

Condensed consolidated financial statements

Condensed consolidated income statement

For the half-year ended June 30, 2011

	Notes	Half-year to June 30, 2011 £m	Half-year to June 30, 2010 £m	Year to December 31, 2010 £m
Revenue	2	5,364	5,421	11,085
Cost of sales		(4,077)	(4,316)	(8,885)
Gross profit		1,287	1,105	2,200
Other operating income		51	82	95
Commercial and administrative costs		(472)	(433)	(836)
Research and development costs		(210)	(192)	(422)
Share of results of joint ventures and associates		60	32	93
Operating profit		716	594	1,130
Profit on disposal of businesses		-	-	4
Profit before financing and taxation		716	594	1,134
Financing income	3	671	221	453
Financing costs	3	(250)	(1,290)	(885)
Net financing		421	(1,069)	(432)
Profit/(loss) before taxation ¹		1,137	(475)	702
Taxation	5	(295)	144	(159)
Profit/(loss) for the period		842	(331)	543
Attributable to:				
Ordinary shareholders		842	(334)	539
Non-controlling interests		-	3	4
Profit/(loss) for the period		842	(331)	543
Earnings per ordinary share attributable to shareholders	4			
Basic		45.51p	(18.07p)	29.20p
Diluted		44.93p	(18.07p)	28.82p
Underlying earnings per ordinary share are shown in note 4				
Payments to ordinary shareholders in respect of the period	6			
Pence per share		6.9p	6.4p	16.0p
Total		129	119	299
¹ Underlying profit before taxation	2	595	465	955

Condensed consolidated statement of comprehensive income

For the half-year ended June 30, 2011

	Half-year to June 30, 2011 £m	Half-year to June 30, 2010 £m	Year to December 31, 2010 £m
Profit/(loss) for the period	842	(331)	543
Other comprehensive income (OCI)			
Foreign exchange translation differences on foreign operations	76	(39)	22
Net actuarial gains/(losses) relating to post-retirement schemes	32	(63)	157
Movement in unrecognised post-retirement surplus	(124)	(91)	(300)
Movement in post-retirement minimum funding liability	11	27	49
Amount credited to cash flow hedging reserve	30	-	-
Share of OCI of joint ventures and associates	5	(22)	(16)
Related tax movements	17	29	29
Total comprehensive income for the period	889	(490)	484
Attributable to:			
Ordinary shareholders	889	(493)	480
Non-controlling interests	-	3	4
Total comprehensive income for the period	889	(490)	484

Condensed consolidated balance sheet

At June 30, 2011

	Notes	June 30, 2011 £m	June 30, 2010 £m	December 31, 2010 £m
ASSETS				
Non-current assets				
Intangible assets	7	3,027	2,737	2,884
Property, plant and equipment		2,205	2,058	2,136
Investments – joint ventures and associates		469	360	393
Investments – other		11	10	11
Other financial assets	8	485	222	371
Deferred tax assets		309	627	451
Post-retirement scheme surpluses	9	249	83	164
		6,755	6,097	6,410
Current assets				
Inventories		2,612	2,526	2,429
Trade and other receivables		4,070	4,162	3,943
Taxation recoverable		5	8	6
Other financial assets	8	187	196	250
Short-term investments		3	326	328
Cash and cash equivalents		2,526	2,808	2,859
Assets held for sale		9	9	9
		9,412	10,035	9,824
Total assets		16,167	16,132	16,234
LIABILITIES				
Current liabilities				
Borrowings		-	(820)	(717)
Other financial liabilities	8	(56)	(188)	(105)
Trade and other payables		(6,116)	(6,343)	(5,910)
Current tax liabilities		(173)	(159)	(170)
Provisions for liabilities and charges		(306)	(230)	(276)
		(6,651)	(7,740)	(7,178)
Non-current liabilities				
Borrowings		(1,140)	(1,146)	(1,135)
Other financial liabilities	8	(742)	(1,388)	(945)
Trade and other payables		(1,248)	(993)	(1,271)
Deferred tax liabilities		(483)	(410)	(438)
Provisions for liabilities and charges		(219)	(259)	(268)
Post-retirement scheme deficits	9	(930)	(1,053)	(1,020)
		(4,762)	(5,249)	(5,077)
Total liabilities		(11,413)	(12,989)	(12,255)
Net assets		4,754	3,143	3,979
EQUITY				
Equity attributable to ordinary shareholders				
Called-up share capital		374	371	374
Share premium account		-	98	133
Capital redemption reserve		-	188	209
Cash flow hedging reserve		(11)	(41)	(37)
Other reserves		606	463	527
Retained earnings		3,781	2,061	2,769
		4,750	3,140	3,975
Non-controlling interests		4	3	4
Total equity		4,754	3,143	3,979

Condensed consolidated cash flow statement

For the half-year ended June 30, 2011

	Notes	Half-year to June 30, 2011 £m	Half-year to June 30, 2010 £m	Year to December 31, 2010 £m
Reconciliation of cash flows from operating activities				
Profit/(loss) before taxation		1,137	(475)	702
Share of results of joint ventures and associates		(60)	(32)	(93)
Profit on disposal of businesses		-	-	(4)
(Profit)/loss on disposal of property, plant and equipment		(10)	1	(10)
Net financing	3	(421)	1,069	432
Taxation paid		(95)	(69)	(168)
Amortisation of intangible assets	7	73	64	130
Depreciation of property, plant and equipment		111	103	237
Impairment of investments		-	2	3
(Decrease)/increase in provisions		(36)	45	99
(Increase)/decrease in inventories		(152)	(79)	41
(Increase)/decrease in trade and other receivables		(90)	(240)	39
Increase in trade and other payables		172	598	286
Decrease/(increase) in other financial assets and liabilities		52	(195)	(299)
Net defined benefit post-retirement (credit)/cost recognised in profit before financing	2,9	(107)	74	147
Cash funding of defined benefit post-retirement schemes	9	(146)	(127)	(282)
Share-based payments		20	8	50
Dividends received from joint ventures and associates		31	36	68
Net cash inflow from operating activities		479	783	1,378
Cash flows from investing activities				
Additions of unlisted investments		-	(1)	(1)
Disposals of unlisted investments		-	46	46
Additions of intangible assets		(152)	(181)	(321)
Disposals of intangible assets		1	-	-
Purchases of property, plant and equipment		(209)	(175)	(354)
Disposals of property, plant and equipment		22	10	38
Acquisitions of businesses		-	(147)	(150)
Disposals of businesses		2	-	2
Investments in joint ventures and associates		(37)	(14)	(19)
Net cash outflow from investing activities		(373)	(462)	(759)
Cash flows from financing activities				
Repayment of loans		(567)	-	(108)
Proceeds from increase in loans		-	56	68
Net cash flow from (decrease)/increase in borrowings		(567)	56	(40)
Interest received		9	8	23
Interest paid		(39)	(56)	(77)
Decrease/(increase) in short-term investments		325	(324)	(326)
Issue of ordinary shares		1	-	67
Purchase of ordinary shares		(57)	(58)	(124)
Other transactions in ordinary shares		21	-	-
Redemption of C Shares		(141)	(107)	(266)
Net cash outflow from financing activities		(448)	(481)	(743)
Net decrease in cash and cash equivalents		(342)	(160)	(124)
Cash and cash equivalents at January 1		2,851	2,958	2,958
Exchange gains on cash and cash equivalents		17	6	17
Cash and cash equivalents at period end		2,526	2,804	2,851

Condensed consolidated financial statements (continued)

	Half-year to June 30, 2011 £m	Half-year to June 30, 2010 £m	Year to December 31, 2010 £m
Reconciliation of movements in cash and cash equivalents to movements in net funds			
Decrease in cash and cash equivalents	(342)	(160)	(124)
Net cash flow from (increase)/decrease in borrowings	567	(56)	40
Net cash flow from (decrease)/increase in short-term investments	(325)	324	326
Change in net funds resulting from cash flows	(100)	108	242
Net funds (excluding cash and cash equivalents) of businesses acquired	-	(1)	(1)
Exchange gains on net funds	18	6	17
Fair value adjustments	136	4	26
Movement in net funds	54	117	284
Net funds at January 1 excluding the fair value of swaps	1,335	1,051	1,051
Net funds at period end excluding the fair value of swaps	1,389	1,168	1,335
Fair value of swaps hedging fixed rate borrowings	62	220	198
Net funds at period end	1,451	1,388	1,533

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

	At January 1, 2011 £m	Funds flow £m	Exchange differences £m	Fair value adjustments £m	At June 30, 2011 £m
Cash at bank and in hand	1,302	3	(1)	-	1,304
Money market funds	345	100	-	-	445
Overdrafts	(8)	8	-	-	-
Short-term deposits	1,212	(453)	18	-	777
Cash and cash equivalents	2,851	(342)	17	-	2,526
Investments	328	(325)	-	-	3
Other current borrowings	(709)	567	-	142	-
Non-current borrowings	(1,134)	-	1	(6)	(1,139)
Finance leases	(1)	-	-	-	(1)
Net funds excluding the fair value of swaps	1,335	(100)	18	136	1,389
Fair value of swaps hedging fixed rate borrowings	198	-	-	(136)	62
Net funds	1,533	(100)	18	-	1,451

Condensed consolidated statement of changes in equity

For the half-year ended June 30, 2011

	Attributable to ordinary shareholders							Non-controlling interests	Total equity
	Share capital	Share premium	Capital redemption reserve	Cash flow hedging reserve	Other reserves	Retained earnings	Total		
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At January 1, 2010	371	98	191	(19)	506	2,635	3,782	-	3,782
Loss for the period	-	-	-	-	-	(334)	(334)	3	(331)
Exchange translation differences on foreign operations	-	-	-	-	(39)	-	(39)	-	(39)
Net actuarial losses on post-retirement schemes	-	-	-	-	-	(63)	(63)	-	(63)
Movement in unrecognised post-retirement surplus	-	-	-	-	-	(91)	(91)	-	(91)
Movement in post-retirement minimum funding liability	-	-	-	-	-	27	27	-	27
Share of OCI of joint ventures and associates	-	-	-	(22)	-	-	(22)	-	(22)
Related tax movements	-	-	-	-	(4)	33	29	-	29
Total comprehensive income for the period	-	-	-	(22)	(43)	(428)	(493)	3	(490)
Issue of C Shares	-	-	(111)	-	-	1	(110)	-	(110)
Redemption of C Shares	-	-	108	-	-	(108)	-	-	-
Ordinary shares purchased	-	-	-	-	-	(58)	(58)	-	(58)
Share-based payments – direct to equity	-	-	-	-	-	16	16	-	16
Related tax movements	-	-	-	-	-	3	3	-	3
Other changes in equity in the period	-	-	(3)	-	-	(146)	(149)	-	(149)
At June 30, 2010	371	98	188	(41)	463	2,061	3,140	3	3,143
Profit for the period	-	-	-	-	-	873	873	1	874
Exchange translation differences on foreign operations	-	-	-	-	61	-	61	-	61
Net actuarial gains on post-retirement schemes	-	-	-	-	-	220	220	-	220
Movement in unrecognised post-retirement surplus	-	-	-	-	-	(209)	(209)	-	(209)
Movement in post-retirement minimum funding liability	-	-	-	-	-	22	22	-	22
Share of OCI of joint ventures and associates	-	-	-	4	1	1	6	-	6
Related tax movements	-	-	-	-	2	(2)	-	-	-
Total comprehensive income for the period	-	-	-	4	64	905	973	1	974
Arising on issues of ordinary shares	3	64	-	-	-	-	67	-	67
Issue of C Shares	-	(29)	(138)	-	-	-	(167)	-	(167)
Redemption of C Shares	-	-	159	-	-	(159)	-	-	-
Ordinary shares purchased	-	-	-	-	-	(66)	(66)	-	(66)
Share-based payments – direct to equity	-	-	-	-	-	26	26	-	26
Related tax movements	-	-	-	-	-	2	2	-	2
Other changes in equity in the period	3	35	21	-	-	(197)	(138)	-	(138)
At December 31, 2010	374	133	209	(37)	527	2,769	3,975	4	3,979
Profit for the period	-	-	-	-	-	842	842	-	842
Exchange translation differences on foreign operations	-	-	-	-	76	-	76	-	76
Net actuarial gains on post-retirement schemes	-	-	-	-	-	32	32	-	32
Movement in unrecognised post-retirement surplus	-	-	-	-	-	(124)	(124)	-	(124)
Movement in post-retirement minimum funding liability	-	-	-	-	-	11	11	-	11
Amount credited to cash flow hedging reserve	-	-	-	30	-	-	30	-	30
Share of OCI of joint ventures	-	-	-	4	-	1	5	-	5
Related tax movements	-	-	-	(8)	3	22	17	-	17
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

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.

Notes to the condensed consolidated financial statements

1 Basis of preparation and accounting policies

Reporting entity

Rolls-Royce Holdings plc was introduced as the new holding company of the Rolls-Royce Group on May 23, 2011 by way of a scheme of arrangement (Scheme) under Part 26 of the Companies Act 2006. Following the Scheme taking effect, the capital of Rolls-Royce Holdings plc was reduced to create distributable reserves. The scheme does not constitute a business combination under the requirements of IFRS 3 *Business combinations*. Accordingly, merger accounting principles have been applied, as if the Company had always been the holding company of the Group.

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, 2011 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 Rolls-Royce Group plc as at and for the year ended December 31, 2010 (2010 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 2010 Annual report.

The comparative figures for the financial year December 31, 2010 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 27, 2011.

Significant accounting policies

Except as explained 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 December 31, 2010 (International Financial Reporting Standards issued by the International Accounting Standards Board, as adopted for use in the EU effective at December 31, 2010).

Although the Group does not generally apply cash flow hedge accounting in respect of forward foreign exchange contracts held to manage the cash flow exposures of forecast foreign exchange transactions, it has applied cash flow hedge accounting in respect of forward foreign exchange contracts held to manage the commitment to fund the acquisition of shares in Tognum AG – see note 12.

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, 2010.

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. There is no inter-segment trading and hence all revenues are from external customers.

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.

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, 2011			Half-year to June 30, 2010			Year to December 31, 2010		
	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	1,047	1,557	2,604	858	1,436	2,294	1,892	3,027	4,919
Defence Aerospace	504	584	1,088	510	508	1,018	1,020	1,103	2,123
Marine	695	476	1,171	928	429	1,357	1,719	872	2,591
Energy	345	255	600	348	242	590	691	542	1,233
	2,591	2,872	5,463	2,644	2,615	5,259	5,322	5,544	10,866

	Half-year to June 30, 2011 £m	Half-year to June 30, 2010 £m	Year to December 31, 2010 £m
Underlying profit before financing			
Civil Aerospace	250	210	392
Defence Aerospace	219	158	309
Marine	176	171	332
Energy	(1)	(19)	27
Reportable segments	644	520	1,060
Underlying central items	(25)	(26)	(50)
Underlying profit before financing and taxation	619	494	1,010
Underlying net financing	(24)	(29)	(55)
Underlying profit before taxation	595	465	955
Underlying taxation	(153)	(116)	(236)
Underlying profit for the period	442	349	719

Net assets/(liabilities)

	Total assets			Total liabilities			Net assets/(liabilities)		
	June 30, 2011 £m	June 30, 2010 £m	December 31, 2010 £m	June 30, 2011 £m	June 30, 2010 £m	December 31, 2010 £m	June 30, 2011 £m	June 30, 2010 £m	December 31, 2010 £m
Civil Aerospace	8,821	7,665	8,162	(5,506)	(5,822)	(5,435)	3,315	1,843	2,727
Defence Aerospace	1,440	1,343	1,344	(1,784)	(1,675)	(1,867)	(344)	(332)	(523)
Marine	2,586	2,498	2,363	(1,782)	(1,763)	(1,548)	804	735	815
Energy	1,178	1,060	1,182	(627)	(647)	(748)	551	413	434
Reportable segments	14,025	12,566	13,051	(9,699)	(9,907)	(9,598)	4,326	2,659	3,453
Eliminations	(1,012)	(506)	(823)	1,012	506	823	-	-	-
Net funds	2,591	3,354	3,385	(1,140)	(1,966)	(1,852)	1,451	1,388	1,533
Tax assets/(liabilities)	314	635	457	(656)	(569)	(608)	(342)	66	(151)
Post-retirement scheme surpluses/(deficits)	249	83	164	(930)	(1,053)	(1,020)	(681)	(970)	(856)
	16,167	16,132	16,234	(11,413)	(12,989)	(12,255)	4,754	3,143	3,979

Group employees at period end

	June 30, 2011	June 30, 2010	December 31, 2010
Civil Aerospace	20,100	19,200	19,600
Defence Aerospace	7,100	7,100	7,000
Marine	9,600	9,100	9,400
Energy	3,500	3,500	3,600
	40,300	38,900	39,600

Underlying revenue adjustments

	Half-year to June 30, 2011 £m	Half-year to June 30, 2010 £m	Year to December 31, 2010 £m
Underlying revenue	5,463	5,259	10,866
Recognise revenue at exchange rate on date of transaction	(99)	162	219
Revenue per consolidated income statement	5,364	5,421	11,085

Underlying profit adjustments

	Half-year to June 30, 2011			Half-year to June 30, 2010			Year to December 31, 2010		
	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	619	(24)	(153)	494	(29)	(116)	1,010	(55)	(236)
Realised (gains)/losses on settled derivative contracts ¹	(71)	2	-	121	5	-	180	(7)	-
Net unrealised fair value changes to derivative contracts ²	6	456	-	(12)	(1,018)	-	-	(341)	-
Effect of currency on contract accounting	10	-	-	(9)	-	-	(56)	-	-
Revaluation of trading assets and liabilities	-	(10)	-	-	5	-	-	8	-
Financial RRSPs – exchange differences and changes in forecast payments	-	5	-	-	(19)	-	-	(6)	-
Post-retirement scheme past service costs ^{3,4}	152	-	-	-	-	-	-	-	-
Net post-retirement scheme financing	-	(8)	-	-	(13)	-	-	(31)	-
Related tax effect	-	-	(142)	-	-	260	-	-	77
Total underlying adjustments	97	445	(142)	100	(1,040)	260	124	(377)	77
Reported per consolidated income statement	716	421	(295)	594	(1,069)	144	1,134	(432)	(159)

¹ The adjustment 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.

² The adjustment 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 In 2010, the UK Government announced changes to the basis of the statutory indexation for pension increases. As a result, the relevant arrangements have been amended, resulting in a gain in the income statement of £130m, which has been excluded from underlying profit.

⁴ The Group has agreed revised post-retirement healthcare arrangements on certain of its overseas schemes. This has resulted in a net gain in the income statement of £22m which has been excluded from underlying profit.

3 Net financing

	Half-year to June 30, 2011		Half-year to June 30, 2010		Year to December 31, 2010	
	Per consolidated income statement £m	Underlying financing £m	Per consolidated income statement £m	Underlying financing £m	Per consolidated income statement £m	Underlying financing £m
Financing income						
Interest receivable	10	10	8	8	23	23
Fair value gains on foreign currency contracts	452	-	-	-	-	-
Financial RRSPs – foreign exchange differences and changes in forecast payments	5	-	-	-	-	-
Fair value gains on commodity derivatives	4	-	-	-	29	-
Expected return on post-retirement scheme assets	200	-	201	-	400	-
Net foreign exchange gains	-	-	10	-	1	-
Other financing income	-	-	2	2	-	-
	671	10	221	10	453	23
Financing costs						
Interest payable	(24)	(24)	(30)	(30)	(63)	(63)
Fair value losses on foreign currency contracts	-	-	(1,017)	-	(370)	-
Financial RRSPs – foreign exchange differences and changes in forecast payments	-	-	(19)	-	(6)	-
Financial charge relating to financial RRSPs	(5)	(5)	(9)	(9)	(13)	(13)
Fair value losses on commodity derivatives	-	-	(1)	-	-	-
Interest on post-retirement scheme liabilities	(208)	-	(214)	-	(431)	-
Net foreign exchange losses	(8)	-	-	-	-	-
Other financing charges	(5)	(5)	-	-	(2)	(2)
	(250)	(34)	(1,290)	(39)	(885)	(78)
Net financing	421	(24)	(1,069)	(29)	(432)	(55)
Analysed as:						
Net interest payable	(14)	(14)	(22)	(22)	(40)	(40)
Net post-retirement scheme financing	(8)	-	(13)	-	(31)	-
Net other financing	443	(10)	(1,034)	(7)	(361)	(15)
Net financing	421	(24)	(1,069)	(29)	(432)	(55)

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 June 30, 2011			Half-year to June 30, 2010			Year to December 31, 2010		
	Basic	Potentially dilutive share options	Diluted	Basic	Potentially dilutive share options ¹	Diluted	Basic	Potentially dilutive share options	Diluted
Profit/(loss) (£m)	842	-	842	(334)	-	(334)	539	-	539
Weighted average shares (millions)	1,850	24	1,874	1,848	-	1,848	1,846	24	1,870
EPS (pence)	45.51	(0.58)	44.93	(18.07)	-	(18.07)	29.20	(0.38)	28.82

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 was 1,874m.

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

	Half-year to June 30, 2011		Half-year to June 30, 2010		Year to December 31, 2010	
	Pence	£m	Pence	£m	Pence	£m
Underlying EPS / Underlying profit attributable to ordinary shareholders	23.89	442	18.72	346	38.73	715
Total underlying adjustments to profit/(loss) before tax (note 2)	29.30	542	(50.86)	(940)	(13.70)	(253)
Related tax effects	(7.68)	(142)	14.07	260	4.17	77
EPS / Profit/(loss) attributable to ordinary shareholders	45.51	842	(18.07)	(334)	29.20	539
Diluted underlying EPS	23.59		18.46		38.24	

5 Taxation

The effective tax rate for the half-year is 25.9% (2010: half-year 30.3%, full year 22.6%). The UK corporation tax rate reduced from 28% to 26% on April 1, 2011 and the effective tax rate takes this reduction into account. The impact of the reduction to 27% was reflected in the 2010 closing deferred tax balances as the rate change was substantially enacted prior to the year end. As the further reduction to 26% was substantially enacted on March 29, 2011, the closing deferred tax assets and liabilities have been remeasured. The proposed future reductions in the rate to 23% 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, 2011		Year to December 31, 2010	
	Pence per share	£m	Pence per share	£m
Interim (issued in January)	6.9	129	6.4	119
Final (issued in July)			9.6	180
	6.9	129	16.0	299

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 January 1, 2011	1,115	686	862	697	413	3,773
Exchange differences	51	5	2	-	5	63
Additions	-	10	52	63	30	155
Disposals	-	-	-	-	(7)	(7)
At June 30, 2011	1,166	701	916	760	441	3,984
Accumulated amortisation:						
At January 1, 2011	7	190	232	351	109	889
Exchange differences	-	-	-	-	1	1
Charge for the period	-	6	19	30	18	73
Disposals	-	-	-	-	(6)	(6)
At June 30, 2011	7	196	251	381	122	957
Net book value at:						
June 30, 2011	1,159	505	665	379	319	3,027
December 31, 2010	1,108	496	630	346	304	2,884

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% (2010 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, 2011			Half-year to June 30, 2010			Year to December 31, 2010		
	Assets £m	Liabilities £m	Net £m	Assets £m	Liabilities £m	Net £m	Assets £m	Liabilities £m	Net £m
Foreign exchange contracts	598	(531)	67	229	(1,232)	(1,003)	415	(751)	(336)
Commodity contracts	29	(7)	22	14	(23)	(9)	28	(7)	21
	627	(538)	89	243	(1,255)	(1,012)	443	(758)	(315)
Interest rate contracts	45	(4)	41	175	(2)	173	178	(3)	175
Financial RRSPs	-	(256)	(256)	-	(303)	(303)	-	(266)	(266)
C Shares	-	-	-	-	(16)	(16)	-	(23)	(23)
	672	(798)	(126)	418	(1,576)	(1,158)	621	(1,050)	(429)
Current	187	(56)		196	(188)		250	(105)	
Non-current	485	(742)		222	(1,388)		371	(945)	
	672	(798)		418	(1,576)		621	(1,050)	

Foreign exchange and commodity financial instruments

	Half-year to June 30, 2011			Half-year to June 30, 2010	Year to December 31, 2010
	Foreign exchange £m	Commodity £m	Total £m	Total £m	Total £m
At January 1	(336)	21	(315)	(155)	(155)
Movements in fair value hedges	(4)	-	(4)	23	7
Movements in cash flow hedges	30	-	30	-	-
Movements in other derivative contracts	452	4	456	(1,018)	(341)
Contracts settled	(75)	(3)	(78)	138	174
At period end	67	22	89	(1,012)	(315)

Financial risk and revenue sharing partnerships (RRSPs)

	Half-year to June 30, 2011 £m	Half-year to June 30, 2010 £m	Year to December 31, 2010 £m
At January 1	(266)	(363)	(363)
Cash paid to partners	13	82	114
Exchange adjustments included in OCI	(3)	6	2
Financing charge ¹	(5)	(9)	(13)
Excluded from underlying profit: ¹			
Exchange adjustments	5	(19)	(6)
At period end	(256)	(303)	(266)

¹ Included in net financing.

9 Pensions and other post-retirement benefits

The net post-retirement scheme deficit as at June 30, 2011 is calculated on a year to date basis, using the latest valuation as at December 31, 2010, updated to June 30, 2011 for the principal schemes.

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

	UK schemes £m	Overseas schemes £m	Total £m
At January 1, 2011	(220)	(636)	(856)
Exchange adjustments	-	11	11
Current service cost	(57)	(17)	(74)
Negative past service cost ¹	129	54	183
Curtailment	-	(2)	(2)
Interest on post-retirement scheme liabilities	(186)	(22)	(208)
Expected return on post-retirement scheme assets	190	10	200
Contributions by employer	126	20	146
Actuarial gains/(losses)	38	(6)	32
Movement in unrecognised surplus ²	(124)	-	(124)
Movement on minimum funding liability ³	11	-	11
At June 30, 2011	(93)	(588)	(681)
Analysed as:			
Post-retirement scheme surpluses - included in non-current assets	249	-	249
Post-retirement scheme deficits - included in non-current liabilities	(342)	(588)	(930)
	(93)	(588)	(681)

¹ See note 2.

² 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.

³ 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. During the first half of 2011, there were no material changes to the maximum gross and net contingent liabilities.

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.

During 2011, the Launch Nations and Airbus agreed to modify the agreement relating to the development of the Airbus A400M aircraft. EPI Europrop International GmbH (EPI) which is developing the TP400 engine for the A400M, and in which the Group is a partner, and Airbus have subsequently modified their agreement. As a result, the previously reported claims received by EPI have been withdrawn.

During the period, Rolls-Royce and United Technologies Corporation (UTC), the parent company of Pratt & Whitney, have reached an amicable, confidential settlement agreement resulting in dismissal of all patent litigations between the parties.

11 Related party transactions

Transactions with related parties are shown on page 131 of the Annual report 2010. Significant transactions in the current financial period are as follows:

	Half-year to June 30, 2011 £m	Half-year to June 30, 2010 £m	Year to December 31, 2010 £m
Sales of goods and services to joint ventures and associates	1,280	1,270	2,681
Purchases of goods and services from joint ventures and associates	(1,044)	(1,079)	(2,163)

12 Potential acquisition of business

On April 6, 2011, Rolls-Royce and Daimler AG announced a voluntary public offer at €24 per share for the majority of Tognum AG through their 50:50 joint venture, Engine Holding GmbH. On May 16, 2011, the offer was increased to €26 per share. At the end of the offer period (June 20, 2011), Engine Holding GmbH had secured 94.17% of the shares of Tognum AG, including 1.52% acquired during the acceptance period. The offer is expected to complete in the third quarter subject to certain regulatory clearances. The Group's total commitment to finance this acquisition is €1.7bn, which will be financed from existing resources.

Principal risks and uncertainties

As described on pages 26 and 27 of the Annual report 2010, the Group continues to be exposed to a number of risks and has an established, structured approach to identifying, assessing and managing those risks. The Group has a consistent strategy and long performance cycles and consequently the risks faced by the Group have not changed significantly over the first six months of 2011.

The principal risks reflect the global growth of the business, and the competitive and challenging business environment in which it operates. Risks are considered under four broad headings:

Business environment risks

- Environmental impact of products and operations
- Legislative and regulatory pressures
- Significant external events

Strategic risks

- Competitive pressures
- Export controls
- Government spending
- Global resource capability

Financial risks

- Counterparty credit risk
- Currency risk
- Credit rating

Operational risks

- Supply chain performance
- Ethics
- Programme portfolio
- IT security
- Product performance

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 the exposure of the Group to financial risks are discussed in the Finance Director's review of the Annual report 2010 on pages 48 to 55.

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.

From the date of the scheme of arrangement, the directors of Rolls-Royce Holdings plc have been the same as Rolls-Royce Group plc. The directors of Rolls-Royce Group plc at February 9, 2011 are listed in its Annual report 2010 on pages 56 and 57. Since that date, Sir John Rose retired on March 31, 2011 and Lewis Booth was appointed on May 25, 2011.

By order of the Board

John Rishton
Chief Executive
July 27, 2011

Andrew Shilston
Finance Director
July 27, 2011

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, 2011 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, 2011 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 27, 2011