

Condensed consolidated financial statements

Condensed consolidated income statement

For the half-year ended June 30, 2012

	Notes	Half-year to June 30, 2012			Half-year	Year to
		Excluding IAE restructuring	IAE restructuring	Total	to June 30, 2011	December 31, 2011
		£m	£m	£m	£m	£m
Revenue	2	5,720	-	5,720	5,364	11,124
Cost of sales		(4,465)	-	(4,465)	(4,077)	(8,676)
Gross profit		1,255	-	1,255	1,287	2,448
Other operating income		17	-	17	51	69
Commercial and administrative costs		(474)	-	(474)	(472)	(984)
Research and development costs		(285)	-	(285)	(210)	(463)
Share of results of joint ventures and associates		67	-	67	60	116
		580	-	580	716	1,186
Operating profit						
Profit on restructuring/disposal of businesses		-	700	700	-	3
Profit before financing and taxation		580	700	1,280	716	1,189
Financing income	3	278	-	278	671	456
Financing costs	3	(250)	-	(250)	(250)	(540)
Net financing		28	-	28	421	(84)
Profit before taxation ¹		608	700	1,308	1,137	1,105
Taxation	5	(141)	37	(104)	(295)	(257)
Profit for the period		467	737	1,204	842	848
Attributable to:						
Ordinary shareholders		461	737	1,198	842	850
Non-controlling interests		6	-	6	-	(2)
Profit for the period		467	737	1,204	842	848
Earnings per ordinary share attributable to shareholders	4					
Basic		24.92p	39.84p	64.76p	45.51p	45.95p
Diluted				63.83p	44.93p	45.33p

Condensed consolidated financial statements (continued)

Underlying earnings per ordinary share are shown in note 4.

Payments to ordinary shareholders in respect of the period				6		
				7.6p	6.9p	17.5p
Pence per share						
Total				142	129	328
¹ Underlying profit before taxation				2	637	-
				637	595	1,157

Condensed consolidated statement of comprehensive income

For the half-year ended June 30, 2012

	Half-year to June 30, 2012 £m	Half-year to June 30, 2011 £m	Year to December 31, 2011 £m
Profit for the period	1,204	842	848
Other comprehensive income (OCI)			
	(102)	76	(102)
Foreign exchange translation differences on foreign operations			
Movements in post-retirement schemes	(216)	(81)	123
Amount credited to cash flow hedging reserve	(1)	30	-
Share of OCI of joint ventures and associates	14	5	(10)
Related tax movements	74	17	(54)
Total comprehensive income for the period	973	889	805
Attributable to:			
Ordinary shareholders	968	889	808
Non-controlling interests	5	-	(3)
Total comprehensive income for the period	973	889	805

Condensed consolidated balance sheet

At June 30, 2012

		June 30, 2012	June 30, 2011	December 31, 2011
	Notes	£m	£m	£m
ASSETS				
Non-current assets				
Intangible assets	7	2,865	3,027	2,882
Property, plant and equipment		2,394	2,205	2,338
Investments – joint ventures and associates		1,833	469	1,680
Investments – other		10	11	10
Other financial assets	8	302	485	327
Deferred tax assets		464	309	368
Post-retirement scheme surpluses	9	337	249	503
		8,205	6,755	8,108
Current assets				
Inventories		2,742	2,612	2,561
Trade and other receivables		4,015	4,070	4,009
Taxation recoverable		15	5	20
Other financial assets	8	73	187	91
Short-term investments		12	3	11
Cash and cash equivalents		2,160	2,526	1,310
Assets held for sale		5	9	313
		9,022	9,412	8,315
Total assets		17,227	16,167	16,423
LIABILITIES				
Current liabilities				
Borrowings		(4)	-	(20)
Other financial liabilities	8	(110)	(56)	(111)
Trade and other payables		(6,732)	(6,116)	(6,236)
Current tax liabilities		(177)	(173)	(138)
Provisions for liabilities and charges		(253)	(306)	(276)

Condensed consolidated financial statements (continued)

Liabilities associated with assets held for sale	-	-	(135)
	(7,276)	(6,651)	(6,916)
Non-current liabilities			
Borrowings	(1,407)	(1,140)	(1,184)
Other financial liabilities 8	(803)	(742)	(919)
Trade and other payables	(659)	(1,248)	(1,314)
Deferred tax liabilities	(490)	(483)	(445)
Provisions for liabilities and charges	(204)	(219)	(226)
Post-retirement scheme deficits 9	(907)	(930)	(900)
	(4,470)	(4,762)	(4,988)
Total liabilities	(11,746)	(11,413)	(11,904)
Net assets	5,481	4,754	4,519
EQUITY			
Attributable to ordinary shareholders			
Called-up share capital	374	374	374
Share premium account	-	-	-
Capital redemption reserve	172	-	173
Cash flow hedging reserve	(58)	(11)	(52)
Other reserves	350	606	433
Retained earnings	4,589	3,781	3,590
	5,427	4,750	4,518
	54	4	1
Non-controlling interests			
Total equity	5,481	4,754	4,519

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Condensed consolidated financial statements (continued)

Disposals of property, plant and equipment	26	22	31
Acquisitions of businesses	(2)	-	(19)
Restructuring of IAE	953	-	-
Disposals of businesses	-	2	7
Investments in joint ventures and associates	(16)	(37)	(1,329)
Transfer of subsidiary to associate	(1)	-	-
Repayment of/(increase in) loan to Engine Holding GmbH	167	-	(167)
Net cash inflow/(outflow) from investing activities	772	(351)	(2,207)
Cash flows from financing activities			
Repayment of loans	-	(567)	(567)
Proceeds from increase in loans	221	-	-
Net cash flow from increase/(decrease) in borrowings	221	(567)	(567)
Interest received	7	9	19
Interest paid	(40)	(39)	(50)
(Increase)/decrease in short-term investments	(1)	325	316
Issue of ordinary shares (net of expenses)	-	1	(1)
Purchase of ordinary shares	(94)	(57)	(57)
Other transactions in ordinary shares	-	21	-
Redemption of C Shares	(124)	(141)	(315)
Net cash outflow from financing activities	(31)	(448)	(655)
Net increase/(decrease) in cash and cash equivalents	889	(342)	(1,556)
Cash and cash equivalents at January 1	1,291	2,851	2,851
Exchange gains on cash and cash equivalents	(23)	17	(4)
	2,157	2,526	1,291
Cash and cash equivalents at period end			

* Restated to show government grants, previously included in trade and other payables, separately.

Condensed consolidated financial statements (continued)

	Half-year to June 30, 2012 £m	Half-year to June 30, 2011 £m	Year to December 31, 2011 £m
Reconciliation of movements in cash and cash equivalents to movements in net funds			
Net increase/(decrease) in cash and cash equivalents	889	(342)	(1,556)
Net cash flow from (increase)/decrease in borrowings	(221)	567	567
Net cash flow from increase/(decrease) in short-term investments	1	(325)	(316)
Change in net funds resulting from cash flows	669	(100)	(1,305)
Exchange (losses)/gains on net funds	(23)	18	(5)
Fair value adjustments	(2)	136	92
Movement in net funds	644	54	(1,218)
Net funds at January 1 excluding the fair value of swaps	117	1,335	1,335
Net funds at period end excluding the fair value of swaps	761	1,389	117
Fair value of swaps hedging fixed rate borrowings	108	62	106
Net funds at period end	869	1,451	223

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

	At January 1, 2012 £m	Funds flow £m	Exchange differences £m	Fair value adjustments £m	At June 30, 2012 £m
Cash at bank and in hand	1,285	(634)	(19)	-	632
Money market funds	11	458	-	-	469
Short-term deposits	14	1,049	(4)	-	1,059
Overdrafts	(19)	16	-	-	(3)
Cash and cash equivalents	1,291	889	(23)	-	2,157
Investments	11	1	-	-	12
Other current borrowings	(1)	-	-	-	(1)
Non-current borrowings	(1,183)	(221)	-	(2)	(1,406)
Finance leases	(1)	-	-	-	(1)
Net funds excluding the fair value of swaps	117	669	(23)	(2)	761
Fair value of swaps hedging fixed rate borrowings	106			2	108
Net funds	223	669	(23)	-	869

Condensed consolidated statement of changes in equity

For the half-year ended June 30, 2012

	Attributable to ordinary shareholders							Non-controlling interests	Total equity
	Share capital	premium	redemption reserve	hedging reserve	reserves	Retained earnings	Total		
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At January 1, 2011	374	133	209	(37)	527	2,769	3,975	4	3,979
Total comprehensive income for the period	-	-	-	26	79	784	889	-	889
Arising on issues of ordinary shares	-	1	-	-	-	-	1	-	1
Issue of C Shares	-	(120)	-	-	-	2	(118)	-	(118)
Redemption of C Shares	-	-	143	-	-	(143)	-	-	-
Ordinary shares purchased	-	-	-	-	-	(57)	(57)	-	(57)
Share-based payments – direct to equity	-	-	-	-	-	56	56	-	56
Effect of scheme of arrangement ¹	2,434	(14)	(352)	-	-	(2,068)	-	-	-
Effect of capital reduction ¹	(2,434)	-	-	-	-	2,434	-	-	-
Related tax movements	-	-	-	-	-	4	4	-	4
Other changes in equity in the period	-	(133)	(209)	-	-	228	(114)	-	(114)
At June 30, 2011	374	-	-	(11)	606	3,781	4,750	4	4,754
Total comprehensive income for the period	-	-	-	(41)	(173)	133	(81)	(3)	(84)
Issue of C Shares	-	-	-	-	-	(178)	(178)	-	(178)
Redemption of C Shares	-	-	174	-	-	(174)	-	-	-
Share-based payments – direct to equity	-	-	-	-	-	21	21	-	21
Effect of scheme of arrangement	-	-	(1)	-	-	(1)	(2)	-	(2)
Related tax movements	-	-	-	-	-	8	8	-	8
Other changes in equity in the period	-	-	173	-	-	(324)	(151)	-	(151)
At December 31, 2011	374	-	173	(52)	433	3,590	4,518	1	4,519
Total comprehensive income for the period	-	-	-	(6)	(83)	1,057	968	5	973
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 non-controlling interests ²	-	-	-	-	-	115	115	48	163

Condensed consolidated financial statements (continued)

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	4,589	5,427	54	5,481

¹ On May 23, 2011, under a scheme of arrangement between Rolls-Royce Group plc, the former holding company of the Group, and its shareholders under Part 26 of the Companies Act 2006, and as sanctioned by the High Court, all the issued ordinary shares in that company were cancelled and the same number of new ordinary shares were issued to Rolls-Royce Holdings plc in consideration for the allotment to shareholders of one ordinary share in Rolls-Royce Holdings plc for each ordinary share in Rolls-Royce Group plc held on the record date (May 20, 2011).

On May 23, 2011, pursuant to the scheme of arrangement noted above, 1,872,188,709 ordinary shares of 150 pence were issued. As required by Section 612 of the Companies Act 2006, no share premium was recognised.

On May 24, 2011, the share capital of Rolls-Royce Holdings plc was reduced by reducing the nominal value of the ordinary shares from 150 pence to 20 pence as sanctioned by the High Court.

² On January 2, 2012, the Group contributed its interest in Bergen Engines AS to 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.

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 June 30, 2012 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 December 31, 2011 (2011 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 2011 Annual report.

The comparative figures for the financial year December 31, 2011 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 July 25, 2012.

Significant accounting policies

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 December 31, 2011 (International Financial Reporting Standards issued by the International Accounting Standards Board, as adopted for use in the EU effective at December 31, 2011).

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 December 31, 2011.

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. Following the transfer of Bergen Engines AS to Engine Holding GmbH on January 2, 2012, the comparative figures for 2011 have been restated to put them on a consistent basis.

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

Underlying revenues – Where revenues are denominated in a currency other than the functional currency of the Group undertaking, these 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 and, in 2012, the profit arising on the restructuring of IAE is also excluded. In 2011, the effects of one-off past-service credits on post-retirement schemes were 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 and the net impact of financing costs related to post-retirement scheme benefits.

This analysis also includes a reconciliation of the underlying results to those reported in the consolidated income statement.

	Half-year to June 30, 2012			Half-year to June 30, 2011			Year to December 31, 2011		
	Original equipment	Aftermarket	Total	Original equipment	Aftermarket	Total	Original equipment	Aftermarket	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Underlying revenues									
Civil aerospace	1,314	1,720	3,034	1,047	1,557	2,604	2,232	3,340	5,572
	559	575	1,134	504	584	1,088	1,102	1,133	2,235
Defence aerospace									
Marine	622	448	1,070	695	476	1,171	1,322	949	2,271
Energy	179	266	445	312	229	541	527	556	1,083
Engine Holding	66	76	142	88	84	172	185	146	331
Eliminate intra-segment revenue	(17)	(51)	(68)	(55)	(58)	(113)	(110)	(105)	(215)
	2,723	3,034	5,757	2,591	2,872	5,463	5,258	6,019	11,277

	Half-year to June 30, 2012	Half-year to June 30, 2011	Year to December 31, 2011
	£m	£m	£m
Underlying profit before financing			
Civil aerospace	310	250	499
Defence aerospace	196	219	376
Marine	147	157	287
Energy	(5)	(7)	16

Condensed consolidated financial statements (continued)

Engine Holding	52	25	80
Eliminate intra-segment profit	(6)	-	-
Reportable segments	694	644	1,258
Underlying central items	(26)	(25)	(52)
Underlying profit before financing and taxation	668	619	1,206
Underlying net financing	(31)	(24)	(49)
Underlying profit before taxation	637	595	1,157
Underlying taxation	(140)	(153)	(261)
Underlying profit for the period	497	442	896

	Total assets			Total liabilities			Net assets/(liabilities)		
	June	June	December	June	June	December	June	June	December
	30, 2012	30, 2011	31, 2011	30, 2012	30, 2011	31, 2011	30, 2012	30, 2011	31, 2011
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Civil aerospace			8,621	(5,701)	(5,506)	(5,982)	2,884	3,315	2,639
	8,585	8,821							
Defence aerospace	1,360	1,440	1,311	(1,773)	(1,784)	(1,831)	(413)	(344)	(520)
Marine	2,167	2,410	2,031	(1,458)	(1,730)	(1,440)	709	680	591
Energy	1,295	1,125	1,234	(528)	(569)	(546)	767	556	688
Engine Holding	1,543	229	1,654	(120)	(110)	(164)	1,423	119	1,490
Reportable segments	14,950	14,025	14,851	(9,580)	(9,699)	(9,963)	5,370	4,326	4,888
Eliminations	(819)	(1,012)	(746)	819	1,012	746	-	-	-
Net funds	2,280	2,591	1,427	(1,411)	(1,140)	(1,204)	869	1,451	223
Tax assets/(liabilities)	479	314	388	(667)	(656)	(583)	(188)	(342)	(195)
Post-retirement scheme surpluses/(deficits)	337	249	503	(907)	(930)	(900)	(570)	(681)	(397)
	17,227	16,167	16,423	(11,746)	(11,413)	(11,904)	5,481	4,754	4,519

Group employees at period end

	June	June	December
	30, 2012	30, 2011	31, 2011
Civil aerospace	21,100	19,400	20,000
Defence aerospace	7,800	7,900	8,000
Marine	8,800	8,700	8,800
Energy	3,600	3,400	3,600
Engine Holding	1,000	900	900
	42,300	40,300	41,300

Underlying revenue adjustments	Half-year to June 30, 2012 £m	Half-year to June 30, 2011 £m	Year to December 31, 2011 £m
Underlying revenue	5,757	5,463	11,277
Recognise revenue at exchange rate on date of transaction	(37)	(99)	(153)
Revenue per consolidated income statement	5,720	5,364	11,124

Underlying profit adjustments	Half-year to June 30, 2012			Half-year to June 30, 2011			Year to December 31, 2011		
	Profit before financing	Net financing	Taxation	Profit before financing	Net financing	Taxation	Profit before financing	Net financing	Taxation
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Underlying performance	668	(31)	(140)	619	(24)	(153)	1,206	(49)	(261)
Realised (gains)/losses on settled derivative contracts ¹	(26)	26	-	(71)	2	-	(116)	24	-
Net unrealised fair value changes to derivative contracts ²	(6)	66	-	6	456	-	(5)	(49)	-
Effect of currency on contract accounting	(14)	-	-	10	-	-	4	-	-
Revaluation of trading assets and liabilities	-	(4)	-	-	(10)	-	-	-	-
Financial RRSPs – exchange differences and changes in forecast payments	-	2	-	-	5	-	-	2	-
Effect of acquisition accounting	(42)	-	-	-	-	-	(64)	-	-
Post-retirement scheme past-service costs ^{3,4}	-	-	-	152	-	-	164	-	-
Net post-retirement scheme financing	-	(31)	-	-	(8)	-	-	(12)	-
Related tax effect	-	-	(1)	-	-	(142)	-	-	4
IAE restructuring (note 12)	700	-	37	-	-	-	-	-	-
Total underlying adjustments	612	59	36	97	445	(142)	(17)	(35)	4
Reported per consolidated income statement	1,280	28	(104)	716	421	(295)	1,189	(84)	(257)

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

² The adjustments for unrealised fair value changes to derivative contracts include those in respect of 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 In 2010, the UK Government announced changes to the basis of the statutory indexation for pension increases. As a result, the relevant arrangements were amended, resulting in a gain in the 2011 income statement of £130m, which has been excluded from underlying profit.

⁴ During 2011, the Group agreed revised post-retirement healthcare arrangements on certain of its overseas schemes. This resulted in a net gain in the income statement of £34m (2011 half year £22m) which was excluded from underlying profit.

3 Net financing

	Half-year to June 30, 2012		Half-year to June 30, 2011		Year to December 31, 2011	
	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	5	5	10	10	20	20
Fair value gains on foreign currency contracts	79	-	452	-	-	-
Financial RRSPs – foreign exchange differences and changes in forecast payments	2	-	5	-	2	-
	-	-	4	-	-	-
Fair value gains on commodity derivatives						
Expected return on post-retirement scheme assets	170	-	200	-	410	-
Net foreign exchange gains	22	-	-	-	24	-
	278	5	671	10	456	20
Financing costs						
Interest payable	(25)	(25)	(24)	(24)	(51)	(51)
Fair value losses on foreign currency contracts	-	-	-	-	(21)	-
	(5)	(5)	(5)	(5)	(11)	(11)
Financial charge relating to financial RRSPs						
Fair value losses on commodity derivatives	(13)	-	-	-	(28)	-
Interest on post-retirement scheme liabilities	(201)	-	(208)	-	(422)	-
Net foreign exchange losses	-	-	(8)	-	-	-
Other financing charges	(6)	(6)	(5)	(5)	(7)	(7)
	(250)	(36)	(250)	(34)	(540)	(69)
Net financing	28	(31)	421	(24)	(84)	(49)
Analysed as:						
Net interest payable	(20)	(20)	(14)	(14)	(31)	(31)
Net post-retirement scheme financing	(31)	-	(8)	-	(12)	-
Net other financing	79	(11)	443	(10)	(41)	(18)
Net financing	28	(31)	421	(24)	(84)	(49)

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

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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 June 30, 2012			Half-year to June 30, 2011			Year to December 31, 2011		
	Basic	Potentially dilutive share options	Diluted	Basic	Potentially dilutive share options	Diluted	Basic	Potentially dilutive share options	Diluted
Profit/(loss) (£m)	1,198	-	1,198	842	-	842	850	-	850
Weighted average shares (millions)	1,850	27	1,877	1,850	24	1,874	1,850	25	1,875
EPS (pence)	64.76	(0.93)	63.83	45.51	(0.58)	44.93	45.95	(0.62)	45.33

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

	Half-year to June 30, 2012		Half-year to June 30, 2011		Year to December 31, 2011	
	Pence	£m	Pence	£m	Pence	£m
Underlying EPS / Underlying profit attributable to ordinary shareholders	26.54	491	23.89	442	48.54	898
Total underlying adjustments to profit before tax (note 2)	36.27	671	29.30	542	(2.81)	(52)
Related tax effects	1.95	36	(7.68)	(142)	0.22	4
EPS / Profit attributable to ordinary shareholders	64.76	1,198	45.51	842	45.95	850
Excluding IAE restructuring	24.92	461	45.51	842	45.95	850
IAE restructuring	39.84	737	-	-	-	-
Diluted underlying EPS	26.16		23.59		47.89	

5 Taxation

The effective tax rate for the half year is **8.0%** (2011: half year 25.9%, full year 23.3%). Excluding the impact of the IAE restructuring, the effective tax rate for the half year is 23.2%. Pursuant to the Substantial Shareholdings Exemption, the majority of the upfront proceeds received on the IAE restructuring are not subject to tax, which has the effect of reducing the effective tax rate. The tax credit of £37m relating to the IAE restructuring arises as a consequence of the derecognition of various assets and liabilities on completion of the transaction.

The UK corporation tax rate reduced from 26% to 24% on April 1, 2012 and the effective tax rate takes this into account. The impact of the reduction to 25% was reflected in the 2011 closing deferred tax balances as the rate change was substantively enacted prior to the year end. As the further reduction to 24% was substantively enacted on March 26, 2012, the closing deferred tax assets and liabilities have been remeasured. The proposed future reductions in the rate to 22% will be reflected when the relevant legislation is substantively enacted. The impact of the reduction in the rate on the 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 June 30, 2012		Year to December 31, 2011	
	Pence per share	£m	Pence per share	£m
Interim (issued in January)	7.6	142	6.9	129
Final (issued in July)			10.6	199
	7.6	142	17.5	328

7 Intangible assets

	Goodwill	Certification costs and participation fees	Development expenditure	Recoverable engine costs	Software and other	Total
	£m	£m	£m	£m	£m	£m
Cost:						
At January 1, 2012	1,106	720	954	464	490	3,734
Exchange differences	(18)	(2)	(3)	-	(1)	(24)
Additions	-	16	14	30	41	101
On acquisition of business	2	-	-	-	-	2
Disposals/write-offs	-	(6)	(6)	-	-	(12)
At June 30, 2012	1,090	728	959	494	530	3,801
Accumulated amortisation:						
At January 1, 2012	7	197	268	231	149	852
Exchange differences	-	-	-	-	-	-
Charge for the period	-	17	25	27	27	96
Disposals/write-offs	-	(6)	(6)	-	-	(12)
At June 30, 2012	7	208	287	258	176	936

Condensed consolidated financial statements (continued)

Net book value at:						
June 30, 2012	1,083	520	672	236	354	2,865
December 31, 2011	1,099	523	686	233	341	2,882

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% (2011 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 Other financial assets and liabilities

	Half-year to June 30, 2012			Half-year to June 30, 2011			Year to December 31, 2011		
	Assets	Liabilities	Net	Assets	Liabilities	Net	Assets	Liabilities	Net
	£m	£m	£m		£m	£m	£m	£m	£m
Foreign exchange contracts	279	(647)	(368)	598	(531)	67	321	(768)	(447)
Commodity contracts	7	(32)	(25)	29	(7)	22	14	(26)	(12)
Interest rate contracts	89	(3)	86	45	(4)	41	83	(2)	81
Derivative financial instruments	375	(682)	(307)	672	(542)	130	418	(796)	(378)
Financial RRSPs	-	(224)	(224)	-	(256)	(256)	-	(230)	(230)
C Shares	-	(7)	(7)	-	-	-	-	(4)	(4)
	375	(913)	(538)	672	(798)	(126)	418	(1,030)	(612)
Current	73	(110)		187	(56)		91	(111)	
Non-current	302	(803)		485	(742)		327	(919)	
	375	(913)		672	(798)		418	(1,030)	

Derivative financial instruments

	Half-year to June 30, 2012				Half-year to June 30, 2011	Year to December 31, 2011
	Foreign exchange	Commodity	Interest rate	Total	Total	Total
	£m	£m	£m	£m	£m	£m
At January 1	(447)	(12)	81	(378)	(140)	(140)
Movements in fair value hedges	(1)	-	4	3	41	85
Movements in cash flow hedges	(3)	-	-	(3)	29	(1)
Movements in other derivative contracts	79	(13)	1	67	457	(48)
Contracts settled	4	-	-	4	(257)	(274)
At period end	(368)	(25)	86	(307)	130	(378)

Financial risk and revenue sharing partnerships (RRSPs)

	Half-year to June 30, 2012	Half-year to June 30, 2011	Year to December 31, 2011
	£m	£m	£m
At January 1	(230)	(266)	(266)
Cash paid to partners	6	13	46
Exchange adjustments included in OCI	3	(3)	(1)

Condensed consolidated financial statements (continued)

Financing charge ¹	(5)	(5)	(11)
Excluded from underlying profit: ¹			
	1	5	1
Exchange adjustments			
	1	-	1
Changes in forecast payments			
	(224)	(256)	(230)
At period end			

¹ Included in net financing.

9 Pensions and other post-retirement benefits

The net post-retirement scheme deficit as at June 30, 2012 is calculated on a year to date basis, using the latest valuation as at December 31, 2011, updated to June 30, 2012 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 January 1, 2012	252	(649)	(397)
Exchange adjustments	-	6	6
Current service cost	(61)	(18)	(79)
Past service (cost)/credit	(1)	5	4
Interest on post-retirement scheme liabilities	(177)	(24)	(201)
Expected return on post-retirement scheme assets	156	14	170
Contributions by employer	123	20	143
Actuarial losses	(542)	(34)	(576)
Movement in unrecognised surplus ¹	329	-	329
Movement on minimum funding liability ²	31	-	31
At June 30, 2012	110	(680)	(570)
Analysed as:			
Post-retirement scheme surpluses - included in non-current assets	329	8	337
Post-retirement scheme deficits - included in non-current liabilities	(219)	(688)	(907)
	110	(680)	(570)

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

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

10 Contingent liabilities and contingent assets

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

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:

	June 30, 2012		December 31, 2011	
	£m	\$m	£m	\$m
Gross contingent liabilities	602	944	612	951
Contingent liabilities net of relevant security	76	119	124	192
Contingent liabilities net of relevant security reduced by 20% ¹	145	228	201	312

Condensed consolidated financial statements (continued)

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.

The reduction in net contingent liabilities since December 31, 2011 is primarily a result of the IAE restructuring.

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 118 of the Annual report 2011. Significant transactions in the current financial period are as follows:

	Half-year to June 30, 2012 £m	Half-year to June 30, 2011 £m	Year to December 31, 2011 £m
Sales of goods and services to joint ventures and associates	1,976	1,280	2,864
Purchases of goods and services from joint ventures and associates	(1,410)	(1,044)	(2,380)

12 Restructuring of IAE

On June 29, 2012, the Group and Pratt & Whitney completed the restructuring of their participation in IAE, which produces the V2500 engine for the Airbus A320 family of aircraft. As a result of the restructuring, Rolls-Royce sold its equity, programme share and related goodwill in IAE to Pratt & Whitney for US\$1.5 billion, giving rise to a profit before tax of £700 million.

As Rolls-Royce continues to be responsible for the manufacture of high-pressure compressors, fan blades as well as the provision of engine support and final assembly of 50 per cent of V2500 engines, the transaction is not considered to give rise to a discontinued operation.

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 34 and 35 of the Annual report 2011, and are summarised below:

- Significant external events affecting demand;
- Failure to minimise the environmental impact of the Group's products and operations;
- Reduction in government spending;
- Failure of counterparties;
- Fluctuations in foreign currency exchange rates;
- Regulatory changes relating to financial derivatives;
- The Group's products, services and pricing do not remain competitive;
- Non-compliance with applicable legislation and regulations;
- Failure to grow capable resource globally;
- Product performance not meeting expectations;
- Disruption of supply chain;
- Downgrade in credit rating;
- Failure to conduct business in an ethical and socially responsible manner;
- Failure to manage multiple complex product programmes effectively;
- Breach of IT security;
- Failure to execute the programme to modernise the IT infrastructure; and
- Loss or unintended disclosure of Intellectual Property.

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 *Finance Director's review* on pages 14 to 17 and in *Additional financial information* on pages 36 and 37 of the Annual report 2011.

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 January 2, 2013, 76 C Shares, with a total nominal value of 7.6 pence, will be allotted for each ordinary share to those shareholders on the register on October 26, 2012. The final day of trading with entitlement to C Shares is October 23, 2012. 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 December 3, 2012. The payment of C Shares redemption monies will be made on January 4, 2013.

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 February 8, 2012 are listed in its Annual report 2011 on pages 38 and 39. Since that date, the following changes have taken place:

- Sir Peter Gregson retired as a non-executive director at the conclusion of the Annual General Meeting held on May 4, 2012; and
- Jasmin Staiblin was appointed as a non-executive director on May 21, 2012.

By order of the Board

John Rishton
Chief Executive
July 25, 2012

Mark Morris
Finance Director
July 25, 2012

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 June 30, 2012 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 Services Authority ("the UK FSA"). 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 FSA.

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 June 30, 2012 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

AJ Sykes
for and on behalf of KPMG Audit Plc
Chartered Accountants, London
July 25, 2012