News Release

Rolls-Royce

Trusted to deliver excellence

30 July, 2015

ROLLS-ROYCE HOLDINGS PLC
2015 HALF YEAR RESULTS

Warren East, Chief Executive, said: "Despite the disappointment of our recent update, our second half outlook remains positive and full-year guidance for revenue, profit and cash issued on July 6th remains unchanged. The continued growth in our order book demonstrates the long-term demand for our innovative products and services, and underpins my confidence in the fundamental strength of our business."

Group Highlights*

- Order book up £2.8bn to £76.5bn
- Underlying revenue down 3% to £6.3bn (H1 2014: £6.5bn)
- Underlying profit before tax down 32% to £439m (H1 2014: £646m)
- Return on sales** down 3.2 percentage points to 7.3%, largely reflecting 2015 revenue mix and a higher R&D charge
- Payment to shareholders of 9.27p per share, up 3%

Aerospace

- Secured the largest ever order to provide Trent 900 engines and TotalCare® service support to Emirates, helping grow the Civil Aerospace order book to £66.4bn, up 5% on 2014 year end
- Underlying revenue up 2% to £4.3bn (H1 2014: £4.2bn)
- Underlying profit before financing charges and tax down 27% to £432m (H1 2014: £593m)
- Lower demand for Airbus A330ceo creates H2 2015 and 2016 headwinds for Trent 700 deliveries

Land & Sea*

- Improved second quarter performance from Power Systems offset weaker start to the year while weaker Marine held back overall results
- Underlying revenue down 12% to £2.0bn (H1 2014: £2.3bn)
- Underlying profit before financing charges and tax down 56% to £48m (H1 2014: £109m)
- Weakness in offshore markets expected to hold back full year 2015 and 2016 Marine performance

	Reported			Underlying		
Six months to 30 June	2014*	**2015**	Change	2014*	**2015**	Change
Revenue (£m)	6,249	**6,370**	+2%	6,451	**6,256**	-3%
Profit before tax (£m)	713	**310**	-57%	646	**439**	-32%
Earnings per share (p)	28.85	**19.51**	-32%	25.69	**18.27**	-29%
Net funds (£m)***				666	**(643)**	(1,309)
Free cash flow (£m)****				(347)	**(576)**	(229)

Underlying: for definition, see note 2 on page 24; * Re-presented to exclude Energy as a discontinued operation; ** By reference to underlying profit before finance charges and tax; *** 2014 H1 Net funds figures are 2014 year-end; **** Free cash flow defined as operating cash after capital expenditure, pensions and taxes, before payments to shareholders, FX and acquisitions & disposals. For details see: http://www.rolls-royce.com/investors/financial_results

Commenting on the outlook, Warren East, Chief Executive, added: "In the near term, we are managing a significant transition from mature engines to newer, more fuel efficient ones, such as the Trent XWB, Trent 7000 and Trent 1000. At the same time, we are taking appropriate actions to mitigate the effects of weakness in our offshore marine markets.

"While these create a profit headwind in the near term, it is critical we successfully deliver our product launches, complete our supply chain transformation and sustain investment in our businesses to strengthen their competitive positions. The initial phase of my ongoing operational review has and will continue to concentrate on how we drive improvements and sharpen our focus to make us a more resilient and sustainable business."

Enquiries:

Investors:

John Dawson	**+44 20 7227 9087**
Jilinda Crowley	**+44 20 7227 9282**
Helen Harman	**+44 20 7227 9339**

Media:

Richard Wray	**+44 20 7227 9163**

Photographs and broadcast-standard video are available at www.rolls-royce.com.
A PDF copy of this report can be downloaded from www.rolls-royce.com/investors.

Group Overview

The fundamental strengths of Rolls-Royce have not changed. The business has built a strong order book, now worth £76.5bn, a track record of sustained growth in widebody market share and a recognised portfolio of innovative products and services in each of our target market segments, with high barriers to entry and long service lives. We believe that the strengths and balance of the business will support attractive long term growth in cash and profit. Across the business, investments in supply chain transformation and improved efficiency, during a period of important product transition for Civil Aerospace, are being supported by our continued focus on the 4Cs: Customer, Concentration, Cost and Cash.

Product transition in Civil Aerospace will drive long-term growth

New products are transforming our Civil Aerospace business. Some of our older, more profitable programmes are now peaking or starting to decline. These include the Trent 700, now approaching the later stage of its OE delivery lifecycle, although still growing aftermarket revenues. This transition creates near-term challenges as newer programmes typically see lower pricing for launch customers and higher initial costs. However, the roll-out of new engines will significantly grow our market share and the installed base of engines that will deliver aftermarket revenue for decades to come.

Industrial transformation underway to deliver on product transition

In order to maximise the benefit of our growing order book, we are investing in our global industrial base and establishing a more competitive supply chain. The new facilities are leaner, more cost efficient and more flexible. For example, during the last six months we opened our Advanced Blade Casting Facility in Rotherham, UK, which will halve the time it takes to manufacture turbine blades. Our investment plans will also reduce our dependency on older, less capable plants. For example, we are closing two facilities in the UK, at Ansty and East Kilbride. However, in the near term, as we continue to ramp up production, our capacity utilisation will be lower and our footprint costs will remain high.

Continue to invest in the next generation technologies

At the same time, it is important we sustain investment R&D in future market-leading products. As a result, we are currently undertaking a major investment programme in new technology, focused on our next generation Aerospace designs, Advance and UltraFan©. These present us with a suite of technologies that will have applications across our portfolio. To realise our ambitions for these new designs we are investing in advanced manufacturing capability and critical testing facilities, including a composite technology hub in Bristol and a new power gearbox test facility in Dahlewitz, Germany.

We are also strengthening existing partnerships and establishing new relationships to realise our ambition. In the first half, we strengthened our ITP turbines joint venture with Sener Grupo de Ingenieria SA and agreed a 50:50 joint venture with Liebherr-Aerospace to develop manufacturing capability and capacity for power gearboxes.

In our Land & Sea business, we are continuing to develop innovative technologies. In Marine we recently extended our range of permanent magnet thrusters with a new Azimuth model. The business is also drawing on expertise within Aerospace to develop a leading position in the emerging area of ship intelligence and we are now heading a new research programme, funded by the Finnish Government, to explore the technology required for the creation of autonomous vessels. In Power Systems we are investing in more environmentally-friendly engines, including a new generation of hybrid power packs for locomotives that are more efficient, quieter and significantly reduce emissions, and new test facilities in Friedrichshafen.

Transition from ‘linked’ to ‘unlinked’ engine programmes creates an accounting headwind

In the future, an increasing proportion of our new engines will be sold to the airframer on a sole-source basis, in particular the new Trent XWB and Trent 7000. As a result, a significantly larger proportion of our sales in the future will be accounted for on an “unlinked” basis. While this does not change cash flows, it does change when profit is recognised across the OE and aftermarket contracts. Under “unlinked” accounting, the engine sale and aftermarket contracts are accounted for separately. This typically results in lower upfront profit recognition on engine delivery, with significantly higher proportion of profit in the aftermarket period. This compares to “linked” accounting, where a blended margin is applied across the engine sale and aftermarket contracts.

Market headwinds are impacting the business in the near-term

As a result of the recent reduction in expected volumes of Trent 700 engines, together with weaker OE demand for our business jet engines and regional aftermarket, we expect Aerospace revenues and profit to be held back, in line with the guidance provided on 6 July 2015.

In addition, weakness in offshore markets continues to impact our Marine business. We expect these markets to continue to be challenged in 2016. As a result, in our guidance update on 6 July we indicated that our Marine profit will be around £85m lower in both 2015 and 2016 than previously expected.

Restructuring is underway to improve performance in both Aerospace and Land & Sea

To compensate for these short-term headwinds we have accelerated our restructuring programmes. We continue to make good progress towards the Aerospace restructuring we announced last year. In the first half, we consolidated our repair & overhaul activities, enabling the closure of a site in Brazil and have further rationalised our UK footprint. To date, nearly 60% of the 2,600 headcount reductions have been completed.

The challenging market environment means that we continue our efforts to reduce costs and focus on those areas where we can add the greatest value. In May, we announced a Marine restructuring programme to reduce headcount by 600 and generate £25m in annual savings from 2016 onwards. In addition, we are continuing our work to consolidate our footprint and increase lower cost country sourcing. Consistent with the guidance provided on 6 July 2015, we expect to take a further restructuring charge of up to £30m in the second half of 2015.

We have taken a non-underlying charge of £69m for impairments of Marine goodwill where we now see a less favourable outlook, driven largely by the market deteriorations impacting our offshore business.

Fundamentals remain strong to create a sustainable and resilient business

Many of our businesses continue to benefit from strong order intake and healthy order books, reflecting the underlying strength of our technology, products and services. As a result, we remain confident in the fundamental strength of the business and its potential to significantly increase profit and free cash flow in the future and to continue to meet the needs of our customers and shareholders.

Board update

Rolls-Royce has today announced that Alan Davies, currently Chief Executive of Rio Tinto’s Diamonds and Minerals division, will join the Board as a Non-Executive Director from 1 November 2015. Further details of his appointment are contained within a separate announcement issued today. On 22 April we announced that John Rishton had decided to retire as Chief Executive on 2 July, to be succeeded by Warren East. On 13 February we announced that James Guyette, President and Chief Executive Officer of Rolls-Royce North America, had decided to retire and would step down from the Board at the Annual General Meeting on 8 May 2015 and from his role at Rolls-Royce North America on 31 May 2015. We also announced that John Neill would stand down at the AGM after six years as a Non-Executive Director and that Irene Dorner had been appointed as a Non-Executive Director with effect from 27 July 2015.

Group Trading Summary

Order Book and Order Intake

- Our record order from Emirates for Trent 900 engines was the main factor contributing to a 61% increase in order intake and a 4% increase in the order book. At the same time, we had a sharp decline in new order intake in our Marine business, driven by significant market deterioration in offshore. Defence and Nuclear also had a lower level of new orders, although we view these markets as broadly stable.

Income Statement

- Underlying group revenue declined 3% in H1 2015 compared to H1 2014. This reflects an 8% decline in revenue from original equipment, partially offset by a 2% increase in services revenue, led by Civil Aerospace. By division, Aerospace revenue increased 2%, whilst Land & Sea revenue declined 12%.

- Underlying profit before tax declined 32% to £439m (H1 2014: £646m) led by a significant reduction in Civil profit in the first half, driven in part by the transition to less mature products featuring an increased proportion of “unlinked” accounting, resulting in less upfront profit recognition, and a higher R&D charge. The lower Marine and Power Systems revenue also contributed to lower profit in these businesses.

- R&D spending increased 5% over H1 2014, largely reflecting higher investments for the Trent 1000 TEN, Trent 7000 and the Trent XWB-97. In addition, capitalisation of R&D declined significantly. We expect that both our Trent XWB-97 and Trent 1000 TEN engines will reach a level of maturity where we start to capitalise R&D, possibly by as early as the end of the second half of 2015.

- Headline profit before tax in the first half was £310m, compared to an underlying profit before tax of £439m. As in most periods, one of the differences between our headline and underlying profit relates to our foreign exchange and commodity hedging. Mark-to-market adjustments on derivatives in the first half were relatively small, resulting in an unrealised loss of £101m. A £111m realised loss on contracts for trading purposes settled in the period is included in our underlying results but excluded from our headline results, having been recognised in earlier periods. Headline profit was also reduced by impairments in our Marine business and amortisation of acquired intangible assets. A full reconciliation of headline to underlying profit can be found on page 26.

- Underlying financing charges reduced and benefited from favourable foreign exchange hedging.

Balance Sheet

- The Group remains committed to maintaining a strong balance sheet and a strong, investment-grade credit rating. Standard & Poor’s retains a rating of A/stable, and Moody’s a rating of A3/stable. These ratings are important when selling products that will be in service for decades.

- In the first half, the Group’s net cash balance reduced from £666m to a net debt position of £643m, reflecting the £576m free cash outflow, share repurchases totalling £433m and shareholder payments of £165m. Other items include residual payments related to the divestment of the Energy business and non-cash foreign exchange movements. On 6 July we announced that we have curtailed the share buyback at the to-date total of £500m, including the shares purchased in 2014.

- The Group hedges transactional foreign exchange exposures to reduce volatility. The most significant exposure is the net US dollar income of approximately $6 billion per year which is converted into GBP. The hedge book was $30 billion at period end, which represents just over five years of cover. The average achieved rate in our hedge book was $/£1.60.

- TotalCare® net assets increased by only £62m in the first half, reflecting lower deliveries of engines with the 'linked' accounting that drive this balance. With the lower level of Trent 700 engines now expected to be shipped over the next few years, we now expect the TotalCare net asset to peak sooner, probably between late 2016 and early 2017, and at between £2.1bn and £2.3bn.

Free Cash Flow

- Cash capital expenditure in the first half reduced to £257m (H1 2014: £296m).

- Cash taxes in the first half were £79m (H1 2014: £104m excluding Energy). The cash cost of the pension programme in excess of the earnings charge was £25m (H1 2014: £82m excluding Energy).

- Overall, the free cash outflow for the first half was £576m (H1 2014: outflow of £347m, adjusted for Energy). The 66% decline from H1 2014 primarily reflects lower trading margins and working capital movements reflecting the ramp up of activity in the second half.

2015 Guidance

Group guidance is unchanged from 6 July, with the exception of an improved tax rate, now 23%, down from 24% and net R&D spend which we also expect to be modestly higher than the £750m we previously guided. Excluding adverse foreign exchange translation effects (estimated at £450m on revenue and £10m on profit) we expect the following:

	FY 2014 Actuals ***(excluding Energy)***	**FY 2015 Guidance**
Revenue	£13.9bn	£13.4bn - £14.4bn
Profit before tax	£1,620m	£1,325m - £1,475m
Free cash flow	£447m	£(150)m - £150m
Earnings per share	65.4p	55 – 62p
Capital expenditure**	£649m 4.7% of revenue	~ £600m
Net R&D spend	£819m 5.9% of revenue	> £750m
Tax rate	24%	23%

* Includes the Energy business
** Defined as capital additions to property, plant and equipment

At a **business** level guidance is also unchanged from 6 July, at which time we set out how Marine's offshore market conditions had further deteriorated, leading to a lower profit expectation for both 2015 and 2016.

- In Aerospace in the second half, we expect the business to benefit from higher deliveries, particularly for Trent 1000 and Trent XWB, the benefits of our restructuring programme and continued growth in the aftermarket.

- In Land & Sea in the second half, we expect much better revenue and profit in our Power Systems business, driven by naval and defence markets. We expect our Nuclear business to be stable and to see continued challenges in our Marine business.

	Revenue		**Profit before fin. charges and tax**	
at constant 2014 FX	**H1 2015**	**FY 2015 Guidance**	**H1 2015**	**FY 2015 Guidance**
Aerospace				
Civil Aerospace	£3,285m	£7,000m - £7,300m	£248m	£800m - £900m
Defence Aerospace	£973m	£1,900m - £2,100m	£184m	£360m - £410m
Land & Sea				
Power Systems	£1,039m	£2,500m - £2,750m	£17m	£200m - £250m
Marine	£695m	£1,450m - £1,650m	£4m	£0m - £40m
Nuclear	£336m	£670m - £730m	£24m	£40m - £50m

Implications for 2016

As outlined in our guidance update on 6 July 2015, the recent changes in demand and pricing for our Trent 700 programme, combined with the reduced demand for our business jet engines and a softer regional aftermarket, are expected to create a £300m net Civil Aerospace profit headwind into 2016. An improving large engine aftermarket, led by our higher installed base, and the net £90m benefit of restructuring announced previously should largely offset the likely lower level of retrospective TotalCare® benefits and other adjustments in 2016. A large element of the changes will not impact cash flows and as a result cash conversion is expected to improve.

Looking Further Ahead

The successful roll-out of new engines, led in particular by the Trent XWB, 1000 and 7000, together with a growing aftermarket, is expected to drive significant revenue growth over the next ten years as we build toward a 50% plus share of the installed widebody passenger market. While the impact of the transition to the Trent 7000 has reduced Trent 700 deliveries, and will hold back Civil Aerospace profit in the near term, we are confident that the important investments we are making to transition our production will create a strong platform to drive customer service, improved margins and strong cash flows. In addition, initiatives to reduce cost and increase focus within the Marine and Power Systems businesses should help drive good performance improvements and support a growing profit contribution from our Land & Sea division as the company continues to reinforce its role as a leading provider of Better Power for a Changing World.

Civil Aerospace

£ millions	H1 2014	H1 2015	Change
Order book*	63,229	66,383	+5%
Engine deliveries	342	326	-5%
Underlying revenue	3,197	3,285	+3%
Underlying OE revenue	*1,476*	*1,450*	*-2%*
Underlying services revenue	*1,721*	*1,835*	*+7%*
Underlying profit before financing	405	248	-39%
Return on sales	12.7%	7.5%	-5.2pp

* 2014 H1 Order book is at 2014 year-end

Financial

- The Civil order book increased 5%. Our net order intake was £7.4bn. Aftermarket services now constitute 31% of the Civil order book.

  Significant orders in the first half included:

  - Our largest ever order, $9.2bn contract to provide Trent 900 engines and TotalCare® services for 50 Airbus A380s for Emirates which, in line with our policy, resulted in an increase in the order book of $6.1bn;
  - Trent 1000 engines to power 21 Boeing 787 Dreamliner aircraft for Air China and Ethiopian Airlines

- Underlying revenue grew 3% (up 4% at constant FX), led by good growth in service revenues, up 7%. In the first half, widebody aftermarket revenue increased 9%, despite modest reductions on RB-211 and Trent 500 aftermarket. Original equipment revenue declined 2% with lower deliveries for Trent 700, Trent 900 and some business jet engines being offset by higher deliveries of Trent 1000, Trent XWB and BR725 engines.

- Underlying profit declined 39%, driven in part by the transition to less mature products and a reduction in "linked" accounting. In addition, we incurred a higher R&D charge. This relates to engines such as the Trent 7000 and Trent XWB-97, which have yet to reach the point at which costs can be capitalised, and the Trent XWB-84 on which, following its successful entry into service, costs can no longer be capitalised. Retrospective TotalCare contract benefits in the period were £48m (H1 2014: £24m) of which £25m resulted from cost saving initiatives.

- In 2015, we continue to expect revenue between £7.0bn and £7.3bn, with continued growth in Trent XWB and Trent 1000 original equipment sales, and good growth in aftermarket revenue. We expect profit to be between £800m and £900m, with improvements in the second half from volume, aftermarket and the benefits of the restructuring programme. As previously outlined, we also expect improvements from a Trent 1000 provision release and to our TotalCare profitability, which together are expected to be around £150m in the second half of the year. This guidance is based on 2014 average exchange rates.

Portfolio

- Results of initial tests on Trent 1000 TEN and XWB-97 are in line with expectations.

- Gulfstream's G650ER ultra long-range business jet entered service with our BR725 engines.

- Our new state-of-the-art large engine test bed was commissioned in Dahlewitz, Germany.

- Vietnam Airlines has become the second airline in the world to operate the Airbus A350 XWB, powered by the world's most efficient large civil aero engine, the Trent XWB.

Defence Aerospace

£ millions	H1 2014	H1 2015	Change
Order book*	4,564	4,417	-3%
Engine deliveries	365	272	-25%
Underlying revenue	983	973	-1%
Underlying OE revenue	*376*	*368*	*-2%*
Underlying services revenue	*607*	*605*	*0%*
Underlying profit before financing	188	184	-2%
Return on sales	19.1%	18.9%	-0.2pp

* 2014 H1 Order book is at 2014 year-end

Financial

- The Defence order book declined 3% in H1. Net order intake declined 39%, as a significant long-term order for engines to power C130-J aircraft did not repeat.

  Significant orders in H1 2015 included:

  - A 10-year agreement with Robinson Helicopter Company to supply at least 1,000 RR300 engines to power R66 aircraft
  - US defence service contracts valued at up to $224m to support US military branches and global air forces supplied by the US Department of Defence
  - A long-term agreement with Bell Helicopter for the installation of upgraded M250 engines in new Bell 407GXP helicopters, boosting power and fuel efficiency

- Underlying revenue declined 1%, with services flat and OE revenue down 2%. The business benefited from a stronger dollar, without which revenue would have declined 5%, with lower demand for helicopter engines and lower OE demand for trainer engines.

- Profit declined 2% to £184m in the first half, driven by lower volume.

- Our full-year guidance for revenue is unchanged for a range of between £1.9bn and £2.1bn and profit of £360m and £410m, based on average 2014 exchange rates.

Portfolio

- The LHTEC CTS800 engine, produced under a 50:50 partnership with Honeywell, was selected to power the new Turkish Light Utility Helicopter.

- The T56 Series 3.5 engine enhancement package completed its first flight with the National Oceanographic and Atmospheric Administration, demonstrating a higher than expected reduced fuel use of over 12 per cent and other significant performance improvements.

- The new advanced LiftWorks repair facility was opened in Indianapolis as a centre of excellence for the repair and overhaul of components for the Rolls-Royce LiftSystem® for F-35 Lightning II aircraft.

Power Systems

£ millions	H1 2014	H1 2015	Change
Order book*	1,971	2,215	12%
Underlying revenue	1,214	1,039	-14%
Underlying OE revenue	*837*	*684*	*-18%*
Underlying services revenue	*377*	*355*	*-6%*
Underlying profit before financing	62	17	-73%
Return on sales	5.1%	1.6%	-3.5pp

* 2014 H1 Order book is at 2014 year-end

Financial

- The Power Systems order book grew 12%. Order intake increased 4% to £1.3bn.

  Significant orders in H1 2015 included:

  - A €100m order from Chinese locomotive manufacturer CNR Dalian (CNR) for 232 MTU Series 4000 engines which will be installed in new freight locomotives for South African operator Transnet Freight Rail
  - The first order by the British Army for MTU diesel engines: worth €80m, the 589 MTU Series 199 diesel engines will be used in the new Scout Specialist Vehicle (SV)

- Underlying revenue declined 14% (4% at constant foreign exchange) as a result of lower year-on-year sales to naval customers.

- Underlying profit declined 73% as a result of volume reductions and adverse mix, including lower naval sales and an adverse mix effect on our medium-speed Bergen engine business.

- In 2015, we continue to expect revenue between £2.5bn and £2.75bn and profit between £200m and £250m. Our confidence in the second half is underpinned by continued growth in new orders and 79% OE order cover for the second half. In particular, we expect improved performance from governmental and naval applications to drive second half volume and margin improvements.

Portfolio

- Introduced the new MTU Series 2000 M96 yacht engines. which offers enhanced performance and improved fuel consumption

- Announced the formation of a Joint Venture with Weir Oil & Gas to develop new power systems for efficient hydraulic fracking

- Conducted successful tests of passenger rail cars powered by an MTU Hybrid PowerPack

Marine

£ millions	H1 2014	H1 2015	Change
Order book*	1,567	1,323	-16%
Underlying revenue	818	695	-15%
Underlying OE revenue	*494*	*415*	*-16%*
Underlying services revenue	*324*	*280*	*-14%*
Underlying profit before financing	40	4	-90%
Return on sales	4.9%	0.6%	-4.3pp

* 2014 H1 Order book is at 2014 year-end

Financial

- Order intake in the first half sharply reduced by 46%, as a result of the fall in oil price and decline in the offshore market. The order book decreased 16%.

  Significant orders in the first half included:

  - Contracts with Bastø-Fosen and Fjord 1 in Norway for azimuth propulsion systems for five new double ended ferries
  - A contract for £16m with Keppel Shipyard in Singapore to supply liquid natural gas engines on-board a Floating Liquefaction Vessel (FLNGV).

- Underlying revenue decreased 15% (down 7% at constant foreign exchange), reflecting a 16% decline in OE and a 14% decline in services. The OE sales decline was primarily within the Offshore business, reflecting weak demand resulting from the low oil price. We also saw lower Naval aftermarket revenue.

- Underlying profit fell 90%, down 85% at constant foreign exchange, driven by volume reductions, pricing pressure, and an adverse mix, and included a £30m contract contingency. As an offset there was no recurrence of the 2014 product charge of £30m. A non-underlying charge of £69m has been taken for impairment of goodwill owing to a less favourable business outlook, partly driven by the impact of market deteriorations on our offshore businesses.

- As set out in our Guidance Update of 6 July, we now expect 2015 revenue toward the lower end of our previously guided range of £1.45bn and £1.65bn and profit between £0m and £40m. We anticipate that the market will remain challenging in the short term, particularly in Offshore. We will accelerate our cost reduction programmes, focusing on footprint, supply chain and overhead costs in order to drive a more competitive business while also adapting to volume risks. Our guidance is based on 2014 average exchange rates.

Portfolio

- We delivered the first of two all-gas powered cargo vessels based on the award-winning Environship concept to Norwegian transport company Nor Lines AS.

- We celebrated 50 years since the first delivery of our very successful Azimuth Thrusters, which are used for powering and positioning large floating structures.

- Norwegian Cruise Line (NCL) has selected our permanent magnet (PM) tunnel thruster to upgrade the propulsion package onboard its vessel Norwegian Epic.

Nuclear (excludes the Energy business sold to Siemens)

£ millions	H1 2014	H1 2015	Change
Order book*	2,499	2,284	-9%
Underlying revenue	316	336	+6%
Underlying OE revenue	*114*	*120*	*+5%*
Underlying services revenue	*202*	*216*	*+7%*
Underlying profit before financing	16	24	50%
Return on sales	5.1%	7.1%	2.0pp

* 2014 H1 Order book is at 2014 year-end

Financial

- The order book for the continuing business declined 9%, reflecting a modest level of new orders during a period of improved OE and service revenues.

  Significant orders in the first half included:

  - A contract award by EDF for the supply of boron measurement systems to the entire French fleet of 900MW nuclear reactors
  - An extension to a previous award in the Submarines business for the continued development of the Next Generation of Nuclear Submarine reactors

- Underlying revenue increased 6%. OE increased from H1 2014 driven by the first upgraded Instrumentation and Control production units being delivered for the French nuclear reactor fleet in 2015. Services revenue has increased from H1 2014 due to the finalisation of the Next Generation design phases in the Submarines business.

- Underlying profit was £8m higher in the first half, reflecting the increased revenue.

- For the full year, we continue to expect revenue between £670m and £730m, and profit between £40m and £50m. This is based on 2014 average exchange rates

Portfolio

- In March, we acquired R.O.V. Technologies Inc., a US-based business providing nuclear utility operators with remote visual inspection services, which complements our existing nuclear services and extends our remote inspection capability.

Financial review
Underlying income statement

£millions	Six months to 30 June 2015	2014 *	Change
Revenue	**6,256**	6,451	-195
Profit before financing	**456**	675	-219
Net financing	**(17)**	(29)	+12
Profit before tax	**439**	646	-207
Tax	**(102)**	(158)	+56
Profit for the year	**337**	488	-151
Energy disposed in 2014		(1)	
Profit for the year previously reported		487	
Earnings per share (EPS)	**18.27p**	25.69p	-7.42p
Payments to shareholders	**9.27p**	9.00p	+0.27p
Gross R&D investment	**580**	553	+27
Net R&D charge	**378**	336	+42

Segmental analysis

	Revenue			**Profit before financing**		
	Six months to 30 June			Six months to 30 June		
£millions	**2015**	2014 *	Change	**2015**	2014 *	Change
Civil	**3,285**	3,197	+88	**248**	405	-157
Defence	**973**	983	-10	**184**	188	-4
Aerospace Division	**4,258**	4,180	+78	**432**	593	-161
Power Systems	**1,039**	1,214	-175	**17**	62	-45
Marine	**695**	818	-123	**4**	40	-36
Nuclear	**336**	316	+20	**24**	16	+8
Intra-segment	**(72)**	(77)	+5	**3**	(9)	+12
Land & Sea Division	**1,998**	2,271	-273	**48**	109	-61
Central costs				**(24)**	(27)	+3
Group	**6,256**	6,451	-195	**456**	675	-219
Energy		385			(1)	
Group previously reported		6,836			674	

* Re-presented to exclude Energy from the comparative figures.

Underlying revenue decreased by £0.2bn to £6.3bn, due to adverse foreign exchange translation, with year-on-year revenue at 2014 foreign exchanges rates flat, comprising a 3% reduction in OE revenue and a 3% increase in services revenue. The original equipment reduction included decreases of 8% in Power Systems and 6% in both Defence Aerospace and Marine, partially offset by growth of 9% in Nuclear and 1% in Civil Aerospace. The services revenue increase included growth of 7% in both Civil Aerospace and Nuclear and 6% in Power Systems, partially offset by reductions of 10% in Marine and 4% in Defence Aerospace. Underlying services revenue continues to represent around half of the Group's underlying revenue.

Underlying profit before financing and taxation decreased by 32% to £456m. The decrease was principally due to an adverse revenue mix and an increased research and development charge partly offset by a benefit from retrospective TotalCare accounting.

Underlying financing costs reduced by £12m to £17m. Net interest payable increased by £5m to £28m. This was offset by an underlying gain of £24m on realised foreign exchange contracts which were settled to convert overseas dividends from group companies into sterling.

Underlying taxation was £102m; an underlying tax rate of 23.2% compared with 24.5% in 2014.

Underlying EPS decreased 29% to 18.27p, in line with the profit for the period.

Payments to shareholders: is made in the form of C Shares, details of which are set out on page 33. An interim payment of 9.27p per share will be made, up 3%.

Underlying net R&D charged to the income statement (note 3) increased by 13% due to additional expenditure on Civil Aerospace new programmes, combined with lower capitalisation of development costs, and offset by higher recognition of development cost contributions from third parties.

Reported results

	Six months to 30 June	
£millions	**2015**	2014
Underlying profit before tax	**439**	646
Mark-to-market adjustments on derivatives	**(101)**	319
Movements on other financial instruments	**111**	(148)
Effects of acquisition accounting	**(132)**	(83)
Exceptional restructuring	**(11)**	(5)
Acquisitions and disposals	**(3)**	–
Post-retirement schemes	**13**	(14)
Other (including discontinued operations)	**(6)**	(2)
Reported profit before tax (2014 re-presented to exclude discontinued operations)	**310**	713

Consistent with past practice and IFRS, the Group provides both reported and underlying figures. We believe underlying figures are more representative of the trading performance, by excluding the impact of year-end mark-to-market adjustments, principally the GBP:USD hedge book. In addition, post-retirement financing and the effects of acquisition accounting are excluded. The results of the Energy business sold last year have been excluded from the 2014 figures. The adjustments between the underlying income statement and the reported income statement are set out in more detail in note 2 to the Condensed Financial Statements. This basis of presentation has been applied consistently.

The **mark to market adjustments** are principally driven by movements in the GBP:USD and EUR:USD exchange rates which moved from 1.56 to 1.57 and from 1.21 to 1.12 respectively during the period.

Movements on other financial instruments primarily relate to differences between GBP:USD and EUR:USD achieved exchange rates and the spot rates on the date of collapse of the forward exchange contracts.

The **effects of acquisition accounting** in accordance with IFRS 3 are excluded from underlying profit so that all businesses are measured on an equivalent basis. As a result, the goodwill impairment charge in Marine of £69m has been excluded.

Costs associated with the substantial closure or exit of a site, facility or activity are classified as **exceptional restructuring** and excluded.

Profits and losses arising on **acquisitions and disposals** during the year are excluded.

Net financing on **post-retirement schemes** is excluded from underlying profit.

Appropriate tax rates are applied to these adjustments, the net effect of which was a decrease of £30m to the underlying tax charge (2014 £27m increase). The tax adjustment also includes a £122m increase in the value of recoverable advance corporation tax (ACT) recognised. ACT is being recognised due to an increase in the net deferred tax liabilities against which the asset can be offset.

Summary balance sheet

£ millions	**30 June 2015**	31 December 2014
Intangible assets	**4,476**	4,804
Property, plant and equipment	**3,312**	3,446
Net post-retirement scheme (deficits)/surpluses	**(68)**	555
Net working capital	**(156)**	(1,134)
Net funds	**(643)**	666
Provisions	**(732)**	(807)
Net financial assets and liabilities	**(856)**	(855)
Joint ventures and associates	**532**	539
Other net assets and liabilities	**(455)**	(827)
Net assets	**5,410**	6,387
Other items		
US$ hedge book (US$bn)	**30.1**	25.6
TotalCare assets	**2,575**	2,492
TotalCare liabilities	**(708)**	(687)
Net TotalCare assets	**1,867**	1,805
Gross customer finance commitments	**357**	388
Net customer finance commitments	**61**	59

Intangible assets (note 8) represent long-term assets of the Group. These assets reduced by £328m with additions (£134m) to certification, development, software and other assets being offset by annual amortisation charges and impairment (£268m) and exchange differences (£197m). An impairment charge to goodwill in the Marine businesses of £69m was recognised in the period.

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.

Property, plant and equipment (note 9) decreased by £134m. Additions of £141m were offset by depreciation of £181m and foreign exchange differences of £90m. The Group continues to develop and refresh its facilities and tooling as it prepares for increased production volumes.

Net post-retirement scheme deficits (note 11) reduced by £623m largely due to actuarial losses in the UK of £778m. These arose due to changes in the yield curves used to value the assets and the liabilities. The AA corporate bond curve, which is used to discount the liabilities reduced, increasing the liabilities by around £380m. In contrast the UK gilts curve increased, reducing the value of the assets by around £400m. For funding purposes, both assets and liabilities are valued using gilts as the basis and consequently the volatility arising from applying the IAS 19 required valuation to the liabilities is significantly reduced

Movements in **net funds** are shown in the Summary funds flow statement on Page 16.

Provisions largely relate to warranties and guarantees provided in relation to the sale of OE and services and reduced by 9% in the period, reflecting utilisation of previously charged amounts for warranties and guarantees, customer financing and restructuring.

Net financial assets and liabilities relate to the fair value of foreign exchange, commodity and interest rate contracts, financial RRSAs, set out in detail in note 10. Foreign exchange contracts have increased in value by £28m and commodity contracts and interest rate contracts have decreased in value by £16m and £83m respectively, due to changes in the relevant markets. All contracts continue to be held for hedging purposes.

Investments in **joint ventures and associates** remained stable. Retained profits of £31m were offset by dividends of £16m and foreign exchange differences of £15m.

The US$ hedge book increased by 18% to US$30.1bn. This represents around five years of net exposure and has an average book rate of £1 to US$1.60.

Net TotalCare assets relate to Long-Term Service Agreement (LTSA) contracts in the Civil Aerospace business, including the flagship services product TotalCare. These assets represent the timing difference between the recognition of income and costs in the income statement and cash receipts and payments.

Customer financing facilitates the sale of OE and services by providing financing support to certain customers. Where such support is provided by the Group, it is generally to customers of the Civil Aerospace business and takes the form of various types of credit and asset value guarantees. These exposures produce contingent liabilities that are outlined in note 12. The contingent liabilities represent the maximum aggregate discounted gross and net exposure in respect of delivered aircraft, regardless of the point in time at which such exposures may arise.

During the period, the Group's gross exposure reduced slightly to £367m, due largely to the expiry of guarantees. On a net basis, exposures remained broadly unchanged.

Summary funds flow statement

	Six months to 30 June				
£ millions	**2015**	2014			Change
		Previously reported	Energy	Restated	
Underlying Profit Before Tax (PBT)	**439**	644	2	646	-207
Depreciation and amortisation	**317**	281	(3)	278	+39
Movement in net working capital	**(747)**	(634)	74	(560)	-187
Expenditure on property, plant and equipment and intangible assets	**(391)**	(541)	10	(531)	+140
Other	**(90)**	7	(1)	6	-96
Trading cash flow	**(472)**	(243)	82	(161)	-311
Contributions to defined benefit pensions in excess of PBT charge	**(25)**	(80)	(2)	(82)	+57
Tax	**(79)**	(109)	5	(104)	+25
Free cash flow	**(576)**	(432)	85	(347)	-229
Shareholder payments	**(165)**	(236)	–	(236)	+71
Share buyback	**(433)**	–	–	–	-433
Acquisitions/disposals	**(104)**	(3)	(85)	(88)	-16
Net funds of businesses acquired	**–**	(29)	–	(29)	+29
Foreign exchange	**(31)**	(62)	–	(62)	+31
Change in net funds	**(1,309)**	(762)	–	(762)	-547
Opening net funds	**666**	1,939	–	1,939	-1,273
Closing net funds	**(643)**	1,177	–	1,177	-1,820

The cash flows associated with the Energy business and its disposal in 2014 have been excluded to provide more meaningful comparative figures.

Movement in working capital – the £747m increase includes higher levels of inventory ahead of an increase in deliveries in the second half of the year and a reduction in payables reflecting the timing of sales and purchases. The increase is greater than the previous year reflecting higher inventory levels.

Expenditure on property, plant and equipment and intangibles – the decrease largely reflects lower expenditure on participation fees and certification costs (£75m), property plant and equipment (£45m) and development costs (£48m) partially offset by additional expenditure on contractual aftermarket rights (£45m).

Pensions – contributions to defined benefit pension schemes reduced largely in the UK due to the non-recurrence of payments to fund the discretionary increases (£33m) and a reduction in deficit recovery payments (£14m).

Shareholder payments – the decrease primarily reflects the non-recurrence of an RRPS dividend to Daimler AG (£76m).

Condensed consolidated financial statements

Condensed consolidated income statement

For the Half Year ended 30 June 2015

	Notes	**Half Year to 30 June 2015 £m**	Re-presented* Half Year to 30 June 2014 £m	Year to 31 December 2014 £m
Continuing operations				
Revenue	2	**6,370**	6,249	13,736
Cost of sales		**(5,101)**	(4,899)	(10,533)
Gross profit		**1,269**	1,350	3,203
Other operating income		**5**	3	10
Commercial and administrative costs		**(522)**	(557)	(1,124)
Research and development costs	3	**(404)**	(369)	(793)
Share of results of joint ventures and associates		**31**	58	94
Operating profit		**379**	485	1,390
Profit on acquisition/ reclassification of joint venture to subsidiary		**–**	2	2
Profit on disposal of businesses		**–**	–	6
Profit before financing and taxation		**379**	487	1,398
Financing income	4	**86**	456	121
Financing costs	4	**(155)**	(230)	(1,452)
Net financing		**(69)**	226	(1,331)
Profit before taxation [1]		**310**	713	67
Taxation	6	**50**	(185)	(151)
Profit/(loss) for the period from continuing operations		**360**	528	(84)
Discontinued operations				
Profit for the period from ordinary activities		**–**	4	4
Profit on disposal		**–**	–	138
Profit for the period from discontinued operations		**–**	4	142
Profit for the period		**360**	532	58
Attributable to:				
Ordinary shareholders		**360**	544	69
Non-controlling interests		**–**	(12)	(11)
Profit for the period		**360**	532	58
Earnings per ordinary share attributable to shareholders	5			
From continuing operations				
Basic		**19.51p**	28.85p	(3.90p)
Diluted		**19.35p**	28.60p	(3.90p)
From continuing and discontinued operations				
Basic		**19.51p**	29.06p	3.68p
Diluted		**19.35p**	28.81p	3.68p
Underlying earnings per ordinary share are shown in note 5.				
Payments to ordinary shareholders in respect of the period	7			
Pence per share		**9.27p**	9.0p	23.1p
Total		**170**	170	435
[1] Underlying profit before taxation **	2	**439**	646	1,620

* Re-presented to show the Energy business as discontinued in 2014.
** Re-presented to exclude the results of the Energy business.
The relevant notes have also been re-presented.

Condensed consolidated statement of comprehensive income

For the Half Year ended 30 June 2015

	Notes	**Half Year to June 30, 2015 £m**	Half Year to June 30, 2014 £m	Year to December 31, 2014 £m
Profit for the period		**360**	532	58
Other comprehensive income (OCI)				
Items that will not be reclassified to profit or loss				
Movements in post-retirement schemes	11	**(722)**	466	1,192
Share of OCI of joint ventures and associates		**–**	1	–
Related tax movements		**250**	(163)	(431)
		(472)	304	761
Items that may be reclassified to profit or loss				
Foreign exchange translation differences on foreign operations		**(280)**	(176)	(158)
Reclassification to income statement on disposal of businesses		**–**	–	(29)
Share of OCI of joint ventures and associates		**(12)**	(7)	(13)
Related tax movements		**(3)**	(1)	(2)
		(295)	(184)	(202)
Total comprehensive income for the period		**(407)**	652	617
Attributable to:				
Ordinary shareholders		**(407)**	686	650
Non-controlling interests		**–**	(34)	(33)
Total comprehensive (expense)/income for the period		**(407)**	652	617

Condensed consolidated balance sheet

At 30 June 2015

	Notes	**30 June 2015 £m**	30 June 2014 £m	31 December 2014 £m
ASSETS				
Non-current assets				
Intangible assets	8	**4,476**	4,951	4,804
Property, plant and equipment	9	**3,312**	3,357	3,446
Investments – joint ventures and associates		**532**	583	539
Investments – other		**29**	26	31
Other financial assets	10	**185**	924	107
Deferred tax assets		**419**	288	369
Post-retirement scheme surpluses	11	**1,016**	793	1,740
		9,969	10,922	11,036
Current assets				
Inventories		**2,930**	3,450	2,768
Trade and other receivables		**5,624**	5,029	5,509
Taxation recoverable		**16**	19	19
Other financial assets	10	**47**	60	22
Short-term investments		**7**	8	7
Cash and cash equivalents		**1,581**	3,354	2,862
Assets held for sale		**3**	5	1
		10,208	11,925	11,188
Total assets		**20,177**	22,847	22,224
LIABILITIES				
Current liabilities				
Borrowings		**(269)**	(32)	(68)
Other financial liabilities	10	**(218)**	(2,107)	(209)
Trade and other payables		**(6,555)**	(6,593)	(6,791)
Tax liabilities		**(159)**	(189)	(184)
Provisions for liabilities and charges		**(418)**	(382)	(433)
		(7,619)	(9,303)	(7,685)
Non-current liabilities				
Borrowings		**(1,937)**	(2,161)	(2,193)
Other financial liabilities	10	**(895)**	(305)	(717)
Trade and other payables		**(2,002)**	(1,848)	(2,445)
Tax liabilities		**(10)**	(10)	(10)
Deferred tax liabilities		**(906)**	(1,104)	(1,228)
Provisions for liabilities and charges		**(314)**	(357)	(374)
Post-retirement scheme deficits	11	**(1,084)**	(1,018)	(1,185)
		(7,148)	(6,803)	(8,152)
Total liabilities		**(14,767)**	(16,106)	(15,837)
Net assets		**5,410**	6,741	6,387
EQUITY				
Attributable to ordinary shareholders				
Called-up share capital		**367**	377	376
Share premium account		**180**	141	179
Capital redemption reserve		**164**	162	159
Cash flow hedging reserve		**(93)**	(74)	(81)
Other reserves		**(205)**	89	78
Retained earnings		**4,992**	6,042	5,671
		5,405	6,737	6,382
Non-controlling interests		**5**	4	5
Total equity		**5,410**	6,741	6,387

Condensed consolidated cash flow statement

For the Half Year ended 30 June 2015

	Notes	**Half Year to 30 June 2015 £m**	Half Year to 30 June 2014 £m	Year to 31 December 2014 £m
Reconciliation of cash flows from operating activities				
Operating profit from continuing operations		**379**	485	1,390
Operating profit from discontinued operations		**–**	4	(1)
Operating profit		**379**	489	1,389
Profit on disposal of property, plant and equipment		**–**	(12)	(3)
Share of results of joint ventures and associates		**(31)**	(59)	(94)
Dividends received from joint ventures and associates		**16**	31	73
Return of capital from joint venture		**–**	–	3
Gain on consolidation of previously non-consolidated subsidiary		**–**	–	(3)
Amortisation and impairment of intangible assets	8	**268**	180	367
Depreciation of property, plant and equipment	9	**181**	177	375
(Decrease)/increase in provisions		**(44)**	26	129
(Increase)/decrease in inventories		**(260)**	(195)	166
(Increase)/decrease in trade and other receivables		**(234)**	2	(878)
(Decrease)/increase in trade and other payables		**(326)**	(439)	214
Movement in other financial assets and liabilities		**(122)**	71	(30)
Net defined benefit post-retirement cost recognised in operating profit	11	**102**	98	170
Cash funding of defined benefit post-retirement schemes	11	**(127)**	(178)	(322)
Share-based payments		**5**	20	21
Net cash (outflow)/inflow from operating activities before taxation		**(193)**	211	1,577
Taxation paid		**(79)**	(109)	(276)
Net cash (outflow)/inflow from operating activities		**(272)**	102	1,301
Cash flows from investing activities				
Additions of unlisted investments		**–**	(2)	(11)
Disposals of unlisted investments		**–**	2	–
Additions of intangible assets	8	**(134)**	(239)	(477)
Purchases of property, plant and equipment		**(258)**	(303)	(648)
Government grants received		**1**	1	11
Disposals of property, plant and equipment		**6**	46	65
Acquisitions of businesses		**(5)**	(3)	(3)
Acquisitions of non-controlling interest		**–**	–	(1,937)
Cash and cash equivalents in joint venture reclassified to subsidiary		**–**	1	–
Disposal of discontinued operations		**–**	–	1,027
Disposals of businesses		**–**	–	24
Investments in joint ventures and associates		**(5)**	(2)	(17)
Net cash (outflow)/inflow from investing activities		**(395)**	(499)	(1,966)
Cash flows from financing activities				
Repayment of loans		**(1)**	(230)	(233)
Proceeds from increase in loans	10	**47**	25	49
Net cash flow from increase in borrowings		**46**	(205)	(184)
Interest received		**12**	10	18
Interest paid		**(55)**	(46)	(63)
Increase in short-term investments		**–**	313	313
Issue of ordinary shares and cash received on share-based payments vesting		**31**	–	1
Purchase of ordinary shares – share buyback		**(433)**	–	(69)
Purchase of ordinary shares		**(1)**	(1)	(2)
Dividend to NCI		**–**	(76)	(76)
Redemption of C Shares		**(165)**	(160)	(406)
Net cash outflow from financing activities		**(565)**	(165)	(468)
Net decrease in cash and cash equivalents		**(1,232)**	(562)	(1,133)
Cash and cash equivalents at 1 January		**2,862**	3,987	3,987
Exchange (losses)/gains on cash and cash equivalents		**(49)**	(71)	8
Cash and cash equivalents at period end		**1,581**	3,354	2,862

	Half Year to 30 June 2015 £m	Half Year to 30 June 2014 £m	Year to 31 December 2014 £m
Reconciliation of movements in cash and cash equivalents to movements in net funds			
Net decrease in cash and cash equivalents	**(1,232)**	(562)	(1,133)
Net cash flow from (increase)/decrease in borrowings	**(46)**	205	184
Net cash flow from decrease in short-term investments	**–**	(313)	(313)
Change in net funds resulting from cash flows	**(1,278)**	(670)	(1,262)
Net funds (excluding cash and cash equivalents) of businesses acquired	**–**	(30)	(30)
Exchange (losses)/gains on net funds	**(31)**	(62)	19
Fair value adjustments	**83**	(9)	(59)
Movement in net funds	**(1,226)**	(771)	(1,332)
Net funds at 1 January excluding the fair value of swaps	**608**	1,940	1,940
Net funds at period end excluding the fair value of swaps	**(618)**	1,169	608
Fair value of swaps hedging fixed rate borrowings	**(25)**	8	58
Net funds at period end	**(643)**	1,177	666

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

	At 1 January 2015 £m	**Funds flow £m**	**Exchange differences £m**	**Fair value adjustments £m**	**Reclassification £m**	**At 30 June 2015 £m**
Cash at bank and in hand	**739**	**137**	**(36)**	**–**	**–**	**840**
Money market funds	**692**	**(365)**	**5**	**–**	**–**	**332**
Short-term deposits	**1,431**	**(1,004)**	**(18)**	**–**	**–**	**409**
Cash and cash equivalents	**2,862**	**(1,232)**	**(49)**	**–**	**–**	**1,581**
Investments	**7**	**–**	**–**	**–**	**–**	**7**
Other current borrowings	**(67)**	**(4)**	**1**	**2**	**(200)**	**(268)**
Non-current borrowings	**(2,149)**	**(43)**	**17**	**81**	**200**	**(1,894)**
Finance leases	**(45)**	**1**	**–**	**–**	**–**	**(44)**
Net funds excluding the fair value of swaps	**608**	**(1,278)**	**(31)**	**83**	**–**	**(618)**
Fair value of swaps hedging fixed rate borrowings	**58**			**(83)**		**(25)**
Net funds	**666**	**(1,278)**	**(31)**	**–**	**–**	**(643)**

Condensed consolidated statement of changes in equity

For the Half Year ended 30 June 30, 2015

	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 2014	**376**	**80**	**163**	**(68)**	**250**	**4,804**	**5,605**	**698**	**6,303**
Total comprehensive income for the period	**–**	**–**	**–**	**(6)**	**(161)**	**853**	**686**	**(34)**	**652**
Arising on issues of ordinary shares	1	61	–	–	–	(62)	–	–	–
Issue of C Shares	–	–	(162)	–	–	1	(161)	–	(161)
Redemption of C Shares	–	–	161	–	–	(161)	–	–	–
Ordinary shares purchased	–	–	–	–	–	(1)	(1)	–	(1)
Share-based payments – direct to equity [3]	–	–	–	–	–	20	20	–	20
Transactions with NCI [4]	–	–	–	–	–	584	584	(584)	–
Dividend to NCI	–	–	–	–	–	–	–	(76)	(76)
Related tax movements	–	–	–	–	–	4	4	–	4
Other changes in equity in the period	**1**	**61**	**(1)**	**–**	**–**	**385**	**446**	**(660)**	**(214)**
At June 30, 2014	**377**	**141**	**162**	**(74)**	**89**	**6,042**	**6,737**	**4**	**6,741**
Total comprehensive income for the period	**–**	**–**	**–**	**(7)**	**(11)**	**(18)**	**(36)**	**1**	**(35)**
Arising on issues of ordinary shares	1	38	–	–	–	(38)	1	–	1
Issue of C Shares	–	–	(252)	–	–	1	(251)	–	(251)
Redemption of C Shares	–	–	247	–	–	(247)	–	–	–
Ordinary shares purchased – share buyback [5]	–	–	–	–	–	(69)	(69)	–	(69)
Ordinary shares cancelled [5]	(2)	–	2	–	–	–	–	–	–
Ordinary shares purchased – other	–	–	–	–	–	(1)	(1)	–	(1)
Share-based payments – direct to equity [3]	–	–	–	–	–	9	9	–	9
Related tax movements	–	–	–	–	–	(8)	(8)	–	(8)
Other changes in equity in the period	**(1)**	**38**	**(3)**	**–**	**–**	**(353)**	**(319)**	**–**	**(319)**
At 31 December 2014	**376**	**179**	**159**	**(81)**	**78**	**5,671**	**6,382**	**5**	**6,387**
Total comprehensive income for the period	**–**	**–**	**–**	**(12)**	**(283)**	**(112)**	**(407)**	**–**	**(407)**
Arising on issues of ordinary shares	–	1	–	–	–	–	1	–	1
Issue of C Shares	–	–	(170)	–	–	1	(169)	–	(169)
Redemption of C Shares	–	–	166	–	–	(166)	–	–	–
Ordinary shares purchased – share buyback [5]	–	–	–	–	–	(433)	(433)	–	(433)
Ordinary shares cancelled [5]	(9)	–	9	–	–	–	–	–	–
Ordinary shares purchased – other	–	–	–	–	–	(1)	(1)	–	(1)
Share-based payments – direct to equity [3]	–	–	–	–	–	35	35	–	35
Related tax movements	–	–	–	–	–	(3)	(3)	–	(3)
Other changes in equity in the period	**(9)**	**1**	**5**	**–**	**–**	**(567)**	**(570)**	**–**	**(570)**
At 30 June 2015	**367**	**180**	**164**	**(93)**	**(205)**	**4,992**	**5,405**	**5**	**5,410**

[1] Other reserves include a merger reserve of £3m and a translation reserve of £(208)m.

[2] At 30 June 2015, 6,097,435 ordinary shares with a book value of £54m were held for the purposes of share-based payment plans and included in retained earnings. During the period, the Company acquired 108,394 ordinary shares through purchases on the London Stock Exchange for use in share-based payment plans.

[3] 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.

[4] On 7 March 2014, Daimler AG announced its intention to exercise its put option on Rolls-Royce Power Systems Holding GmbH (RRPSH). Formal notice of this intention was served on 24 March 2014. From this date, the Group had an effective economic interest in RRPSH of 100% and the non-controlling interest in RRPSH of £584m was transferred to retained earnings.

[5] Following the completion of the sale of the Energy business to Siemens on 1 December 2014 and further to the announcement on 19 June 2014 of a £1bn share buyback, the Company put in place a programme to enable the purchase of its ordinary shares. The aim of the buyback was to reduce the issued share capital of the Company, helping enhance returns for shareholders. In the period to 31 December 2014, 8,215,000 shares were purchased at an average price of 840p. These shares were cancelled. In the period to 30 June 2015, 46,016,303 shares were purchased at an average price of 937p. 44,016,303 of these shares were cancelled and 2,000,000 were retained for use in share-based payment plans.

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 2015 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in joint arrangements and associates.

The consolidated financial statements of the Group as at and for the year ended 31 December 2014 (2014 Annual report) are available upon request from the Company Secretary, Rolls-Royce Holdings plc, 62 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 2014 Annual report.

The comparative figures for the financial year 31 December 2014 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 29 July 2015.

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 31 December 2014 (International Financial Reporting Standards issued by the International Accounting Standards Board (IASB), as adopted for use in the EU effective at 31 December 2014).

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 2014.

2 Analysis by business segment

The analysis by Divisions (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 Chief Operating Decision Maker as defined by IFRS 8).

Aerospace Division

Civil	development, manufacture, marketing and sales of commercial aero engines and aftermarket services.
Defence	development, manufacture, marketing and sales of military aero engines and aftermarket services.
Land & Sea Division	
Power Systems	development, manufacturing, marketing and sales of reciprocating engines and power systems.
Marine	development, manufacture, marketing and sales of marine-power propulsion systems and aftermarket services.
Nuclear	development, manufacture, marketing and sales of nuclear systems for civil power generation and naval propulsion systems and power systems for the offshore oil and gas industry and electrical power generation and aftermarket services.
Energy	The Energy business was sold on 1 December 2014 and was treated a discontinued operation. In underlying results of the comparative period, it was reported together with Nuclear. The comparative figures have been re-presented to show Nuclear and Energy separately and to exclude the results of the Energy business from the underlying figures (see below).

The operating results are prepared on an underlying basis, which the Board considers reflects better the economic substance of the Group's trading during the year. The principles adopted to determine the underlying results 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. In addition, adjustments have been made to exclude one-off past-service credits on post-retirement schemes, exceptional restructuring and the effect of acquisition accounting.

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

- Include 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.
- Exclude unrealised amounts arising from revaluations required by IAS 39 *Financial Instruments: Recognition and Measurement*, changes in value of financial RRSA contracts arising from changes in forecast payments, changes in the value of put options on NCI and the net impact of financing costs related to post-retirement scheme benefits.

Taxation – the tax effect of the adjustments above are excluded from the underlying tax charge. In addition changes in the amount of recoverable advance corporation tax recognised that arises from the above adjustments are also excluded.

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

	Half Year to 30 June 2015			Half Year to 30 June 2014			Year to 31 December 2014		
Underlying revenues	**Original equipment £m**	**Aftermarket £m**	**Total £m**	Original equipment £m	Aftermarket £m	Total £m	Original equipment £m	Aftermarket £m	Total £m
Civil	**1,450**	**1,835**	**3,285**	1,476	1,721	3,197	3,265	3,572	6,837
Defence	**368**	**605**	**973**	376	607	983	816	1,253	2,069
Aerospace Division	**1,818**	**2,440**	**4,258**	1,852	2,328	4,180	4,081	4,825	8,906
Power Systems	**684**	**355**	**1,039**	837	377	1,214	1,893	827	2,720
Marine	**415**	**280**	**695**	494	324	818	1,070	639	1,709
Nuclear	**120**	**216**	**336**	114	202	316	254	430	684
Intra-segment	**(41)**	**(31)**	**(72)**	(40)	(37)	(77)	(78)	(77)	(155)
Land and Sea Division	**1,178**	**820**	**1,998**	1,405	866	2,271	3,139	1,819	4,958
Underlying re-presented	2,996	3,260	6,256	3,257	3,194	6,451	7,220	6,644	13,864
Energy disposed in 2014				162	223	385	302	422	724
Underlying previously reported				3,419	3,417	6,836	7,522	7,066	14,588

	Half Year to 30 June 2015 £m	Half Year to 30 June 2014 £m	Year to 31 December 2014 £m
Underlying profit before financing			
Civil	**248**	405	942
Defence	**184**	188	366
Aerospace Division	**432**	593	1,308
Power Systems	**17**	62	253
Marine	**4**	40	138
Nuclear	**24**	16	48
Intra-segment	**3**	(9)	(13)
Land and Sea Division	**48**	109	426
Reportable segments	**480**	702	1,734
Underlying central items	**(24)**	(27)	(53)
Underlying profit before financing and taxation	**456**	675	1,681
Underlying net financing	**(17)**	(29)	(61)
Underlying profit before taxation	**439**	646	1,620
Underlying taxation	**(102)**	(158)	(388)
Underlying profit for the period re-presented	**337**	488	1,232
Energy disposed in 2014		(1)	(2)
Underlying profit for the period previously reported		487	1,230
Attributable to:			
Ordinary shareholders	**337**	480	1,224
Non-controlling interests	**–**	7	6
	337	487	1,230

	Total assets			Total liabilities			Net assets/(liabilities)		
	30 June 2015 £m	30 June 2014 £m	31 December 2014 £m	**30 June 2015 £m**	30 June 2014 £m	31 December 2014 £m	**30 June 2015 £m**	30 June 2014 £m	31 December 2014 £m
Civil	**11,210**	10,556	10,775	**(7,073)**	(5,685)	(7,418)	**4,137**	4,871	3,357
Defence	**1,389**	1,313	1,473	**(1,668)**	(1,527)	(1,743)	**(279)**	(214)	(270)
Aerospace Division	**12,599**	11,869	12,248	**(8,741)**	(7,212)	(9,161)	**3,858**	4,657	3,087
Power Systems	**3,228**	3,705	3,588	**(975)**	(3,034)	(1,100)	**2,253**	671	2,488
Marine	**1,515**	1,671	1,641	**(877)**	(934)	(1,075)	**638**	737	566
Nuclear & Energy	**469**	1,547	961	**(438)**	(809)	(880)	**31**	738	81
Intra-segment	**(19)**	(18)	(22)	**–**	–	–	**(19)**	(18)	(22)
Land and Sea Division	**5,193**	6,905	6,168	**(2,290)**	(4,777)	(3,055)	**2,903**	2,128	3,113
Inter-segment	**(712)**	(432)	(1,269)	**712**	432	1,269	**–**	–	–
Reportable segments	**17,080**	18,342	17,147	**(10,319)**	(11,557)	(10,947)	**6,761**	6,785	6,200
Net funds	**1,646**	3,405	2,949	**(2,289)**	(2,228)	(2,283)	**(643)**	1,177	666
Tax assets/(liabilities)	**435**	307	388	**(1,075)**	(1,303)	(1,422)	**(640)**	(996)	(1,034)
Post-retirement scheme surpluses/(deficits)	**1,016**	793	1,740	**(1,084)**	(1,018)	(1,185)	**(68)**	(225)	555
	20,177	22,847	22,224	**(14,767)**	(16,106)	(15,837)	**5,410**	6,741	6,387

Group employees at period end

	30 June 2015	30 June 2014	31 December 2014
Civil	**23,100**	23,500	23,500
Defence	**6,400**	7,000	6,800
Aerospace Division	**29,500**	30,500	30,300
Power Systems	**10,700**	10,600	10,800
Marine	**6,100**	6,500	6,400
Nuclear	**4,300**	4,200	4,300
Land and Sea Division	**21,100**	21,300	21,500
	50,600	51,800	51,800
Energy disposed in 2014		2,300	
		54,100	

Underlying revenue adjustments

	Half Year to 30 June 2015 £m	Half Year to 30 June 2014 £m	Year to 31 December 2014 £m
Underlying revenue previously reported		6,836	14,588
Energy disposed in 2014		(385)	(724)
Underlying revenue re-presented	**6,256**	6,451	13,864
Recognise revenue at exchange rate on date of transaction	**114**	(202)	(128)
Revenue per consolidated income statement	**6,370**	6,249	13,736

Underlying profit adjustments	**Half Year to 30 June 2015**			Half Year to 30 June 2014			Year to 31 December 2014		
	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 previously reported				674	(30)	(157)	1,678	(61)	(387)
Energy disposed in 2014				1	1	(1)	3	–	(1)
Underlying performance re-presented	**456**	**(17)**	**(102)**	675	(29)	(158)	1,681	(61)	(388)
Realised losses/(gains) on settled derivative contracts [1]	**145**	**(28)**	**–**	(95)	16	–	(91)	(5)	–
Net unrealised fair value changes to derivative contracts [2]	**(12)**	**(89)**	**–**	–	319	–	(15)	(1,141)	–
Effect of currency on contract accounting	**(32)**	**–**	**–**	(3)	–	–	13	–	–
Revaluation of trading assets and liabilities	**(26)**	**55**	**–**	–	26	–	(11)	(8)	–
Put option on NCI and financial RRSAs – exchange differences and changes in forecast payments	**–**	**(3)**	**–**	–	(92)	–	–	(87)	–
Effect of acquisition accounting	**(63)**	**–**	**–**	(83)	–	–	(142)	–	–
Impairment of goodwill [3]	**(69)**	**–**	**–**	–	–	–	–	–	–
Net post-retirement scheme financing	**–**	**13**	**–**	–	(14)	–	–	(29)	–
Gain on reclassification of joint venture to subsidiary	**–**	**–**	**–**	2	–	–	2	–	–
Disposal of business	**(3)**	**–**	**–**	–	–	–	6	–	–
Exceptional restructuring [4]	**(11)**	**–**	**–**	(5)	–	–	(39)	–	–
Other	**(6)**	**–**	**–**	(4)	–	–	(6)	–	–
Related tax effect	**–**	**–**	**152**	–	–	(27)	–	–	237
Total underlying adjustments	**(77)**	**(52)**	**152**	(188)	255	(27)	(283)	(1,270)	237
Reported per consolidated income statement	**379**	**(69)**	**50**	487	226	(185)	1,398	(1,331)	(151)

[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.
[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] See note 8.
[4] Restructuring is excluded from underlying performance when it concerns the closure of a significant business or site.

3 Research and development

	Half Year to 30 June 2015 £m	Half Year to 30 June 2014 £m	Year to 31 December 2014 £m
Expenditure in the year	**(405)**	(387)	(818)
Capitalised as intangible assets	**9**	44	83
Amortisation of capitalised costs	**(66)**	(64)	(125)
Net cost	**(462)**	(407)	(860)
Entry fees received	**57**	36	51
Entry fees deferred in respect of charges in future periods	**(22)**	(24)	(38)
Recognition of previously deferred entry fees	**23**	26	54
Net cost recognised in the income statement	**(404)**	(369)	(793)
Underlying adjustments relating to the effects of acquisition accounting and foreign exchange	**26**	33	63
Net underlying cost recognised in the income statement	**(378)**	(336)	(730)

4 Net financing

	Half Year to 30 June 2015		Half Year to 30 June 2014		Year to 31 December 2014	
	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	**4**	***4***	10	*10*	17	*17*
Net fair value gains on foreign currency contracts [1]	**–**	***24***	281	–	2	–
Put option on NCI and financial RRSAs – foreign exchange differences and changes in forecast payments	**–**	**–**	76	–	89	–
Net fair value gains on commodity contracts	**–**	**–**	38	–	–	–
Financing on post-retirement scheme surpluses	**31**	**–**	7	–	13	–
Net foreign exchange gains	**51**	**–**	44	–	–	–
	86	***28***	456	*10*	121	*17*
Financing costs						
Interest payable	**(32)**	***(32)***	(33)	*(33)*	(63)	*(63)*
Net fair value losses on foreign currency contracts	**(61)**	**–**	–	–	(1,127)	–
Put option on NCI and financial RRSAs – foreign exchange differences and changes in forecast payments	**(3)**	**–**	(168)	–	(174)	–
Financial charge relating to put option and financial RRSAs	**(2)**	***(2)***	(3)	*(3)*	(7)	*(5)*
Net fair value losses on commodity derivatives	**(28)**	**–**	–	–	(15)	–
Financing on post-retirement scheme deficits	**(18)**	**–**	(21)	–	(42)	–
Net foreign exchange losses	**–**	**–**	–	–	(13)	–
Other financing charges	**(11)**	***(11)***	(5)	*(3)*	(11)	*(10)*
	(155)	***(45)***	(230)	*(39)*	(1,452)	*(78)*
Net financing	**(69)**	***(17)***	226	*(29)*	(1,331)	*(61)*
Analysed as:						
Net interest payable	**(28)**	***(28)***	(23)	*(23)*	(46)	*(46)*
Net post-retirement scheme financing	**13**	**–**	(14)	–	(29)	–
Net other financing	**(54)**	***11***	263	*(6)*	(1,256)	*(15)*
Net financing	**(69)**	***(17)***	226	*(29)*	(1,331)	*(61)*

1 Net realised gains of £24m on the settlement of contracts to convert overseas dividends into sterling were included within the net fair value losses on foreign currency contracts (unrealised) in H2 2014 and H1 2015. The realised gains have been included in underlying financing in H1 2015.

5 Earnings per ordinary share (EPS)

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

	Half Year to 30 June 2015			Half Year to 30 June 2014			Year to 31 December 2014		
	Basic	**Potentially dilutive share options**	**Diluted**	Basic	Potentially dilutive share options	Diluted	Basic	Potentially dilutive share options[1]	Diluted
Profit attributable to ordinary shareholders (£m)									
Continuing operations	**360**	**–**	**360**	540	–	540	(73)	–	(73)
Discontinued operations	**–**	**–**	**–**	4	–	4	142	–	142
	360	**–**	**360**	544	–	544	69	–	69
Weighted average shares (millions)	**1,845**	**15**	**1,860**	1,872	16	1,888	1,874	18	1,892
EPS (pence)									
Continuing operations	**19.51p**	**(0.16p)**	**19.35p**	28.85p	(0.25p)	28.60p	(3.90p)	–	(3.90p)
Discontinued operations	**–**	**–**	**–**	0.21p	–	0.21p	7.58p	–	7.58p
	19.51p	**(0.16p)**	**19.35p**	29.06p	(0.25p)	28.81p	3.68p	–	3.68p

[1] As the basic EPS was negative, in accordance with IAS 33 *Earnings per Share*, share options were not considered dilutive.

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

	Half Year to 30 June 2015		Half Year to 30 June 2014		Year to 31 December 2014	
	Pence	**£m**	Pence	£m	Pence	£m
Underlying EPS / Underlying profit attributable to ordinary shareholders previously reported			25.64	480	65.31	1,224
Energy disposed in 2014			0.05	1	0.11	2
Underlying EPS / Underlying profit attributable to ordinary shareholders re-presented	**18.27**	**337**	25.69	481	65.42	1,226
Total underlying adjustments to profit before tax (note 2)	**(7.00)**	**(129)**	3.59	67	(82.86)	(1,553)
Related tax effects	**8.24**	**152**	(1.45)	(27)	12.64	237
Profit from discontinued operations after tax	**–**	**–**	0.21	4	7.57	142
Related NCI effects	**–**	**–**	1.02	19	0.91	17
EPS / Profit attributable to ordinary shareholders	**19.51**	**360**	29.06	544	3.68	69
Diluted underlying EPS	**18.12**		25.48		64.80	

6 Taxation

The effective tax rate on continuing operations for the half year is -16.1% (2014 represented half year 25.9%, full year 225.4%). Excluding the impact of the recognition of the deferred tax asset relating to advance corporation tax, the effective rate for the half year is 23.2%. The deferred tax asset relating to advance corporation tax has been recognised due to an increase in the net deferred tax liabilities against which the asset can be offset. The main reason for this is the reduction in shadow advance corporation tax following the announcement that the current share buyback programme will be discontinued.

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

The Summer Budget 2015 announced that the UK corporation tax rate will reduce to 19% by 2017 and 18% by 2020. The proposed future reductions in the rate to 18% will be reflected when the relevant legislation is substantively enacted.

7 Payments to shareholders in respect of the period

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

	Half Year to 30 June 2015		Year to 31 December 2014	
	Pence per share	**£m**	Pence per share	£m
Interim (issued in January)	**9.27**	**170**	9.0	170
Final (issued in July)			14.1	265
	9.27	**170**	23.1	435

8 Intangible assets

	Goodwill £m	Certification costs and participation fees £m	Development expenditure £m	Contractual aftermarket rights £m	Customer relationships £m	Software £m	Other £m	Total £m
Cost:								
At 1 January 2015	**1,675**	**1,079**	**1,707**	**609**	**469**	**543**	**518**	**6,600**
Exchange differences	**(115)**	**(11)**	**(51)**	**–**	**(29)**	**(3)**	**(27)**	**(236)**
Additions	**–**	**16**	**9**	**74**	**–**	**23**	**12**	**134**
On acquisition of business	**1**	**–**	**–**	**–**	**1**	**–**	**1**	**3**
At 30 June 2015	**1,561**	**1,084**	**1,665**	**683**	**441**	**563**	**504**	**6,501**
Accumulated amortisation:								
At 1 January 2015	**16**	**311**	**564**	**360**	**96**	**259**	**190**	**1,796**
Exchange differences	**(4)**	**(2)**	**(15)**	**–**	**(6)**	**(3)**	**(9)**	**(39)**
Charge for the period	**–**	**32**	**66**	**27**	**23**	**32**	**19**	**199**
Impairment	**69**	**–**	**–**	**–**	**–**	**–**	**–**	**69**
At 30 June 2015	**81**	**341**	**615**	**387**	**113**	**288**	**200**	**2,025**
Net book value at:								
30 June 2015	**1,480**	**743**	**1,050**	**296**	**328**	**275**	**304**	**4,476**
31 December 2014	1,659	768	1,143	249	373	284	328	4,804

As a result of the worsening poor market conditions in the Marine offshore business caused by the low crude oil price and the consequential reduced order intake in the period, the Group has recognised an impairment loss of £69m to the carrying value of goodwill of cash generating units in this market. This is included in cost of sales in the income statement, but excluded from the underlying results. The impairment loss primarily relates to the cash generating units Scandinavian Electric Holdings ASA (acquired in 2008) and ODIM ASA (acquired in 2010) which are both business operations included in the Land & Sea segment. The impairment loss is based on a value in use calculation using cash flows forecast over a ten year period and a pre-tax discount rate of 13% which indicated a recoverable amount of £74m compared with a pre-impairment carrying value of £143m.

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

- The carrying values have been assessed by reference to value in use. These have been estimated using cash flows from the most recent forecasts prepared by management, which are consistent with past experience and external sources of information on market conditions over the lives of the respective programmes.
- The key assumptions underlying cash flow projections are assumed market share, programme timings, unit cost assumptions, discount rates, and foreign exchange rates.
- The pre-tax cash flow projections have been discounted at 11% (2014 full year 11%), based on the Group's weighted average cost of capital.
- No impairment is required on this basis. However, a combination of changes in assumptions and adverse movements in variables that are outside the Company's control (discount rate, exchange rate and airframe delays), could result in impairment in future periods.

9 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Aircraft and engines £m	In course of construction £m	Total £m
Cost:					
At 1 January 2015	**1,334**	**3,600**	**321**	**795**	**6,050**
Exchange differences	**(41)**	**(88)**	**(2)**	**(15)**	**(146)**
Additions	**4**	**33**	**1**	**103**	**141**
On acquisition of business	**1**	**–**	**–**	**–**	**1**
Reclassifications	**41**	**131**	**2**	**(174)**	**–**
Transferred to assets held for sale	**(2)**	**(14)**	**(2)**	**–**	**(18)**
Disposals	**(2)**	**(33)**	**(1)**	**–**	**(36)**
At 30 June 2015	**1,335**	**3,629**	**319**	**709**	**5,992**
Accumulated amortisation:					
At 1 January 2015	**391**	**2,109**	**103**	**1**	**2,604**
Exchange differences	**(10)**	**(46)**	**–**	**–**	**(56)**
Charge for the period	**27**	**142**	**12**	**–**	**181**
Reclassifications	**3**	**3**	**(6)**	**–**	**–**
Transferred to assets held for sale	**(2)**	**(11)**	**(2)**	**–**	**(15)**
Disposals	**(1)**	**(32)**	**(1)**	**–**	**(34)**
At 30 June 2015	**408**	**2,165**	**106**	**1**	**2,680**
Net book value at:					
30 June 2015	**927**	**1,464**	**213**	**708**	**3,312**
31 December 2014	943	1,491	218	794	3,446

10 Financial assets and liabilities

Other financial assets and liabilities comprise:

	Derivatives							
	Foreign exchange contracts £m	**Commodity contracts £m**	**Interest rate contracts £m**	**Total £m**	**Put option on NCI £m**	**Financial RRSAs £m**	**C Shares £m**	**Total £m**
At 30 June 2015								
Non-current assets	**129**	**–**	**56**	**185**	**–**	**–**	**–**	**185**
Current assets	**46**	**–**	**1**	**47**	**–**	**–**	**–**	**47**
Current liabilities	**(157)**	**(22)**	**–**	**(179)**	**–**	**(13)**	**(26)**	**(218)**
Non-current liabilities	**(629)**	**(37)**	**(88)**	**(754)**	**–**	**(141)**	**–**	**(895)**
	(611)	**(59)**	**(31)**	**(701)**	**–**	**(154)**	**(26)**	**(881)**
At 30 June 2014								
Non-current assets	870	11	43	924	–	–	–	924
Current assets	55	5	–	60	–	–	–	60
Current liabilities	(106)	(6)	–	(112)	(1,948)	(30)	(17)	(2,107)
Non-current liabilities	(123)	(4)	(37)	(164)	–	(141)	–	(305)
	696	6	6	708	(1,948)	(171)	(17)	(1,428)
At 31 December 2014								
Non-current assets	28	–	79	107	–	–	–	107
Current assets	22	–	–	22	–	–	–	22
Current liabilities	(144)	(21)	–	(165)	–	(22)	(22)	(209)
Non-current liabilities	(545)	(22)	(27)	(594)	–	(123)	–	(717)
	(639)	(43)	52	(630)	–	(145)	(22)	(797)

Derivative financial instruments

	Half Year to 30 June 2015				Half Year to 30 June 2014	Year to 31 December 2014
	Foreign exchange contracts £m	**Commodity contracts £m**	**Interest rate contracts £m**	**Total £m**	Total £m	Total £m
At January 1	(639)	(43)	52	**(630)**	453	453
Currency options at inception [1]	(20)	–	–	**(20)**	–	–
Movements in fair value hedges	–	–	(83)	**(83)**	9	61
Movements in other derivative contracts	(61)	(28)	–	**(89)**	318	(1,140)
Contracts settled	109	12	–	**121**	(72)	(4)
At period end	**(611)**	**(59)**	**(31)**	**(701)**	708	(630)

[1] The Group has written currency options to sell USD and buy GBP as part of a commercial agreement. The fair value of this option on inception is treated as a discount to the customer.

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

	Put option on NCI		Financial RRSAs		
	Half Year to 30 June 2014 £m	Year to 31 December 2014 £m	**Half Year to 30 June 2015 £m**	Half Year to 30 June 2014 £m	Year to 31 December 2014 £m
At January 1	(1,858)	(1,858)	**(145)**	(167)	(167)
Exchange adjustments included in OCI			(5)	(1)	3
Financing charge [1]	–	(2)	(2)	(3)	(5)
Excluded from underlying profit:					
Change in put option value [1]	(166)	(166)			
Exchange adjustments [1]	76	89	(3)	(2)	(8)
Cash paid to partners			1	2	32
Settlement of put option	–	1,937			
At period end	(1,948)	–	**(154)**	(171)	(145)

[1] Included in net financing.

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

	Half Year to 30 June 2015		Half Year to 30 June 2014		Year to 31 December 2014	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m	Book value £m	Fair value £m
Borrowings	**(2,206)**	**(2,293)**	(2,193)	(2,319)	(2,261)	(2,362)
Financial RRSAs	**(154)**	**(154)**	(171)	(173)	(145)	(152)

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 RRSAs 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 RRSAs, 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

During the period the Group increased bank borrowings by £43m. The Group also renegotiated the £1,000m committed bank borrowing facility, increasing the amount to £1,500m and extending the maturity to 2020. This facility was undrawn at the period end. A €300m committed borrowing facility was cancelled during the period.

There were no other significant changes in the Group's borrowings during the six months ended 30 June 2015.

11 Pensions and other post-retirement benefits

The net post-retirement scheme deficit as at 30 June 2015 is calculated on a year to date basis, using the latest valuation as at 31 December 2014, updated to 30 June 2015 for the principal schemes.

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

	UK schemes £m	Overseas schemes £m	Total £m
At 1 January 2015	**1,735**	**(1,180)**	**555**
Exchange adjustments	**–**	**61**	**61**
Current service cost	**(83)**	**(23)**	**(106)**
Past service cost	**10**	**(6)**	**4**
Net financing	**31**	**(18)**	**13**
Contributions by employer	**96**	**31**	**127**
Actuarial (losses)/gains [1]	**(778)**	**56**	**(722)**
At 30 June 2015	**1,011**	**(1,079)**	**(68)**
Analysed as:			
Post-retirement scheme surpluses - included in non-current assets	**1,012**	**4**	**1,016**
Post-retirement scheme deficits - included in non-current liabilities	**(1)**	**(1,083)**	**(1,084)**
	1,011	**(1,079)**	**(68)**

[1] The actuarial losses in the UK arose principally due to changes in the yield curves used to value the assets and the liabilities. The AA corporate bond curve, which is used to discount the liabilities reduced, increasing the liabilities by around £380m. In contrast the UK gilts curve increased, reducing the value of the assets by around £400m.

12 Contingent liabilities

Customer financing provisions cover guarantees provided for asset value and/or financing. Commitments on delivered aircraft in excess of the amounts provided are shown in the table below. These are reported on a discounted basis at the Group's borrowing rate to reflect better the time span over which these exposures could arise. These amounts do not represent values that are expected to crystallise. The commitments are denominated in US dollars. As the Group does not generally adopt cash flow hedge accounting for future foreign exchange transactions, this amount is reported, together with the sterling equivalent at the reporting date spot rate. The values of aircraft providing security are based on advice from a specialist aircraft appraiser. 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 2015		31 December 2014	
	£m	***$m***	£m	*$m*
Gross contingent liabilities	**367**	***578***	388	*605*
Value of security[1]	**(227)**	***(357)***	(245)	*(382)*
Indemnities	**(79)**	***(125)***	(84)	*(132)*
Net commitments	**61**	***96***	59	*91*
Net commitments with security reduced by 20% [2]	**97**	***152***	90	*140*
[1] Security includes unrestricted cash collateral of:	**36**	***56***	42	*66*

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

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

Contingent liabilities exist in respect of guarantees provided by the Group in the ordinary course of business for product delivery, performance and reliability. The Group has, in the normal course of business, entered into arrangements in respect of export finance, performance bonds, countertrade obligations and minor miscellaneous items. Various Group undertakings are parties to legal actions and claims which arise in the ordinary course of business, some of which are for substantial amounts. As a consequence of the insolvency of an insurer as previously reported, the Group is no longer fully insured against known and potential claims from employees who worked for certain of the Group's UK-based businesses for a period prior to the acquisition of those businesses by the Group. 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.

13 Related party transactions

Transactions with related parties are shown on page 147 of the 2014 Annual Report. Significant transactions in the current financial period are as follows:

	Half Year to 30 June 2015 £m	Half Year to 30 June 2014 £m	Year to 31 December 2014 £m
Sales of goods and services to joint ventures and associates	**859**	957	2,138
Purchases of goods and services from joint ventures and associates	**(1,120)**	(1,271)	(2,544)

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 51 and 53 of the annual report 2014, 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
Breakdown of external supply chain or internal facilities that could be caused by destruction of key facilities, natural disaster, regional conflict, financial insolvency of a critical supplier or scarcity of materials which would reduce the ability to meet customer commitments, win future business or achieve operational results.

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

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

MAJOR PROGRAMME DELIVERY
Failure to deliver a major programme on time, within budget to specification or technical performance falling significantly short of customer expectations, or not delivering the planned business benefits, would have potentially significant adverse financial and reputational consequences, including the risk of impairment of the carrying value of the Group's intangible assets and the impact of potential litigation.

COMPLIANCE
Non-compliance by the Group with legislation or other regulatory requirements in the 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 or export credit financing, any of which could have a material adverse effect.

MARKET SHOCK
The Group is exposed to a number of market risks, some of which are of a macro-economic nature. For example, oil price or foreign currency exchange rates, and some which are more specific to the Group, such as liquidity and credit risks, reduction in air travel or disruption to other customer operations. Significant extraneous market events could also materially damage the Group's competitiveness and/or creditworthiness. This would affect operational results or the outcomes of financial transactions.

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

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. There have been no significant changes to the basis described on page 164 of the annual report 2014. For this reason they continue to adopt the going concern basis in preparing the consolidated financial statements.

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 4 January 2016, 92.7 C Shares, with a total nominal value of 9.27p, will be allotted for each ordinary share to those shareholders on the register on 23 October 2015. The final day of trading with entitlement to C Shares is 22 October 2015. Shareholders wishing to redeem their C Shares, or participate in the CRIP, must lodge instructions with our Registrar to arrive no later than 5.00 pm on 1 December 2015. The payment of C Shares redemption monies will be made on 6 January 2016.

Statement of directors' responsibilities

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

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

The directors of Rolls-Royce Holdings plc at 12 February 2015 are listed in its annual report 2014 on pages 54 and 55. Since that date, the following changes have taken place:

- John Rishton retired as Chief Executive on 2 July 2015 and was succeeded by Warren East;
- James Guyette retired as an executive director and John Neill retired as a non-executive director at the conclusion of the AGM on 8 May 2015;
- Irene Dorner was appointed as a non-executive director on 27 July 2015.

By order of the Board

Warren East
Chief Executive
29 July 2015

David Smith
Chief Financial Officer
29 July 2015

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 2015 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 European Union ("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 2015 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

Jimmy Daboo
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
London E14 5GL
29 July 2015