

2. Key Group Financial Metrics

a. Research & Development

	H1 11	H1 10	+/-
Gross R&D investment	£431m	£436m	-1%
Net R&D investment	£243m	£238m	+2%
Net R&D charge	£210m	£192m	+9%

There was a £5m increase in net R&D investment funded by the Group in the first half. In addition, lower net capitalisation of the development programme spend contributed to the £18m increase in the net R&D charge.

For the full year, the net R&D investment funded by the Group is expected to be modestly higher than 2010, but lower capitalisation and higher amortisation will cause the R&D charge to the income statement to increase by around £60m.

b. Net Financing

	H1 11	H1 10	+/-
Net financing income/ (costs)	£421m	(£1,069m)	
Underlying finance costs	£24m	£29m	-17%

Net financing income of £421m (£1,069m cost in H1 2010) reflects the effects of the mark-to-market revaluations of the Group's hedge book and other financial instruments.

Underlying finance charges reduced by £5m in the period reflecting lower financial RRSP charges and lower funding costs as one of the Group's bonds, a Eurobond settled part way through the period. Underlying finance costs are expected to continue at a similar rate in the second half.

c. Other Income

Other operating income decreased to £52m (£74m in H1 2010) on an underlying basis due to the phasing of programme fees from risk and revenue sharing partners on major new programmes such as the Trent XWB. For the full year, other operating income is expected to be around £20m lower than 2010.

d. Taxation & Earnings per Share (EPS)

	H1 11	H1 10	+/-
Underlying EPS	23.89p	18.72p	+28%
Underlying taxation charge	£153m	£116m	+32%

The 28 per cent increase in the underlying EPS is consistent with the 28 per cent increase in the Group's underlying profit before tax.

The underlying taxation charge represents an underlying tax rate of 25.6 per cent (24.9 per cent in H1 2010). The 2011 full year rate is expected to be similar to the half-year rate.

e. Tangible & Intangible Investments

	H1 11	H1 10	+/-
Investment in intangible assets	£155m	£181m	-14%
Investment in property plant and equipment	£177m	£139m	+27%

The investment in intangible assets is outlined more fully in Note 7 on page 22.

The 27 per cent increase in investment in property, plant and equipment reflects the ongoing development and refreshment of facilities and tooling as the Group prepares for increased production volumes. For the full year investment in tangible and intangible assets is expected to be around £800m, in line with prior guidance.

f. Other Assets & Liabilities

	30 June	31 Dec	+/-
USD Hedge book	\$21.2bn	\$20.9bn	+1%
Net TotalCare assets	£909m	£920m	-1%
Net pensions liabilities*	£681m	£856m	-20%
Provisions for liabilities and charges	£525m	£544m	-3%

* See note 9 on page 24

The USD hedge book of \$21.2bn represents more than five years of net exposure and has an average book rate of £1~\$1.60. Current forward market exchange rates are similar to current average hedge book rates.

Provisions remained stable in the first half.

	30 June	31 Dec	+/-
Gross customer finance liabilities	£597m	£633m	-6%
Net customer finance liabilities	£113m	£121m	-7%

Gross and net customer finance liabilities are contingent liabilities related to the financing of delivered aircraft for Civil Aerospace customers. The principal difference in the value of the gross and net commitments relates to the underlying security value of the aircraft.

g. Payments to Shareholders

The Group provides its payments to shareholders as redeemable C Shares that may be retained or redeemed for a cash equivalent.

The Registrar operates a C Share Reinvestment Plan (CRIP) for the Group and can, on behalf of shareholders, purchase ordinary shares in the market rather than delivering a payment in cash.

The interim payment is payable on January 5, 2012 to shareholders on the register on October 28, 2011 and will be made in the form of non-cumulative redeemable preference shares of 0.1 pence each (C Shares). The final day of trading with entitlement to C Shares is October 25, 2011. Shareholders must lodge instructions with our Registrars, Computershare Investor Services PLC, to arrive no later than 5.00 p.m. on December 5, 2011 if they wish to redeem C Shares for cash or otherwise reinvest the proceeds of the redemption in further ordinary shares using the CRIP.

h. Cash & Cash Flow

Cash flow during period	H1 11	H1 10	+/-
Net cash inflow from operating activities	£479m	£783m	-£304m
Net cash (outflow) from investing activities	(£373m)	(£462m)	+£89m
Net cash (outflow) from financing activities	(£448m)	(£481m)	+£33m
Net (decrease) in cash and cash equivalents	(£342m)	(£160m)	-£182m
Other changes ¹	£260m	£273m	-£13m
Net increase/(decrease) in net cash	(£82m)	£113m	-£195m

1 Includes changes in borrowings and investments, businesses acquired and foreign exchange.

Net cash from operating activities was £304m lower than the first half of 2010 due mainly to working capital changes. The main items were the non-recurrence of the Aviall distribution and logistics deal completed in the first half of 2010 (£165m), the utilisation of deposits and the later phasing of new order deposits (£109m), primarily in Marine and Energy.

Cash flows relating to investments in the period were £89m lower in the first half than the H1 2010. Investments in property, plant and equipment and intangibles were in total similar to the H1 2010. The main change relates to the non-recurrence of the 2010 investment in ODIM ASA (£147m).

Opening/closing cash	H1 11	H1 10	+/-
Opening gross funds 1 January ²	£3,187m	£2,964m	+£223m
Opening gross debt 1 January ³	(£1,654m)	(£1,689m)	+£35m
Opening net cash 1 January	£1,533m	£1,275m	+£258m
Closing gross funds 30 June ²	£2,529m	£3,134m	-£605m
Closing gross debt 30 June ³	(£1,078m)	(£1,746m)	+£668m
Closing net cash 30 June	£1,451m	£1,388m	+£63m
Average net cash	£780m	£915m	-£135m

2 Gross funds include cash, money-market funds, short-term deposits and investments.

3 Gross debt includes overdrafts, borrowings and finance leases.