Net funds of businesses acquired £m	Exchange differences £m	Fair value adjustments £m	Reclassi- fication £m	At 30 June 2013 £m
Cash at bank and in hand	674	135		36	-	-	845
Money market funds	408	101		-	-	-	509
Short-term deposits	1,503	(436)		71	-	-	1,138
Cash and cash equivalents	2,585	(200)	-	107	-	-	2,492
Investments	11	937	-	-	-	-	948
Other current borrowings	(149)	(14)	-	-	(8)	(200)	(371)
Non-current borrowings	(1,233)	(1,023)	(203)	-	39	200	(2,220)
Finance leases	(1)	-	-	-	-	-	(1)
Net funds excluding the fair value of swaps	1,213	(300)	(203)	107	31	-	848
Fair value of swaps hedging fixed rate borrowings	104				(31)	-	73
Net funds	1,317	(300)	(203)	107	-	-	921

Condensed consolidated statement of changes in equity

For the half-year ended 30 June 30, 2013

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

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

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

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

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

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

1 Basis of preparation and accounting policies

Reporting entity

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

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

Statement of compliance

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

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

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

Significant accounting policies

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

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

Key sources of estimation uncertainty

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

2 Analysis by business segment

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

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

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

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

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

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

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

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

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

Condensed consolidated financial statements (continued)

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

Group employees at period end	30 June 2013	30 June 2012	31 December 2012
Civil aerospace	23,600	21,100	23,500
Defence aerospace	7,800	7,800	8,100
Marine	9,100	8,800	9,100
Energy	3,900	3,600	4,000
Power Systems	11,200	1,000	1,000
	55,600	42,300	45,700

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

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

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

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

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

3 Net financing

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

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

4 Earnings per ordinary share (EPS)

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

	Half-year to 30 June 2013			Restated *					
	Potentially dilutive share			Half-year to 30 June 2012			Year to 31 December 2012		
	Basic	options ¹	Diluted	Basic	options	Diluted	Basic	options	Diluted
Profit/(loss) (£m)	(358)	-	(358)	1,211	-	1,211	2,307	-	2,307
Weighted average shares (millions)	1,863	-	1,863	1,850	27	1,877	1,851	25	1,876
EPS (pence)	(19.21)	-	(19.21)	65.46	(0.93)	64.53	124.63	(1.64)	122.99

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

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

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

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

5 Taxation

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

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

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

6 Payments to shareholders in respect of the period

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

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

7 Intangible assets

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

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

- The carrying values have been assessed by reference to value in use. These have been estimated using cash flows from the most recent forecasts prepared by management, which are consistent with past experience and external sources of information on market conditions over the lives of the respective programmes.
- The key assumptions underlying cash flow projections are assumed market share, programme timings, unit cost assumptions, discount rates, and foreign exchange rates.
- The pre-tax cash flow projections have been discounted at 11% (2012 full year 11%), based on the Group's weighted average cost of capital.
- No impairment is required on this basis. However, a combination of changes in assumptions and adverse movements in variables that are outside the Company's control (discount rate, exchange rate and airframe delays), could result in impairment in future periods.

8 Financial assets and liabilities

Other financial assets and liabilities comprise:

	Derivatives			Total	Put option on NCI	Financial RRSPs	C Shares	Total
	Foreign exchange contracts	Commodity contracts	Interest rate contracts					
At 30 June 2013								
Non-current assets	73	-	62	135	-	-	-	135
Current assets	62	2	3	67	-	-	-	67
Current liabilities	(145)	(37)	-	(182)	(1,791)	(35)	(13)	(2,021)
Non-current liabilities	(762)	(17)	(22)	(801)	(2)	(170)	-	(973)
	(772)	(52)	43	(781)	(1,793)	(205)	(13)	(2,792)
At 30 June 2012								
Non-current assets	210	3	89	302	-	-	-	302
Current assets	69	4	-	73	-	-	-	73
Current liabilities	(80)	(11)	(3)	(94)	-	(9)	(7)	(110)
Non-current liabilities	(567)	(21)	-	(588)	-	(215)	-	(803)
	(368)	(25)	86	(307)	-	(224)	(7)	(538)
At 31 December 2012								
Non-current assets	498	4	90	592	-	-	-	592
Current assets	104	6	5	115	-	-	-	115
Current liabilities	(97)	(8)	-	(105)	(167)	(30)	(10)	(312)
Non-current liabilities	(233)	(15)	(7)	(255)	-	(163)	-	(418)
	272	(13)	88	347	(167)	(193)	(10)	(23)

Derivative financial instruments

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

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

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

¹ Arising on the reclassification of Tognum AG to a subsidiary – see note 12.

² Included in net financing.

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

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

Condensed consolidated financial statements (continued)

Fair values

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

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

Borrowings

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

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

9 Pensions and other post-retirement benefits

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

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

	UK schemes	Overseas schemes	Total
	£m	£m	£m
At 1 January 2013, restated	199	(644)	(445)
Exchange adjustments	-	(64)	(64)
Current service cost	(73)	(27)	(100)
Past service cost	(1)	(4)	(5)
Net financing	5	(20)	(15)
Contributions by employer	128	32	160
Acquisition of business	-	(397)	(397)
Actuarial losses	(389)	44	(345)
Movement in unrecognised surplus ¹	186	-	186
Movement on minimum funding liability ²	155	-	155
At 30 June 2013	210	(1,080)	(870)
Analysed as:			
Post-retirement scheme surpluses - included in non-current assets	239	12	251
Post-retirement scheme deficits - included in non-current liabilities	(29)	(1,092)	(1,121)
	210	(1,080)	(870)

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

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

Condensed consolidated financial statements (continued)

Amendments to IAS 19

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

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

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

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

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

10 Contingent liabilities and contingent assets

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

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

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

¹ Gross contingent liabilities do not exclude insurance and indemnity arrangements

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

There are also net contingent liabilities in respect of undelivered aircraft, but it is not considered practicable to estimate these as deliveries can be many years in the future, and the relevant financing will only be put in place at the appropriate time.

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

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

Contingent liabilities exist in respect of guarantees provided by the Group in the ordinary course of business for product delivery, performance and reliability. The Group has, in the normal course of business, entered into arrangements in respect of export finance, performance bonds, countertrade obligations and minor miscellaneous items. Various Group undertakings are parties to legal actions and claims which arise in the ordinary course of business, some of which are for substantial amounts. While the outcome of some of these matters cannot precisely be foreseen, the directors do not expect any of these arrangements, legal actions or claims, after allowing for provisions already made, to result in significant loss to the Group.

11 Related party transactions

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

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

12 Acquisitions and disposals

Tognum

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

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

Identifiable assets acquired and liabilities assumed

	£m
Intangible assets	1,190
Property, plant and equipment	546
Investments in joint ventures, associates and other unlisted investments	53
Inventory	736
Trade and other receivables	480
Taxation recoverable	48
Cash and cash equivalents	240
Trade and other payables	(684)
Current tax liabilities	(75)
Borrowings	(203)
Other financial assets and liabilities	(27)
Deferred tax	(278)
Provisions	(290)
Post-retirement schemes	(397)
Total identifiable assets and liabilities	1,339
Goodwill arising	773
Total consideration	2,112
Put option on NCI	(1,432)
	680
Consideration satisfied by:	
Existing shareholding	1,443
NCI	669
	2,112
Net cash flow arising on acquisition:	
Cash consideration	-
Less: cash and cash equivalents acquired	(240)
Cash flow per cash flow statement	(240)
Identifiable intangible assets comprise:	
Development cost	53
Other	85
Trademark	104
Technology, patents and licenses	420
Customer relationships	434
Order backlog	94
	1,190

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

As part of the RRPSH shareholders' agreement, Daimler has the option to sell its shares in RRPSH to Rolls-Royce for a period of six years from 1 January 2013. The initial fair value of the exercise price of this option in respect of Tognum has been recognised

Condensed consolidated financial statements (continued)

as a liability (£1,432 million), which has been charged to NCI and retained earnings. Subsequent movements in the value of this liability will be included in the income statement, but excluded from the underlying results.

Other

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

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

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

Principal risks and uncertainties

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

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

Product failure

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

Business continuity

Complete breakdown of external supply chain or internal facilities that could be caused by destruction of key facilities, natural disaster, regional conflict, financial insolvency of a critical supplier or scarcity of materials which would reduce the ability to meet customer commitments, win future business or achieve operational results.

Competitor action

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

International trade friction

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

Major product programme delivery

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

Going concern

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

Payments to shareholders

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

Compliance

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

Market shock

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

IT vulnerability

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

Statement of directors' responsibilities

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

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

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

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

By order of the Board

John Rishton
Chief Executive
24 July 2013

Mark Morris
Chief Financial Officer
24 July 2013

Independent review report to Rolls-Royce Holdings plc

Introduction

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

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

Directors' responsibilities

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

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

Our responsibility

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

Scope of review

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

Conclusion

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

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