3 August 2023

ROLLS-ROYCE HOLDINGS PLC – 2023 Half Year Results

Improved financial results and upgraded guidance helped by early successes on transformation

- **Significantly improved first half results**: higher underlying operating profit of £673m and free cash flow of £356m reflects continued end-market growth and our focus on commercial optimisation and cost efficiencies across the Group
- **Full year guidance raised**: on 26 July we upgraded 2023 guidance for underlying operating profit to £1.2bn-£1.4bn and free cash flow to £0.9bn-£1.0bn; transformation efforts are accelerating our financial delivery
- **Margin improvement led by Civil and Defence**: driven by higher volumes, commercial improvements, and cost efficiencies; Power Systems margins were lower, but are expected to improve in the second half due to our pricing actions
- **Accelerated financial delivery driven by transformation**: our multi-year programme has started well with strong initial results
- **Delivering in an uncertain environment**: an increased focus on costs and productivity has helped to offset the impact of inflation and supply chain pressures

Tufan Erginbilgic, CEO, said: "Our multi-year transformation programme has started well with progress already evident in our strong initial results and increased full year guidance for 2023. There is much more to do to deliver better performance and to transform Rolls-Royce into a high performing, competitive, resilient, and growing business. We will share the outcome of our strategy review along with medium-term goals for the Group in November.

Our people are committed, passionate and full of energy. Despite a challenging external environment, notably supply chain constraints, we are starting to see the early impact of our transformation in all our businesses. Better profit and cash generation reflect greater productivity, efficiency, and improved commercial outcomes. We have tightly managed our cost base to offset inflationary cost pressures.

We have a strong portfolio of products and technologies in growing end markets and have secured key contract wins that will create future value and profitable growth. Our continued transformation will grow our business and allow us to play a stronger role in the energy transition."

Half Year 2023 Group continuing operations

£ million	Underlying 2023 H1	Underlying 2022 H1	Statutory 2023 H1	Statutory 2022 H1
Revenue	**6,950**	5,308	**7,523**	5,600
Operating profit	**673**	125	**797**	223
Operating margin (%)	**9.7%**	2.4%	**10.6%**	4.0%
Profit/(loss) before taxation	**524**	(111)	**1,419**	(1,754)
Basic earnings/(loss) per share (pence)	**4.90**	(2.24)	**14.70**	(19.29)
Free cash flow	**356**	(68)		
Net cash flow from operating activities [1]			**1,135**	597

[1] 2022 includes discontinued operations

	30 Jun 2023	31 Dec 2022
Net debt	**(2,845)**	(3,251)

A reconciliation of alternative performance measures to their statutory equivalent is provided on pages 42 to 44

2023 Half Year performance summary

- **Higher profitability led by Civil Aerospace**: The Group's underlying operating margin was 9.7% versus 2.4% in the prior period. This was driven by continued revenue growth coupled with early transformation benefits, notably commercial optimisation and cost efficiencies across the Group. Civil Aerospace's operating margin was 12.4% versus (3.4)% in the prior period due to higher aftermarket profitability and increased large spare engine sales, coupled with cost efficiencies and our commercial optimisation actions. The 13.6% Defence operating margin reflected strong revenue growth and cost efficiencies. Power Systems' margin of 7.0% was lower than the prior period but we expect better performance in the second half of the year because of pricing actions, cost efficiencies and seasonally higher volumes. Losses increased in New Markets as expected due to planned growth activities.
- **Stronger cash flow**: Free cash flow from continuing operations of £356m compared to an outflow of £(68)m in the prior period. Underlying operating profit improved from £125m to £673m in the period. A long-term service agreement (LTSA) balance change of £727m (2022 H1: £433m) reflected large EFH (engine flying hour) growth to 83% of 2019 levels and our commercial optimisation actions, notably increased pricing and the anticipated collection of overdue debts that had previously been provided against. A portion of our LTSA receipts are payable to our RRSPs (risk and revenue sharing partners), which reduces the amount of cash retained. Of the total LTSA balance growth of £727m, c.£0.5bn benefited our cash flows in the period. Working capital was an outflow of £(576)m in the first half of the year (2022 H1: £(269)m), mainly driven by a £(0.6)bn outflow from higher inventories as a result of supply chain challenges and to satisfy volume growth in the second half of 2023. Net debt improved to £2.8bn (2022 FY £3.3bn). We remain committed to returning to an investment grade credit rating.
- **Accelerated financial delivery**: Our financial performance reflects improved end-markets helped by the early benefits of transformation and rigorous performance management. We have tightly managed our cost base which has helped to offset inflationary cost pressures. Our actions on pricing across the Group have already started to deliver results with more expected in the second half of the year. Each business has been building and delivering plans to address performance and deliver a step-change in operational and financial performance.
- **Capital Markets Day**: We will communicate the findings of our strategic review and set medium-term financial targets at a Capital Markets Day on 28 November in London. Further details will be provided in due course.

Outlook and 2023 Guidance

First half performance and the progress of our transformation programme give us confidence in delivering higher profit and cash flows in 2023.

Underlying 2023 financial guidance	As set on 26 July 2023	As set on 23 February 2023
Operating profit	£1.2bn-£1.4bn	£0.8bn-£1.0bn
Free cash flow	£0.9bn-£1.0bn	£0.6bn-£0.8bn

Operating profit guidance of £1.2bn-£1.4bn assumes £200m-£250m of targeted contract improvements.

Free cash flow guidance of £0.9bn-£1.0bn comprises higher underlying operating profit and assumes £1.0bn-£1.2bn growth in the Civil LTSA balance (2022 FY: £792m). Of the total LTSA creditor growth, £800m-£900m is expected to benefit our cash flows in the period. We continue to anticipate a year-on-year headwind of c.£200m associated with legacy Boeing original equipment (OE) concessions, an increased c.£150m adverse impact due to fires at two suppliers' premises, and a new expected outflow of c.£100m in respect of the outcome of a legal judgment.

Underlying financial performance by business

£ million	Underlying revenue	Organic Change [1]	Underlying operating profit/(loss)	Organic change [1]	Underlying operating margin	Margin change
Civil Aerospace	**3,257**	38%	**405**	479	12.4%	15.8pt
Defence	**1,913**	15%	**261**	65	13.6%	1.9pt
Power Systems	**1,774**	24%	**125**	–	7.0%	(1.7)pt
New Markets	**1**	nm	**(78)**	(29)	nm	nm
Other businesses	**5**	nm	**(5)**	24	nm	nm
Corporate and Inter-segment	**–**	nm	**(35)**	(8)	nm	nm
Total (continuing operations)	**6,950**	28%	**673**	531	9.7%	7.3pt

[1] *Organic change is the measure of change at constant translational currency applying full year 2022 average rates to 2022 and 2023. All underlying income statement commentary is provided on an organic basis unless otherwise stated*

All results are shown for Group continuing operations, on an underlying basis, excluding discontinued operations (ITP Aero). For more details, see note 2 of the Condensed Consolidated Interim Financial Statements (page 22).

nm is defined as not meaningful.

Trading cash flow

£ million	2023 H1	2022 H1
Civil Aerospace	**401**	63
Defence	**76**	89
Power Systems	**22**	(76)
New Markets	**(42)**	(30)
Other businesses	**8**	(1)
Corporate and Inter-segment	**(34)**	(24)
Total trading cash flow (continuing operations)	**431**	21
Underlying operating profit charge exceeded by contributions to defined benefit schemes	**(16)**	(1)
Taxation	**(59)**	(88)
Total free cash flow (continuing operations)	**356**	(68)

Civil Aerospace

2023 H1 key Civil Aerospace operational metrics:	Large engine	Business aviation/ Regional	Total	Change
OE deliveries	115	73	188	39
LTSA engine flying hours (millions)	6.2	1.5	7.7	1.6
Total LTSA shop visits	394	197	591	114
…of which major shop visits	144	187	331	68

The significantly improved Civil Aerospace margin of 12.4% (2022 H1: (3.4)%) reflects continued large engine market recovery and growth in business aviation, coupled with the early benefits of transformation, notably cost efficiencies and commercial optimisation.

Large engine flying hours were up 36% versus the prior period to 6.2m, at 83% of 2019 levels, as global travel benefited from the lifting of travel restrictions in China. We continue to expect large engine flying hours of 80%-90% of 2019 levels for the full year. Total engine flying hours were 7.7m in the period (2022 H1: 6.1m).

We recorded 240 large engine orders in the first half of 2023 (2022 H1: 96), including a record order from Air India for 68 Trent XWB-97 engines to power its A350-1000 aircraft, options for 20 more, and orders for 12 Trent XWB-84 engines. Our large engine order book at 30 June 2023 was 1,405 engines up from 1,282 at 31 December 2022. This is the first time that the large engine order book has grown since 2018. Our guidance of 400-500 total engine deliveries for full year 2023 remains unchanged.

OE deliveries rose by 26%, with 73 business aviation deliveries (2022 H1: 71) and 115 total large engine deliveries (2022 H1: 78). Large engine deliveries included 18 spare large engines (2022 H1: 8). Total large spare engine deliveries in 2023 are expected to be broadly flat year on year (2022 FY: 44).

Total LTSA shop visits were 591 versus 477 in 2022 H1, roughly half of the total of 1,200-1,300 shop visits expected for the full year. There were 144 large engine major shop visits in the first half of 2023 versus 113 in 2022 H1, with a higher profitability per shop visit compared with the prior period.

Revenue of £3.3bn was up 38%. This comprised £1.1bn OE revenue, up 58% driven by higher large engine deliveries, and £2.2bn Services revenue, up 30%, due to increased large engine shop visits and higher time & materials revenues. Contractual improvements drove £23m of LTSA catch-ups (2022 H1: £241m).

Operating profit of £405m (12.4% margin) compared to a loss of £(79m) in the prior period. The increase in operating profit was driven by higher aftermarket activity including increased large engine LTSA shop visit volumes and profitability, a greater contribution from large engine time & materials and from business aviation. Operating profit also benefited from higher spare engines sales in the period, coupled with cost efficiencies. Our actions to improve the profitability of LTSA margins resulted in contractual margin improvements in the period, with an onerous provision credit of £35m (2022 H1: £51m) and £70m of positive LTSA catch-ups (2022 H1: £219m). Civil Aerospace operating profit in the second half of 2023 is expected to be broadly similar to the first half.

Trading cash flow was £401m compared with £63m in the prior period. Operating profit improved by £479m. The LTSA balance change of £727m (2022 H1: £433m) was driven by EFH growth and our commercial optimisation actions, notably an improved average rate per flying hour driven by escalation and customer pricing negotiations and the anticipated collection of overdue debts that had previously been provided for. A portion of our LTSA receipts are payable to our RRSPs, which reduces the amount of cash retained. Of the total LTSA balance growth of £727m, c.£0.5bn benefited our cash flows in the period. LTSA EFH receipts were £2,337m versus £1,648m in the prior period. Working capital outflows increased versus the prior period, due to rising inventories as a consequence of supply chain challenges and the second half weighting of deliveries and shop visits in the year. We expect inventories to fall in the second half of the year.

Defence

Operating profit grew by 33% in Defence, our most resilient business, driven by strong revenue growth and higher margins. Strong revenue growth in the period reflected increased underlying demand and a more even delivery profile between the first half and second half of the year than in 2022. Higher margins were driven by pricing actions, a more favourable product mix and cost efficiencies.

Order intake was £2.7bn in the first half, with a book-to-bill of 1.4x. This included major contract renewals in both Combat and Transport as we focused on commercial optimisation to support profitable growth. Our order backlog at the end of the period was £8.9bn, up from £8.5bn at the start of the year.

As the single-source provider of the power and propulsion for the UK's nuclear powered submarines, we have been chosen to provide the reactors for Australia's nuclear powered submarines from the early 2040s, as part of the AUKUS trilateral agreement between Australia, the UK and the US. Customer funded investment to expand our submarines site in Derby has already begun, helping to grow revenue and profit.

The Bell V-280 Valor, powered by our AE1107F engines, was selected by the US Army for the Future Long Range Assault Aircraft programme in 2022, and work has begun this year. Following successful completion of the initial phase on the Future Combat Air System Acquisition Programme we secured a contract extension, which included funding for Global Combat Air Programme (GCAP) activities. Together with the UK Government and industry partners we released a series of technical updates about the first flying combat air demonstrator in a generation. This included our successful intake compatibility testing at Bristol with an EJ200 engine. These programmes, combined with robust defence budget forecasts in most western geographies underpin the long-term outlook for the business.

Revenue increased to £1.9bn, up 15% reflecting a more first half weighted delivery profile than in 2022. We anticipate modest revenue growth for the full year 2023. OE revenue was up 17% on the prior period helped by the increase from funded development programmes in Combat and Submarines. Services revenue increased 13%, also driven by increased activity in Submarines and higher delivery in Combat, Transport and Naval.

Operating profit was £261m (13.6% margin) versus £189m (11.7% margin) in the prior period. Higher operating profit was a result of higher revenues, pricing actions, a favourable mix due to the timing of high margin spare parts in the first half of the year and cost efficiencies.

Trading cash flow of £76m was 15% lower than in the first half of last year, with higher operating profit offset by the absence of an advance payment of £63m received in the comparative prior period. We expect stronger trading cash flow in the second half of 2023 as a result of key milestone payments on newer programmes and actions to reduce inventory despite the ongoing supply chain challenges.

Power Systems

Power Systems operating profit was broadly flat versus last year but at a lower operating margin. We anticipate a higher year on year margin for the full year, with an increase in the second half due to the impact of pricing actions, cost efficiencies and seasonally higher volumes.

Order intake in the Power Systems business was £1.9bn, 14% lower than the prior period. Book to bill was 1.1x, with a record level of order cover for the remainder of 2023 and 32% covered for 2024. Key awards in the period included a second contract to supply *mtu* generator packs for the US Navy frigate program, follow-up orders for rail power packs from Hitachi and marine engines under a frame agreement with yacht builder Ferretti.

Revenue was £1.8bn, up 24%. OE revenue grew by 33%, driven by strong order execution for stationary PowerGen equipment and continued strong sales of mobile power solutions in the marine and mining segments. Services revenues were up 10% reflecting increased end-market activity.

Operating profit was £125m with a 7.0% margin down 1.7% points on the prior period. The decrease in margin reflected the negative impacts of product mix effects and higher costs partly offset by the benefit of pricing increases.

Trading cash flow was £22m, a conversion ratio of 18% versus (64)% last year. The improvement in trading cash flow reflected reduced working capital outflows versus the prior period. An increase in inventories during the period reflected strong volume growth in the first half of the year and in advance of seasonally higher revenues in the second half. We expect improved cash conversion in the second half as a result of higher revenues and operating profit and our working capital initiatives.

New Markets

In Electrical, testing began on a new small gas turbine developed to power hybrid-electrical flight as part of a turbogenerator system for advanced air mobility.

Rolls-Royce SMR is progressing well through the regulatory process in the UK, entering stage 2 of the Generic Design Assessment (GDA) process. First power is still planned in the early 2030s, which will be dependent on securing orders and the outcome of the final investment decision by the UK Government.

Planned cost increases in both Electrical and Small Modular Reactors (SMR) to meet development milestones resulted in an increased operating loss of £(78)m versus £(48)m in the prior period.

Trading cash flow was an outflow of £(42)m versus an outflow of £(30)m in the prior period, with SMR costs largely covered by third party funding.

Statistical and underlying Group financial performance from continuing operations

£ million	2023 H1 Statutory	2023 H1 Impact of hedge book [1]	2023 H1 Impact of acquisition accounting	2023 H1 Impact of non-underlying items	2023 H1 Underlying	2022 H1 Underlying
Revenue	**7,523**	**(573)**	**–**	**–**	**6,950**	5,308
Gross profit	**1,657**	**(162)**	**25**	**(5)**	**1,515**	942
Operating profit	**797**	**(165)**	**24**	**17**	**673**	125
Gain arising on disposal of businesses	**1**	**–**	**–**	**(1)**	**–**	–
Profit before financing and taxation	**798**	**(165)**	**24**	**16**	**673**	125
Net financing income/(costs)	**621**	**(817)**	**–**	**47**	**(149)**	(236)
Profit/(loss) before taxation	**1,419**	**(982)**	**24**	**63**	**524**	(111)
Taxation	**(196)**	**140**	**(6)**	**(58)**	**(120)**	(77)
Profit/(loss) for the period from continuing operations	**1,223**	**(842)**	**18**	**5**	**404**	(188)
Basic earnings/(loss) per share (pence)	**14.70**				**4.90**	(2.24)

[1] *Reflecting the impact of measuring revenue and costs at the average exchange rate during the period and the valuation of assets and liabilities using the period end exchange rate rather than the rate achieved on settled foreign exchange contracts in the period or the rate expected to be achieved by the use of the hedge book*

- **Revenue**: Underlying revenue of £7.0bn was up 28%, largely driven by increases across Civil Aerospace, Defence and Power Systems. Statutory revenue of £7.5bn was 34% higher compared with the prior period. The difference between statutory and underlying revenue is driven by statutory revenue being measured at average prevailing exchange rates (2023 H1: GBP:USD 1.23; 2022 H1: GBP:USD 1.31) and underlying revenue being measured at the hedge book achieved rate during the year (2023 H1: GBP:USD 1.50; 2022 H1: GBP:USD 1.50).
- **Operating profit**: Underlying operating profit was £673m (9.7% margin) versus £125m (2.4% margin) in the prior period. The growth was led by Civil Aerospace and Defence, partly offset by increased investment in New Markets. Statutory operating profit was £797m, higher than the £673m underlying operating profit largely due to the £165m negative impact from currency hedges in the underlying results. Net charges of £17m were excluded from the underlying results as these related to non-underlying items comprising: reversals of exceptional contract loss provisions of £21m, £(35)m of exceptional restructuring and transformation charges, including £(31)m related to the multi-year transformation programme launched in the period, and £(3)m of other items.
- **Profit before taxation**: Underlying profit before tax of £524m included £(149)m net financing costs primarily related to net interest payable. Statutory profit before tax of £1,419m included £415m net fair value gains on derivative contracts, £(117)m net interest payable and a net foreign exchange gain of £396m.
- **Taxation**: Underlying tax charge of £(120)m (2022 H1: £(77)m) reflects an overall tax charge on profits of Group companies and a tax credit of £8m relating to the re-recognition of some of the deferred tax asset on UK tax losses. These are also reflected in the statutory tax charge of £(196)m (2022 H1: tax credit £143m) together with additional tax credits on the re-recognition of £44m UK deferred tax assets relating to UK tax losses. In addition, included in the £(196)m tax charge was £(140)m related to unrealised foreign exchange derivatives which included the re-recognition of £57m, and £20m tax credit related to other non-underlying items.

Free cash flow

£ million	2023 H1 Cash flow	Impact of hedge book	Impact of acquisition accounting	Impact of other non-underlying items	Funds flow	2022 H1 Funds flow
Operating profit	**797**	**(165)**	**24**	**17**	**673**	125
Operating profit from discontinued operations	**–**	**–**	**–**	**–**	**–**	68
Depreciation, amortisation and impairment	**513**	**–**	**(24)**	**–**	**489**	455
Movement in provisions	**(142)**	**26**	**–**	**21**	**(95)**	(116)
Movement in Civil LTSA balance	**857**	**(130)**	**–**	**–**	**727**	433
Other operating cash flows [1]	**(4)**	**(7)**	**–**	**(3)**	**(14)**	(14)
Operating cash flow before working capital and income tax	**2,021**	**(276)**	**–**	**35**	**1,780**	951
Working capital (excluding Civil LTSA balance) [2]	**(311)**	**(256)**	**–**	**(9)**	**(576)**	(269)
Cash flows on other financial assets and liabilities held for operating purposes	**(516)**	**522**	**–**	**–**	**6**	35
Income tax	**(59)**	**–**	**–**	**–**	**(59)**	(88)
Cash from operating activities	**1,135**	**(10)**	**–**	**26**	**1,151**	629
Capital element of lease payments	**(167)**	**10**	**–**	**–**	**(157)**	(85)
Capital expenditure	**(287)**	**–**	**–**	**2**	**(285)**	(167)
Investments	**17**	**–**	**–**	**–**	**17**	6
Interest paid	**(159)**	**–**	**–**	**–**	**(159)**	(172)
Settlement of excess derivatives	**(210)**	**–**	**–**	**–**	**(210)**	(265)
Other	**27**	**–**	**–**	**(28)**	**(1)**	(23)
Free cash flow	**356**	**–**	**–**	**–**	**356**	(77)
- of which is continuing operations	***356***				***356***	*(68)*

[1] Other operating cash flows includes profit/(loss) on disposal of property, plant and equipment, share of results and dividends received from joint ventures and associates, interest received, flows relating to our defined benefit post-retirement schemes, and share-based payments

[2] Working capital includes inventory, trade and other receivables and payables, and contract assets and liabilities (excluding Civil Aerospace LTSA balances)

Free cash flow in the period was £356m, an improvement of £424m compared with the prior period driven by:

Operating cash flow before working capital and income tax of £1.8bn, £0.8bn higher than the prior period. The improvement at the Group level was principally due to a stronger trading performance and higher cash receipts as a result of EFH receipts in Civil Aerospace exceeding revenue recognised. The movement in provisions of £(95)m largely related to utilisation of the Trent 1000 provision and contract loss provisions.

Working capital £(576)m, compared to £(269)m in the prior period. Inventory increased by £(0.6)bn as a result of the build-up of inventory in line with requirements to meet demand in Civil Aerospace and Power Systems, along with continued supply chain disruption. There was a net £(0.3)bn outflow from receivables and payables, which reflected increases of receivables of £(0.4)bn due to volumes partly offset by increases in payables that included a £0.2bn cash flow benefit from timing of net payments to joint ventures. In addition, there was a £0.3bn inflow from advance payment receipts during the period.

Income tax of £(59)m, net cash tax payments for the first half of 2023 were lower than the prior period (£(88)m) due to timing. Tax payments in the second half of 2023 will be higher, with full year payments expected to be broadly in line with the prior year.

The capital element of lease payments was £(157)m, £(72)m higher than the prior period as a result of timing of lease payments.

Capital expenditure of £(285)m, mainly £(175)m property, plant and equipment additions and £(123)m intangibles additions. The combined additions were higher than last year as a result of investment in site improvements across the Group.

Interest paid of £(159)m, including lease interest payments, has decreased by £13m as a result of the settlement of the UKEF £2bn loan facility in September 2022 slightly offset by higher interest on gross overdrafts.

Settlement of excess derivative contracts of £(210)m, down from £(265)m in the first half of 2022. An additional cash outflow of £179m will be incurred in the second half of 2023, £146m will be incurred in 2024 and £175m expected over the 2025-2026 period.

Balance Sheet

£ million	30 Jun 2023	31 Dec 2022	Change
Intangible assets	**4,019**	4,098	(79)
Property, plant and equipment	**3,807**	3,936	(129)
Right of use assets	**965**	1,061	(96)
Joint ventures and associates	**485**	422	63
Contract assets and liabilities	**(11,776)**	(10,681)	(1,095)
Working capital [1]	**3,112**	2,297	815
Provisions	**(2,172)**	(2,333)	161
Net debt [2]	**(2,845)**	(3,251)	406
Net financial assets and liabilities [2]	**(2,512)**	(3,649)	1,137
Net post-retirement scheme deficits	**(411)**	(420)	9
Taxation	**2,326**	2,468	(142)
Other net assets and liabilities	**36**	36	–
Net liabilities	**(4,966)**	(6,016)	1,050
Other items			
USD hedge book (US$bn)	**16**	19	
Civil LTSA asset	**684**	885	
Civil LTSA liability	**(8,913)**	(8,257)	
Civil net LTSA liability	**(8,229)**	(7,372)	

[1] *Net working capital includes inventory, trade receivables and payables and similar assets and liabilities*

[2] *Net debt includes £(49)m (2022 FY: £86m) of the fair value of derivatives included in fair value hedges and the element of fair value relating to exchange differences on the underlying principal of derivatives in cash flow hedges*

Key drivers of balance sheet movements were:

Contract assets and liabilities: The £(1.1)bn movement in the net liability balance was mainly driven by an increase in invoiced LTSA receipts in Civil Aerospace exceeding revenue recognised in the year and increase in deposits in both Civil Aerospace and Defence.

Working capital: The £3.1bn net working capital position was £0.8bn higher than prior year, with the movement comprising £0.4bn increase in inventory, mostly in Civil Aerospace due to supply chain disruption and Power Systems to support sales, and £0.4bn increase in net receivables/payables due to higher trading volumes and the timing of payments. The difference between the movements in working capital on the statutory balance sheet compared to those described earlier in relation to the funds flow statement largely relate to the impact of foreign exchange and other non-cash movements.

Provisions: The £0.2bn reduction related to contract loss provisions and reflected changes in contract terms, pricing and expected future costs.

Net debt: Decreased from £(3.3)bn to £(2.8)bn driven by free cash inflow of £0.4bn. Our liquidity position is strong with £7.4bn of liquidity including cash and cash equivalents of £2.9bn and undrawn facilities of £4.5bn. Net debt included £(1.7)bn of lease liabilities (2022 FY: £(1.8)bn).

Net financial assets and liabilities: A £1.1bn reduction in the net financial liabilities driven by contracts maturing in the year and a change in fair value of derivative contracts largely due to the impact of the movement in GBP:USD exchange rates.

Taxation: The net tax asset reduced by £0.1bn. The decrease primarily reflects the movement on foreign exchange derivative contracts, resulting in a net reduction in the associated deferred tax asset of £163m. This is partially offset by an increase in other UK deferred tax assets including the re-recognition of £52m relating to UK tax losses.

Results meeting and conference call

Our results presentation will be held at UBS and webcast live at 09:00 (BST) today. Downloadable materials will also be available on the Investors section of the Rolls-Royce website. www.rolls-royce.com
To register for the webcast, including Q&A participation, please visit the following link: https://app.webinar.net/8m6Mp2Vpzya
Please use this same link to access the webcast replay which will be made available shortly after the event concludes.
Photographs and broadcast-standard video are available at www.rolls-royce.com

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This results announcement contains forward-looking statements. Any statements that express forecasts, expectations and projections are not guarantees of future performance and will not be updated. By their nature, these statements involve risk and uncertainty, and a number of factors could cause material differences to the actual results or developments. This report is intended to provide information to shareholders, is not designed to be relied upon by any other party, or for any other purpose and Rolls-Royce Holdings plc and its directors accept no liability to any other person other than under English law.

LSE: RR.; ADR: RYCEY; LEI: 213800EC7997ZBLZJH69

Condensed Consolidated Interim Financial Statements

Condensed consolidated income statement

For the half-year ended 30 June 2023

	Notes	**Half-year to 30 June 2023 £m**	Half-year to 30 June 2022 £m
Continuing operations			
Revenue	2	**7,523**	5,600
Cost of sales [1]		**(5,866)**	(4,538)
Gross profit	2	**1,657**	1,062
Commercial and administrative costs	2	**(560)**	(514)
Research and development costs	2, 3	**(389)**	(373)
Share of results of joint ventures and associates		**89**	48
Operating profit		**797**	223
Gain arising on disposal of businesses	19	**1**	77
Profit before financing and taxation		**798**	300
Financing income	4	**934**	215
Financing costs	4	**(313)**	(2,269)
Net financing income/(costs) [2]		**621**	(2,054)
Profit/(loss) before taxation		**1,419**	(1,754)
Taxation	5	**(196)**	143
Profit/(loss) for the period from continuing operations		**1,223**	(1,611)
Discontinued operations			
Profit for the period from ordinary activities		**–**	60
Costs of disposal of discontinued operations prior to disposal		**–**	(4)
Profit for the period from discontinued operations	19	**–**	56
Profit/(loss) for the period		**1,223**	(1,555)
Attributable to:			
Ordinary shareholders		**1,229**	(1,554)
Non-controlling interests (NCI)		**(6)**	(1)
Profit/(loss) for the period		**1,223**	(1,555)
Other comprehensive (expense)/income (OCI)		**(226)**	610
Total comprehensive income/(expense) for the period		**997**	(945)
Earnings/(loss) per ordinary share attributable to ordinary shareholders:	6		
From continuing operations:			
Basic		**14.70p**	(19.29)p
Diluted		**14.67p**	(19.29)p
From continuing and discontinued operations:			
Basic		**14.70p**	(18.62)p
Diluted		**14.67p**	(18.62)p

[1] Cost of sales includes a net release for expected credit losses (ECLs) of £19m (30 June 2022: charge of £28m). Further details can be found in note 10

[2] Included within net financing are fair value changes on derivative contracts. Further details can be found in notes 2, 4 and 14

Condensed consolidated statement of comprehensive income

For the half-year ended 30 June 2023

	Notes	**Half-year to 30 June 2023 £m**	Half-year to 30 June 2022 £m
Profit/(loss) for the period		**1,223**	(1,555)
Other comprehensive (expense)/income			
Actuarial movements in post-retirement schemes	16	**(35)**	329
Revaluation to fair value of other investments		**1**	(5)
Share of OCI of joint ventures and associates		**(1)**	1
Related tax movements		**11**	(85)
Items that will not be reclassified to profit or loss		**(24)**	240
Foreign exchange translation differences on foreign operations		**(227)**	375
Hedging reserves reclassified to income statement on disposal of businesses		**–**	62
Movement on fair values (charged)/credited to cash flow hedge reserve		**(31)**	8
Reclassified to income statement from cash flow hedge reserve		**64**	(88)
Costs of hedging		**–**	4
Related tax movements		**(8)**	9
Items that will be reclassified to profit or loss		**(202)**	370
Total other comprehensive (expense)/income		**(226)**	610
Total comprehensive income/(expense) for the period		**997**	(945)
Attributable to:			
Ordinary shareholders		**1,003**	(944)
NCI		**(6)**	(1)
Total comprehensive income/(expense) for the period		**997**	(945)
Total comprehensive income/(expense) for the period attributable to ordinary shareholders arises from:			
Continuing operations		**1,003**	(1,001)
Discontinued operations		**–**	57
Total comprehensive income/(expense) for the period attributable to ordinary shareholders		**1,003**	(944)

Condensed consolidated balance sheet

At 30 June 2023

	Notes	30 June 2023 £m	31 December 2022 £m
ASSETS			
Intangible assets	7	**4,019**	4,098
Property, plant and equipment	8	**3,807**	3,936
Right-of-use assets	9	**965**	1,061
Investments – joint ventures and associates		**485**	422
Investments – other		**36**	36
Other financial assets	14	**414**	542
Deferred tax assets		**2,618**	2,731
Post-retirement scheme surpluses	16	**591**	613
Non-current assets		**12,935**	13,439
Inventories		**5,129**	4,708
Trade receivables and other assets	10	**7,378**	6,936
Contract assets	11	**1,333**	1,481
Taxation recoverable		**56**	127
Other financial assets	14	**50**	141
Short-term investments		**–**	11
Cash and cash equivalents		**2,861**	2,607
Current assets		**16,807**	16,011
TOTAL ASSETS		**29,742**	29,450
LIABILITIES			
Borrowings and lease liabilities	12	**(756)**	(358)
Other financial liabilities	14	**(660)**	(1,016)
Trade payables and other liabilities	13	**(7,493)**	(6,983)
Contract liabilities	11	**(5,104)**	(4,825)
Current tax liabilities		**(84)**	(104)
Provisions for liabilities and charges	15	**(651)**	(632)
Current liabilities		**(14,748)**	(13,918)
Borrowings and lease liabilities	12	**(4,901)**	(5,597)
Other financial liabilities	14	**(2,365)**	(3,230)
Trade payables and other liabilities	13	**(1,902)**	(2,364)
Contract liabilities	11	**(8,005)**	(7,337)
Deferred tax liabilities		**(264)**	(286)
Provisions for liabilities and charges	15	**(1,521)**	(1,701)
Post-retirement scheme deficits	16	**(1,002)**	(1,033)
Non-current liabilities		**(19,960)**	(21,548)
TOTAL LIABILITIES		**(34,708)**	(35,466)
NET LIABILITIES		**(4,966)**	(6,016)
EQUITY			
Called-up share capital		**1,684**	1,674
Share premium		**1,012**	1,012
Capital redemption reserve		**166**	166
Hedging reserves		**51**	26
Translation reserve		**634**	861
Accumulated losses		**(8,551)**	(9,789)
Equity attributable to ordinary shareholders		**(5,004)**	(6,050)
Non-controlling interest (NCI)		**38**	34
TOTAL EQUITY		**(4,966)**	(6,016)

Condensed consolidated cash flow statement

For the half-year ended 30 June 2023

	Notes	**Half-year to 30 June 2023 £m**	Half-year to 30 June 2022 £m
Reconciliation of cash flows from operating activities			
Operating profit from continuing operations		**797**	223
Operating profit from discontinued operations	19	**–**	68
Operating profit		**797**	291
(Profit)/loss on disposal of property, plant and equipment		**(1)**	16
Share of results of joint ventures and associates		**(89)**	(48)
Dividends received from joint ventures and associates		**16**	19
Amortisation and impairment of intangible assets	7	**139**	138
Depreciation and impairment of property, plant and equipment	8	**206**	203
Depreciation and impairment of right-of-use assets	9	**170**	127
Adjustment of amounts payable under residual value guarantees within lease liabilities [1]		**(2)**	(1)
Decrease in provisions		**(142)**	(94)
Increase in inventories		**(557)**	(692)
Movement in trade receivables/payables and other assets/liabilities		**(51)**	183
Movement in contract assets/liabilities		**1,154**	682
Cash flows on other financial assets and liabilities held for operating purposes [2]		**(516)**	(167)
Interest received		**60**	6
Net defined benefit post-retirement cost recognised in profit before financing	16	**25**	27
Cash funding of defined benefit post-retirement schemes	16	**(38)**	(29)
Share-based payments		**23**	24
Net cash inflow from operating activities before taxation		**1,194**	685
Taxation paid		**(59)**	(88)
Net cash inflow from operating activities		**1,135**	597
Cash flows from investing activities			
Movement in other investments		**1**	(5)
Additions of intangible assets	7	**(123)**	(94)
Disposals of intangible assets	7	**1**	5
Purchases of property, plant and equipment		**(177)**	(125)
Disposals of property, plant and equipment		**12**	25
Acquisition of businesses	19	**(12)**	–
Disposal of businesses	19	**3**	179
Movement in investments in joint ventures and associates		**(8)**	(14)
Movement in short-term investments		**11**	7
Net cash outflow from investing activities		**(292)**	(22)
Cash flows from financing activities			
Repayment of loans		**(1)**	(23)
Proceeds from increase in loans		**1**	1
Capital element of lease payments		**(167)**	(95)
Net cash flow from decrease in borrowings and lease liabilities		**(167)**	(117)
Interest paid		**(94)**	(120)
Interest element of lease payments		**(42)**	(29)
Fees paid on undrawn facilities		**(23)**	(23)
Cash flows on settlement of excess derivative contracts [3]		**(210)**	(265)
Transactions with NCI [4]		**24**	25
Redemption of C Shares		**–**	(1)
Net cash outflow from financing activities		**(512)**	(530)
Change in cash and cash equivalents		**331**	45
Cash and cash equivalents at 1 January		**2,605**	2,639
Exchange (losses)/gains on cash and cash equivalents		**(81)**	98
Cash and cash equivalents at 30 June [5]		**2,855**	2,782

[1] Where the cost of meeting residual value guarantees is less than that previously estimated, as costs have been mitigated or liabilities waived by the lessor, the lease liability has been remeasured. To the extent that the value of this remeasurement exceeds the value of the right-of-use asset, the reduction in the lease liability is credited to cost of sales

[2] Predominately relates to cash settled on derivative contracts held for operating purposes

[3] In 2020, the Group experienced a significant decline in its medium-term outlook and consequently a significant deterioration to its forecast net USD cash inflows. The Group took action to reduce the size of the USD hedge book by $11.8bn across 2020-2026 to reflect the fact that at that time, future operating cash flows were no longer forecast to materialise. To achieve the necessary reduction in the hedge book, a separate and distinct set of foreign exchange derivative instruments were entered into to buy $11.8bn. The associated cash outflow of these transactions is £1,674m and occurs over the period 2020-2026. This action had the impact of fixing the fair value of the over-hedged position and provided certainty over when the cash flows to settle the position would occur in future periods. The Directors considered the economic nature of the activities and concluded that these cash flows were most appropriately classified as a financing activity. During the period, the Group incurred a cash outflow of £210m (30 June 2022: £265m) and estimates that future cash outflows of £179m will be incurred in the second half of 2023, £146m will be incurred in 2024 and £175m spread over 2025-2026

[4] Relates to NCI investment received in the year, in respect of Rolls-Royce SMR Limited

[5] The Group considers overdrafts (repayable on demand) and cash held for sale to be an integral part of its cash management activities and these are included in cash and cash equivalents for the purposes of the cash flow statement

Condensed consolidated cash flow statement continued

For the half-year ended 30 June 2023

In deriving the condensed consolidated cash flow statement, movements in balance sheet line items have been adjusted for non-cash items. The cash flow in the period includes the sale of goods and services to joint ventures and associates – see note 18.

	Half-year to 30 June 2023 £m	Half-year to 30 June 2022 £m
Reconciliation of movements in cash and cash equivalents to movements in net debt		
Change in cash and cash equivalents	**331**	45
Cash flow from decrease in borrowings and lease liabilities	**167**	117
Cash flow from decrease in short-term investments	**(11)**	(7)
Change in net debt resulting from cash flows	**487**	155
New leases and other non-cash adjustments on borrowings and lease liabilities	**(90)**	(67)
Exchange gains/(losses) on net debt	**66**	(162)
Fair value adjustments	**78**	24
Movement in net debt	**541**	(50)
Net debt at 1 January	**(3,337)**	(5,194)
Net debt at 30 June excluding the fair value of swaps	**(2,796)**	(5,244)
Fair value of swaps hedging fixed rate borrowings	**(49)**	102
Net debt at 30 June	**(2,845)**	(5,142)

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

	At 1 January £m	Funds flow £m	Exchange differences £m	Fair value adjustments £m	Reclassifi-cations £m	Other movements £m	At 30 June £m
2023							
Cash at bank and in hand	**847**	**(76)**	**(27)**	**–**	**–**	**–**	**744**
Money market funds	**34**	**701**	**–**	**–**	**–**	**–**	**735**
Short-term deposits	**1,726**	**(290)**	**(54)**	**–**	**–**	**–**	**1,382**
Cash and cash equivalents (per balance sheet)	**2,607**	**335**	**(81)**	**–**	**–**	**–**	**2,861**
Overdrafts	**(2)**	**(4)**	**–**	**–**	**–**	**–**	**(6)**
Cash and cash equivalents (per cash flow statement)	**2,605**	**331**	**(81)**	**–**	**–**	**–**	**2,855**
Short-term investments	**11**	**(11)**	**–**	**–**	**–**	**–**	**–**
Other current borrowings	**(1)**	**–**	**–**	**–**	**(462)**	**–**	**(463)**
Non-current borrowings	**(4,105)**	**–**	**63**	**78**	**462**	**(2)**	**(3,504)**
Lease liabilities	**(1,847)**	**167**	**84**	**–**	**–**	**(88)**	**(1,684)**
Financial liabilities	**(5,953)**	**167**	**147**	**78**	**–**	**(90)**	**(5,651)**
Net debt excluding fair value of swaps	**(3,337)**	**487**	**66**	**78**	**–**	**(90)**	**(2,796)**
Fair value of swaps hedging fixed rate borrowings [1]	**86**	**–**	**(63)**	**(72)**	**–**	**–**	**(49)**
Net debt	**(3,251)**	**487**	**3**	**6**	**–**	**(90)**	**(2,845)**
2022							
Cash at bank and in hand	795	182	29	–	–	–	1,006
Money market funds	49	174	–	–	–	–	223
Short-term deposits	1,777	(327)	68	–	–	–	1,518
Cash and cash equivalents (per balance sheet)	2,621	29	97	–	–	–	2,747
Cash and cash equivalents included within assets held for sale	25	11	1	–	–	–	37
Overdrafts	(7)	5	–	–	–	–	(2)
Cash and cash equivalents (per cash flow statement)	2,639	45	98	–	–	–	2,782
Short-term investments	8	(7)	–	–	–	–	1
Other current borrowings	(2)	1	–	–	–	–	(1)
Non-current borrowings	(6,023)	–	(98)	25	–	(23)	(6,119)
Borrowings included within liabilities held for sale	(59)	21	(1)	(1)	–	–	(40)
Lease liabilities	(1,744)	91	(157)	–	–	(44)	(1,854)
Lease liabilities included within liabilities held for sale	(13)	4	(4)	–	–	–	(13)
Financial liabilities	(7,841)	117	(260)	24	–	(67)	(8,027)
Net debt excluding fair value of swaps	(5,194)	155	(162)	24	–	(67)	(5,244)
Fair value of swaps hedging fixed rate borrowings [1]	37	–	98	(33)	–	–	102
Net debt	(5,157)	155	(64)	(9)	–	(67)	(5,142)

[1] Fair value of swaps hedging fixed rate borrowings reflects the impact of derivatives on repayments of the principal amount of debt. Net debt therefore includes the fair value of derivatives included in fair value hedges (30 June 2023: £(33)m, 31 December 2022: £38m) and the element of fair value relating to exchange differences on the underlying principal of derivatives in cash flow hedges (30 June 2023: £(16)m, 31 December 2022: £48m)

Condensed consolidated statement of changes in equity

For the half-year ended 30 June 2023

		Attributable to ordinary shareholders									
	Notes	Share capital	Share premium	Capital redemption reserve	Hedging reserves [1]	Merger reserve	Translation reserve	Accumulated losses [2]	Total	NCI	Total equity
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2023		**1,674**	**1,012**	**166**	**26**	**–**	**861**	**(9,789)**	**(6,050)**	**34**	**(6,016)**
Profit/(loss) for the period		**–**	**–**	**–**	**–**	**–**	**–**	**1,229**	**1,229**	**(6)**	**1,223**
Foreign exchange translation differences on foreign operations		**–**	**–**	**–**	**–**	**–**	**(227)**	**–**	**(227)**	**–**	**(227)**
Actuarial movements on post-retirement schemes	16	**–**	**–**	**–**	**–**	**–**	**–**	**(35)**	**(35)**	**–**	**(35)**
Fair value movement on cash flow hedges		**–**	**–**	**–**	**(31)**	**–**	**–**	**–**	**(31)**	**–**	**(31)**
Reclassified to income statement from cash flow hedge reserve		**–**	**–**	**–**	**64**	**–**	**–**	**–**	**64**	**–**	**64**
Revaluation to fair value of other investments		**–**	**–**	**–**	**–**	**–**	**–**	**1**	**1**	**–**	**1**
OCI of joint ventures and associates		**–**	**–**	**–**	**–**	**–**	**–**	**(1)**	**(1)**	**–**	**(1)**
Related tax movements		**–**	**–**	**–**	**(8)**	**–**	**–**	**11**	**3**	**–**	**3**
Total comprehensive income/(expense) for the period		**–**	**–**	**–**	**25**	**–**	**(227)**	**1,205**	**1,003**	**(6)**	**997**
Issue of ordinary shares		**10**	**–**	**–**	**–**	**–**	**–**	**–**	**10**	**–**	**10**
Shares issued to employee share trust		**–**	**–**	**–**	**–**	**–**	**–**	**(10)**	**(10)**	**–**	**(10)**
Share-based payments - direct to equity [3]		**–**	**–**	**–**	**–**	**–**	**–**	**23**	**23**	**–**	**23**
Transactions with NCI [4]		**–**	**–**	**–**	**–**	**–**	**–**	**17**	**17**	**10**	**27**
Related tax movements		**–**	**–**	**–**	**–**	**–**	**–**	**3**	**3**	**–**	**3**
Other changes in equity in the period		**10**	**–**	**–**	**–**	**–**	**–**	**33**	**43**	**10**	**53**
At 30 June 2023		**1,684**	**1,012**	**166**	**51**	**–**	**634**	**(8,551)**	**(5,004)**	**38**	**(4,966)**
At 1 January 2022		1,674	1,012	165	(45)	650	342	(9,189)	(5,391)	26	(5,365)
Loss for the period		–	–	–	–	–	–	(1,554)	(1,554)	(1)	(1,555)
Foreign exchange translation differences on foreign operations		–	–	–	–	–	375	–	375	–	375
Hedging reserves reclassified to income statement on disposal of businesses		–	–	–	62	–	–	–	62	–	62
Actuarial movements on post-retirement schemes	16	–	–	–	–	–	–	329	329	–	329
Fair value movement on cash flow hedges		–	–	–	8	–	–	–	8	–	8
Reclassified to income statement from cash flow hedge reserve		–	–	–	(88)	–	–	–	(88)	–	(88)
Costs of hedging		–	–	–	4	–	–	–	4	–	4
Revaluation to fair value of other investments		–	–	–	–	–	–	(5)	(5)	–	(5)
OCI of joint ventures and associates		–	–	–	–	–	–	1	1	–	1
Related tax movements		–	–	–	9	–	–	(85)	(76)	–	(76)
Total comprehensive expense for the period		–	–	–	(5)	–	375	(1,314)	(944)	(1)	(945)
Redemption of C Shares		–	–	1	–	–	–	(1)	–	–	–
Share-based payments - direct to equity [3]		–	–	–	–	–	–	24	24	–	24
Transactions with NCI [4]		–	–	–	–	–	–	20	20	5	25
Other changes in equity in the period		–	–	1	–	–	–	43	44	5	49
At 30 June 2022		1,674	1,012	166	(50)	650	717	(10,460)	(6,291)	30	(6,261)

1 Hedging reserves include the cash flow hedge reserve of £51m and the cost of hedging reserve of £nil (31 December 2022: £26m and £nil respectively)

2 At 30 June 2023, 54,338,132 ordinary shares with a net book value of £22m (30 June 2022: 16,297,976 ordinary shares with a net book value of £39m) were held for the purpose of share-based payment plans and included in accumulated losses. During the period:
- 6,349,000 ordinary shares with a net book value of £15m (30 June 2022: 13,332,079 ordinary shares with a net book value of £27m) vested in share-based payment plans;
- the Company issued 49,100,000 (30 June 2022: none) new ordinary shares to the Group's share trust for its employee share-based payment plans with a net book value of £10m (30 June 2022: £nil); and
- the Company acquired none (30 June 2022: none) of its ordinary shares via reinvestment of dividends received on its own shares and purchased 184,336 (30 June 2022: none) of its ordinary shares through purchases on the London Stock Exchange

3 Share-based payments – direct to equity is the share-based payment charge for the period less the actual cost of vesting excluding those vesting from own shares and cash received on share-based schemes vesting

4 Relates to NCI investment received in the period in respect of Rolls-Royce SMR Limited

Notes to the interim financial statements

1 Basis of preparation and accounting policies

Reporting entity

Rolls-Royce Holdings plc (the ‘Company’) is a public company limited by shares incorporated under the Companies Act 2006 and domiciled in the UK. These Condensed Consolidated Interim Financial Statements of the Company as at and for the six months to 30 June 2023 consist of the consolidation of the financial statements of the Company and its subsidiaries (together referred to as the ‘Group’) and include the Group’s interest in jointly controlled and associated entities.

The Consolidated Financial Statements of the Group as at and for the year ended 31 December 2022 (2022 Annual Report) are available upon request from the Company Secretary, Rolls-Royce Holdings plc, Kings Place, 90 York Way, London, N1 9FX.

The Board of Directors approved the Condensed Consolidated Interim Financial Statements on 3 August 2023.

Statement of compliance

These Condensed Consolidated Interim Financial Statements have been prepared on the basis of the policies set out in the 2022 Annual Report, except for changes below, and in accordance with UK adopted IAS 34 *Interim Financial Reporting* and the Disclosure Guidance and Transparency Rules sourcebook of the UK’s Financial Conduct Authority. They do not include all of the information required for full annual statements and should be read in conjunction with the 2022 Annual Report.

The interim figures up to 30 June 2023 and 2022 are unaudited. The 2022 Financial Statements, which were prepared in accordance with UK adopted International Accounting Standards (IAS) and interpretations issued by the IFRS interpretations Committee applicable to companies reporting under UK adopted IAS, 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.

Changes to accounting policies

IFRS 17 *Insurance Contracts*

IFRS 17 issued in May 2018, establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the Standard. The Standard is effective for years beginning on or after 1 January 2023 with a requirement to restate comparatives.

The Group has reviewed whether its arrangements meet the accounting definition of an insurance contract. While some contracts, including Civil Aerospace LTSAs, may transfer an element of insurance risk, they relate to warranty and service type agreements that are issued in connection with the Group’s sales of its goods or services and therefore will remain accounted for under the existing revenue and provisions standards. The Directors have judged that such arrangements entered into after the original equipment sale remain sufficiently related to the sale of the Group’s goods and services to allow the contracts to continue to be measured under IFRS 15 *Revenue from Contracts with Customers* and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.*

The Group has identified that the Standard will impact the results of its captive insurance company as it issues insurance contracts, however since the contracts insure other group companies, there is no impact on the Condensed Consolidated Interim Financial Statements.

The Group has assessed the impact of its parent company guarantee arrangements on the financial statements of the Group. Parent company guarantees, in the form of financial or performance guarantees, meet the IFRS 17 definition of insurance contracts. Whilst there could be an impact on individual sets of financial statements of companies within the Group these have not impacted the Condensed Consolidated Interim Financial Statements for the period to 30 June 2023 and are not expected to have an impact for the full year.

The Directors are not aware of any other contracts where IFRS 17 would have an impact on the Condensed Consolidated Interim Financial Statements.

Other

IAS 12 *Income Taxes* has been amended to incorporate the following revisions for ‘Deferred Tax related to Assets and Liabilities arising from a Single Transaction’ and ‘International Tax Reform: Pillar Two Model Rules’. There is no material impact on the Group as a result of the amendments relating to Deferred Tax related to Assets and Liabilities arising from a Single Transaction.

The Group is within the scope of the OECD Pillar Two (Global Minimum Tax) model rules. The legislation has been substantively enacted in some of the jurisdictions in which the Group operates including the UK and will be effective from 1 January 2024. An assessment of the potential impact on the Group including the application of the transitional safe harbour rules is currently being performed.

For the period to 30 June 2023, the Group has applied the mandatory exemption to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.

Revision to IFRS not applicable in 2023

Standards and interpretations issued by the IASB are only applicable if endorsed by the UK. The Group does not consider that any standards, amendments or interpretations issued by the IASB, but not yet applicable will have a significant impact on the Consolidated Financial Statements.

Other

IBOR reform transition

A number of the Group’s lease liabilities have been based on a USD LIBOR index. During the period, the majority of contracts in which the Group is a lessee have been amended. These have been amended to USD Term SOFR (Secured Overnight Financing Rate) plus CAS (Credit Adjustment Spread), and the impact to the Financial Statements is not material. For contracts which have not yet been amended, these will be based on synthetic LIBOR, which will be published by the Financial Conduct Authority (FCA) until 2024, in the period between LIBOR ceasing and the contract being amended. The Group has taken the practical expedient available to account for the lease modification required by the IBOR reform by applying IFRS 16 *Leases* paragraph 42.

Post balance sheet events

The Group has taken the latest legal position in relation to any ongoing legal proceedings and reflected these in the 30 June 2023 results as appropriate. See note 15.

1 Basis of preparation and accounting policies continued

Going concern

Overview

In adopting the going concern basis for preparing these Condensed Consolidated Interim Financial Statements, the Directors have undertaken a review of the Group's cash flow forecasts and available liquidity, along with consideration of the principal risks and uncertainties over an 18-month period to February 2025. The Directors consider an 18-month going concern period to be appropriate. This 18-month period includes the repayment at maturity of a €550m (£484m) bond in May 2024.

The processes for identifying and managing risk are described in the Group's 2022 Annual Report on pages 42 to 47. As described on those pages, the risk management process and the going concern statement are designed to provide reasonable but not absolute assurance. The principal risks and uncertainties are summarised on page 45.

Forecasts

Recognising the challenges of reliably estimating and forecasting the impact of external factors on the Group, the Directors have reviewed the financial forecasts and liquidity forecasts with consideration given to the potential impact of severe but plausible risks. Two forecasts have been modelled in the assessment of going concern, along with a likelihood assessment of these forecasts. The base case forecast reflects the Directors' current expectations of future trading over the 18-month period. A stressed downside forecast has also been modelled which envisages a 'stress' or 'downside' situation that is considered severe but plausible.

The Group's base case forecast reflects the Directors' best estimation of how the business plans to perform over the 18-month period. Macro-economic assumptions have been modelled using externally available data based on the most likely forecasts, considering all of the markets in which we operate, with inflation at 3% - 4%, interest rates at 4% - 6% and GDP growth at around 2%. In the base case forecast Civil Aerospace large engine flying hours (EFHs) are expected to recover to 2019 levels by the end of 2024.

In modelling the stressed downside forecast the Directors have considered the current macro-economic climate and the possibility that demand could be supressed in the near term as a result of a Global economic downturn, reflecting slower GDP growth in this forecast when compared with the base case. EFHs have been modelled to remain at average second quarter 2023 levels throughout the 18-month period to February 2025. The stressed downside also assumes a more pessimistic view of inflation at around 6% higher than the base case covering a broad range of costs including energy, commodities, and jet fuel. Interest rates are 1% - 2% higher than the base case. The stressed downside also considers lower demand and load reduction through our factories, and increased supply chain challenges.

In preparing the Condensed Consolidated Interim Financial Statements, the Directors have continued to consider the impact of climate change, particularly in the context of disclosures made in the Strategic Report in the 2022 Annual Report and the Climate Review 2022. Consistent with our assessment in the 2022 Annual Report, climate change is not expected to have a significant impact on the Group's going concern assessment to February 2025. More detail can be found on page 18 of these Condensed Consolidated Interim Financial Statements.

Liquidity and borrowings

During the period to 30 June 2023, the Group cancelled its undrawn £1bn bank loan facility which was due to expire in January 2024.

At 30 June 2023, the Group had liquidity of £7.4bn including cash and cash equivalents of £2.9bn and undrawn facilities of £4.5bn.

The Group's committed borrowing facilities at 30 June 2023 and 28 February 2025 are set out below. None of the facilities are subject to any financial covenants or rating triggers which could accelerate repayment.

£m	30 June 2023	28 February 2025
Issued Bond Notes [1]	3,995	3,511
UKEF £1bn loan (undrawn) [2]	1,000	1,000
UKEF £1bn loan (undrawn) [3]	1,000	1,000
Revolving Credit Facility (undrawn) [4]	2,500	2,500
Total committed borrowing facilities	8,495	8,011

[1] The value of Issued Bond Notes reflects the impact of derivatives on repayments of the principal amount of debt. The bonds mature in tranches over the period to May 2028

[2] The £1,000m UKEF loan matures in March 2026 (currently undrawn)

[3] The £1,000m UKEF loan matures in September 2027 (currently undrawn)

[4] The £2,500m Revolving Credit Facility matures in April 2025 (currently undrawn)

Taking into account the maturity of these borrowing facilities, the Group has committed facilities of at least £8.0bn available throughout the period to 28 February 2025.

Conclusion

After reviewing the current liquidity position and the cash flow forecasts modelled under both the base case and stressed downside, the Directors consider that the Group has sufficient liquidity to continue in operational existence for a period of at least 18 months from the date of this report and are therefore satisfied that it is appropriate to adopt the going concern basis of accounting in preparing the financial statements.

1 Basis of preparation and accounting policies continued

Climate change

In preparing the Condensed Consolidated Interim Financial Statements, the Directors have continued to consider the impact of climate change, particularly in the context of the disclosures made in the Strategic Report in the 2022 Annual Report and the Climate Review 2022. These considerations did not have a material impact on the financial reporting judgements and estimates, consistent with the assessment that climate change is not expected to have a significant impact on the Group's going concern assessment to February 2025 nor on the viability of the Group over the next five years. The following specific points were considered:

- The Group continues to invest in new technologies including hybrid electric solutions in Power Systems, continued development of more efficient engines, testing of sustainable aviation fuels, small modular reactor (SMR) and hybrid and fully electric propulsion; and
- The Group continues to invest in onsite renewable energy generation solutions and procurement of green energy for the Group's facilities and investment is included in the five-year forecasts to enable the Group to meet its 2030 target for net-zero greenhouse gas emissions (scope 1 and 2) from our buildings, facilities and manufacturing processes (excluding product testing).

The Directors have considered the impact of climate change on a number of key estimates within the financial statements, including:

- The estimates of future cash flows considered for trigger assessments or used in impairment assessments, where applicable, of the carrying value of non-current assets (such as programme intangible assets and goodwill);
- The estimates of future profitability used in assessing the recoverability of deferred tax assets in the UK (see note 5); and
- The long-term contract accounting assumptions, such as the level of EFHs assumed, which consider the future expectations of consumer and airline customer behaviour.

As details of what specific future intervention measures will be taken by governments are not yet available, carbon pricing has been used to quantify the potential impact of future policy changes on the Group. The approach is consistent with that disclosed in note 1 in the 2022 Annual Report.

The climate-related estimates and assumptions that have been considered to be key areas of judgement or sources of estimation uncertainty for the period ended 30 June 2023 are those relating to the recoverable amount of non-current assets including goodwill, capitalised development costs, recovery of deferred tax assets, recognition and measurement of provisions and recognition of revenue on long-term contracts. However, there have been no significant changes to assumptions, including the potential impact of carbon prices on the Group's cost base, since the year ended 31 December 2022.

1 Basis of preparation and accounting policies continued

Key areas of judgement and sources of estimation uncertainty

The determination of the Group's accounting policies requires judgement. The subsequent application of these policies requires estimates and the actual outcome may differ from that calculated. The key areas of judgement and sources of estimation uncertainty as at 31 December 2022, that were assessed as having a significant risk of causing material adjustments to the carrying amount of assets and liabilities, are set out in note 1 to the Consolidated Financial Statements in the 2022 Annual Report and are summarised below. During the period, the Group has re-assessed these and where necessary updated the key judgements and estimation uncertainties. Sensitivities for key sources of estimation uncertainty are disclosed where this is appropriate and practical.

Area	Key judgements	Key sources of estimation uncertainty	Sensitivities performed
Revenue recognition and contract assets and liabilities	Whether Civil Aerospace OE and aftermarket contracts should be combined. How performance on long-term aftermarket contracts should be measured. Whether any costs should be treated as wastage. Whether sales of spare engines to joint ventures are at fair value. When revenue should be recognised in relation to spare engine sales. Whether the Civil Aerospace LTSA contracts are warranty style contracts entered into in connection with OE sales and therefore can be accounted for under IFRS 15.	Estimates of future revenue, including customer pricing, and costs of long-term contractual arrangements including the impact of climate change.	Based upon the stage of completion of all large engine LTSA contracts within Civil Aerospace as at 30 June 2023, the following changes in estimate would result in catch-up adjustments being recognised in the period in which the estimates change (at underlying rates): - A change in forecast EFHs of 1% over the remaining term of the contracts would impact LTSA income and to a lesser extent costs, resulting in an impact of around £20m. - A 2% increase or decrease in our pricing to customers over the life of the contracts would lead to a revenue catch-up adjustment in the next 12 months of around £260-280m. - A 2% increase or decrease in shop visit costs over the life of the contracts would lead to a revenue catch-up adjustment in the next 12 months of around £70-90m.
Risk and revenue sharing arrangements (RRSAs)	Determination of the nature of entry fees received.		
Taxation		Estimates necessary to assess whether it is probable that sufficient suitable taxable profits will arise in the UK to utilise the deferred tax assets recognised.	A 5% change in margin or shop visits (which could be driven by fewer EFHs as a result of climate change) would result in an increase/decrease in the deferred tax asset in respect of UK losses of around £130m. If only 90% of assumed future cost increases from climate change are passed on to customers, this would result in a decrease in the deferred tax asset of around £50m, and if the potential impact of carbon prices on the Group's cost base was to double, the recoverable value of deferred tax assets would decrease by around £80m.
Research and development	Determination of the point in time where costs incurred on an internal programme development meet the criteria for capitalisation or ceasing capitalisation. Determination of the basis for amortising capitalised development costs.		
Impairment of non-current assets	Determination of cash-generating units for assessing impairment of goodwill.		

Area	Key judgements	Key sources of estimation uncertainty	Sensitivities performed
Leases	Determination of the lease term.	Estimates of the payments required to meet residual value guarantees at the end of engine leases.	The lease liability at 30 June 2023 included £432m relating to the cost of meeting these residual value guarantees in the Civil Aerospace business. Up to £90m is payable in the next 12 months, £216m is due over the following four years and the remaining balance after five years.
Provisions	Whether any costs should be treated as wastage.	Estimates of the time to resolve the technical issues on the Trent 1000, including the development of the modified high-pressure turbine (HPT) blade and estimates of the expenditure required to settle the obligation relating to Trent 1000 long-term contracts assessed as onerous. Estimates of the future revenues and costs to fulfil onerous contracts. Assumptions implicit within the calculation of discount rates.	A 12-month delay in the availability of the modified HPT blade could lead to a £40-70m charge in relation to the Trent 1000 programme. An increase in Civil Aerospace large engines estimates of LTSA costs of 1% over the remaining term of the contracts could lead to a £60-100m increase in the provision for contract losses across all programmes. A 1% change in the discount rates used could lead to around a £60-80m change in the provision.
Post-retirement benefits		Estimates of the assumptions for valuing the net defined benefit obligation.	A reduction in the discount rate of 0.25% from 5.15% could lead to an increase in the defined benefit obligations of the RR UK Pension Fund (RRUKPF) of approximately £190m. This would be expected to be broadly offset by changes in the value of scheme assets, as the scheme's investment policies are designed to mitigate this risk. An increase in the assumed rate of inflation of 0.25% (RPI of 3.60% and CPI of 3.05%) could lead to an increase in the defined benefit obligations of the RRUKPF of approximately £65m. A one-year increase in life expectancy from 21.9 years (male aged 65) and from 23.2 years (male aged 45) would increase the defined benefit obligations of the RRUKPF by approximately £150m.

2 Segmental analysis

The analysis by business segment is presented in accordance with IFRS 8 *Operating Segments*, on the basis of those segments whose operating results are regularly reviewed by the Board (which acts as the Chief Operating Decision Maker as defined by IFRS 8). The Group's four businesses are set out below.

Civil Aerospace	-	development, manufacture, marketing and sales of commercial aero engines and aftermarket services
Defence	-	development, manufacture, marketing and sales of military aero engines, naval engines, submarine nuclear power plants and aftermarket services
Power Systems	-	development, manufacture, marketing and sales of integrated solutions for onsite power and propulsion
New Markets	-	development, manufacture and sales of small modular reactor (SMR) and new electrical power solutions

Other businesses include the trading results of the UK Civil Nuclear business.

Underlying results

The Group presents the financial performance of the businesses in accordance with IFRS 8 and consistently with the basis on which performance is communicated to the Board each month.

Underlying results are presented by recording all relevant revenue and cost of sales transactions at the average exchange rate achieved on effective settled derivative contracts in the period that the cash flow occurs. The impact of the revaluation of monetary assets and liabilities (other than lease liabilities) using the exchange rate that is expected to be achieved by the use of the effective hedge book is recorded within underlying cost of sales. Underlying financing excludes the impact of revaluing monetary assets and liabilities to period end exchange rates. Lease liabilities are not revalued to reflect the expected exchange rates as due to their multi-year remaining terms, the Directors believe that doing so would not be the most appropriate basis to measure the in-year performance. Transactions between segments are presented on the same basis as underlying results and eliminated on consolidation. Unrealised fair value gains/(losses) on foreign exchange contracts, which are recognised as they arise in the statutory results, are excluded from underlying results. To the extent that the previously forecast transactions are no longer expected to occur, an appropriate portion of the unrealised fair value gain/(loss) on foreign exchange contracts is recorded immediately in the underlying results.

Amounts receivable/(payable) on interest rate swaps which are not designated as hedge relationships for accounting purposes are reclassified from fair value movement on a statutory basis to interest receivable/(payable) on an underlying basis, as if they were in an effective hedge relationship.

In the period to 30 June 2023, the Group was a net seller of USD at an achieved exchange rate GBP:USD of 1.50 (30 June 2022: 1.50) based on the USD hedge book.

In 2020, the Group experienced a significant decline in its medium-term outlook and consequently a significant deterioration to its forecast net USD cash inflows. The Group took action to reduce the size of the USD hedge book by $11.8bn across 2020-2026 to reflect the fact that at that time, future operating cash flows were no longer forecast to materialise. An underlying charge of £1,674m was recognised within the underlying finance costs in 2020 and the associated cash settlement costs occur over the period 2020-2026. The derivatives relating to this underlying charge have been subsequently excluded from the hedge book, and therefore are also excluded from the calculation of the average exchange rate achieved in the current and future periods.

Underlying performance excludes the following:

- the effect of acquisition accounting and business disposals;
- impairment of goodwill and other non-current and current assets where the reasons for the impairment are outside of normal operating activities;
- exceptional items; and
- certain other items which are market driven and outside of the control of management.

Acquisition accounting, business disposals and impairment

The Group exclude these from underlying results so that the current period and comparative results are directly comparable.

Exceptional items

Items are classified as exceptional where the Directors believe that presentation of the results in this way is useful in providing an understanding of the Group's financial performance. Exceptional items are identified by virtue of their size, nature or incidence.

In determining whether an event or transaction is exceptional, the Directors consider quantitative as well as qualitative factors such as the frequency or predictability of occurrence. Examples of exceptional items include one-time costs and charges in respect of aerospace programmes, costs of restructuring programmes and one-time past service charges and credits on post-retirement schemes.

Subsequent changes in exceptional items recognised in a prior period will also be recognised as exceptional. All other changes will be recognised within underlying performance.

Exceptional items are not allocated to segments and may not be comparable to similarly titled measures used by other companies.

Other items

The financing component of the defined benefit pension scheme cost is determined by market conditions and has therefore been included as a reconciling difference between underlying and statutory performance.

The tax effects of adjustments above are excluded from the underlying tax charge. Changes in tax rates are excluded from the underlying tax charge. In addition, changes in the amount of recoverable deferred tax or advance corporation tax recognised are excluded from the underlying results to the extent that their recognition or derecognition was not originally recorded within the underlying results.

2 Segmental analysis continued

The following analysis sets out the results of the Group's businesses on the basis described above and also includes a reconciliation of the underlying results to those reported in the Condensed Consolidated Income Statement.

	Civil Aerospace £m	Defence £m	Power Systems £m	New Markets £m	Other businesses £m	Corporate and Inter-segment £m	Total underlying £m
For the half-year ended 30 June 2023							
Underlying revenue from sale of original equipment	**1,055**	**841**	**1,175**	**1**	**5**	**–**	**3,077**
Underlying revenue from aftermarket services	**2,202**	**1,072**	**599**	**–**	**–**	**–**	**3,873**
Total underlying revenue	**3,257**	**1,913**	**1,774**	**1**	**5**	**–**	**6,950**
Gross profit/(loss)	**690**	**379**	**452**	**–**	**(5)**	**(1)**	**1,515**
Commercial and administrative costs	**(171)**	**(86)**	**(233)**	**(14)**	**–**	**(34)**	**(538)**
Research and development costs	**(195)**	**(34)**	**(96)**	**(64)**	**–**	**–**	**(389)**
Share of results of joint ventures and associates	**81**	**2**	**2**	**–**	**–**	**–**	**85**
Underlying operating profit/(loss)	**405**	**261**	**125**	**(78)**	**(5)**	**(35)**	**673**

For the half-year ended 30 June 2022							
Underlying revenue from sale of original equipment	660	697	849	–	(7)	(5)	2,194
Underlying revenue from aftermarket services	1,679	912	522	1	–	–	3,114
Total underlying revenue	2,339	1,609	1,371	1	(7)	(5)	5,308
Gross profit/(loss)	256	326	401	(2)	(29)	(10)	942
Commercial and administrative costs	(183)	(86)	(204)	(9)	–	(17)	(499)
Research and development costs	(202)	(53)	(79)	(37)	–	–	(371)
Share of results of joint ventures and associates	50	2	1	–	–	–	53
Underlying operating (loss)/profit	(79)	189	119	(48)	(29)	(27)	125

2 Segmental analysis continued

Reconciliation to statutory results

	Total underlying £m	Underlying adjustments and adjustments to foreign exchange £m	Group statutory results £m
For the half-year ended 30 June 2023			
Continuing operations			
Revenue from sale of original equipment	**3,077**	**212**	**3,289**
Revenue from aftermarket services	**3,873**	**361**	**4,234**
Total revenue	**6,950**	**573**	**7,523**
Gross profit	**1,515**	**142**	**1,657**
Commercial and administrative costs	**(538)**	**(22)**	**(560)**
Research and development costs	**(389)**	**–**	**(389)**
Share of results of joint ventures and associates	**85**	**4**	**89**
Operating profit	**673**	**124**	**797**
Gain arising on the disposal of businesses	**–**	**1**	**1**
Profit before financing and taxation	**673**	**125**	**798**
Net financing	**(149)**	**770**	**621**
Profit before taxation	**524**	**895**	**1,419**
Taxation	**(120)**	**(76)**	**(196)**
Profit for the period	**404**	**819**	**1,223**
Attributable to:			
Ordinary shareholders	**410**	**819**	**1,229**
NCI	**(6)**	**–**	**(6)**
For the half-year ended 30 June 2022			
Continuing operations			
Revenue from sale of original equipment	2,194	118	2,312
Revenue from aftermarket services	3,114	174	3,288
Total revenue	5,308	292	5,600
Gross profit	942	120	1,062
Commercial and administrative costs	(499)	(15)	(514)
Research and development costs	(371)	(2)	(373)
Share of results of joint ventures and associates	53	(5)	48
Operating profit	125	98	223
Gain arising on the disposal of businesses	–	77	77
Profit before financing and taxation	125	175	300
Net financing	(236)	(1,818)	(2,054)
Loss before taxation	(111)	(1,643)	(1,754)
Taxation	(77)	220	143
Loss for the period from continuing operations	(188)	(1,423)	(1,611)
Discontinued operations [1]	59	(3)	56
Loss for the period	(129)	(1,426)	(1,555)
Attributable to:			
Ordinary shareholders	(128)	(1,426)	(1,554)
NCI	(1)	–	(1)

[1] Discontinued operations relate to the results of ITP Aero and are presented net of intercompany trading eliminations and related consolidation adjustments

2 Segmental analysis continued

Disaggregation of revenue from contracts with customers

Analysis by type and basis of recognition	Civil Aerospace £m	Defence £m	Power Systems £m	New Markets £m	Other businesses £m	Corporate and Inter-segment £m	Total underlying £m
For the half-year ended 30 June 2023							
Original equipment recognised at a point in time	**1,055**	**337**	**1,153**	**1**	**–**	**–**	**2,546**
Original equipment recognised over time	**–**	**504**	**22**	**–**	**5**	**–**	**531**
Aftermarket services recognised at a point in time	**555**	**390**	**550**	**–**	**–**	**–**	**1,495**
Aftermarket services recognised over time	**1,604**	**682**	**49**	**–**	**–**	**–**	**2,335**
Total underlying customer contract revenue	**3,214**	**1,913**	**1,774**	**1**	**5**	**–**	**6,907**
Other underlying revenue	**43**	**–**	**–**	**–**	**–**	**–**	**43**
Total underlying revenue	**3,257**	**1,913**	**1,774**	**1**	**5**	**–**	**6,950**
For the half-year ended 30 June 2022							
Original equipment recognised at a point in time	660	304	838	–	–	(5)	1,797
Original equipment recognised over time	–	393	11	–	(7)	–	397
Aftermarket services recognised at a point in time	433	354	483	1	–	–	1,271
Aftermarket services recognised over time	1,215	558	39	–	–	–	1,812
Total underlying customer contract revenue	2,308	1,609	1,371	1	(7)	(5)	5,277
Other underlying revenue	31	–	–	–	–	–	31
Total underlying revenue	2,339	1,609	1,371	1	(7)	(5)	5,308

	Total underlying £m	Underlying adjustments and adjustments to foreign exchange £m	Group statutory results £m
For the half-year ended 30 June 2023			
Original equipment recognised at a point in time	**2,546**	**212**	**2,758**
Original equipment recognised over time	**531**	**–**	**531**
Aftermarket services recognised at a point in time	**1,495**	**97**	**1,592**
Aftermarket services recognised over time	**2,335**	**255**	**2,590**
Total customer contract revenue	**6,907**	**564**	**7,471**
Other revenue	**43**	**9**	**52**
Total revenue	**6,950**	**573**	**7,523**
For the half-year ended 30 June 2022			
Original equipment recognised at a point in time	1,797	118	1,915
Original equipment recognised over time	397	–	397
Aftermarket services recognised at a point in time	1,271	72	1,343
Aftermarket services recognised over time	1,812	97	1,909
Total customer contract revenue	5,277	287	5,564
Other revenue	31	5	36
Total revenue	5,308	292	5,600

2 Segmental analysis continued

Underlying adjustments

		Half-year to 30 June 2023				Half-year to 30 June 2022			
		Revenue £m	**Profit before financing £m**	**Net financing £m**	**Taxation £m**	Revenue £m	Profit before financing £m	Net financing £m	Taxation £m
Underlying performance		**6,950**	**673**	**(149)**	**(120)**	5,308	125	(236)	(77)
Impact of foreign exchange differences as a result of hedging activities on trading transactions [1]	A	**573**	**163**	**396**	**(74)**	292	124	(464)	7
Unrealised fair value changes on derivative contracts held for trading [2]	A	**–**	**2**	**355**	**(108)**	–	(5)	(1,442)	230
Unrealised fair value change to derivative contracts held for financing [3]	A	**–**	**–**	**66**	**(15)**	–	–	88	(24)
Exceptional programme credits/(charges) [4]	B	**–**	**21**	**–**	**–**	–	22	(3)	–
Exceptional restructuring and transformation charges [5]	B	**–**	**(35)**	**–**	**4**	–	(32)	–	4
Impairment reversals [6]	C	**–**	**–**	**–**	**–**	–	11	–	–
Effect of acquisition accounting [7]	C	**–**	**(24)**	**–**	**6**	–	(23)	–	5
Other [8]	D	**–**	**(3)**	**(47)**	**10**	–	1	3	(2)
Gains arising on the disposals of businesses	C	**–**	**1**	**–**	**–**	–	77	–	–
Re-recognition of deferred tax assets [9]	D	**–**	**–**	**–**	**101**	–	–	–	–
Total underlying adjustments		**573**	**125**	**770**	**(76)**	292	175	(1,818)	220
Statutory performance per condensed consolidated income statement		**7,523**	**798**	**621**	**(196)**	5,600	300	(2,054)	143

A – FX and derivatives, B – Exceptional, C – M&A and impairment, D – Other

[1] The impact of measuring revenues and costs at the average exchange rate during the period and the impact of valuation of assets and liabilities using the period end exchange rate rather than the achieved rate or the exchange rate that is expected to be achieved by the use of the hedge book increased reported revenues by £573m (30 June 2022: £292m) and increased profit before financing and taxation by £163m (30 June 2022: £124m). Underlying financing excludes the impact of revaluing monetary assets and liabilities at the period end exchange rate

[2] The underlying results exclude the fair value changes on derivative contracts held for trading. These fair value changes are subsequently recognised in the underlying results when the contracts are settled

[3] Primarily includes net fair value gains of £60m (30 June 2022: £97m) on any interest rate swaps not designated into hedging relationships for accounting purposes

[4] During the period to 30 June 2023 and 2022, contract loss provisions previously recognised in respect of the Trent 1000 technical issues which were identified in 2019 have been reversed due to a reduction in the estimated cost of settling the obligation

[5] During the period to 30 June 2023, the Group incurred transformation and restructuring related charges of £35m (30 June 2022: £32m). In 2023, the Group announced a major multi-year transformation programme which consists of seven workstreams that were set out in the 2022 Annual Report. During the period £31m was incurred in relation to this multi-year programme, comprising £15m for advisory fees and £16m related to impairments and provisions as a result of strategic choices to cease specific projects. In the period to 30 June 2022 a £32m charge related to initiatives to enable restructuring

[6] The Group has assessed the carrying value of its assets. Further details are provided in notes 7,8 and 9

[7] The effect of acquisition accounting includes the amortisation of intangible assets arising on previous acquisitions

[8] Includes interest received of £35m (30 June 2022: interest paid of £2m) on interest rate swaps which are not designated into hedging relationships for statutory purposes from interest payable on an underlying basis to fair value movement and £3m (30 June 2022: credit of £1m) of past-service cost on defined benefit schemes

[9] The re-recognition of deferred tax assets includes £57m relating to foreign exchange derivatives and £44m relating to UK tax losses. Further details are provided in note 5

2 Segmental analysis continued

Balance sheet analysis

	Civil Aerospace £m	Defence £m	Power Systems £m	New Markets £m	Total reportable segments £m
At 30 June 2023					
Segment assets	**18,069**	**3,497**	**4,130**	**126**	**25,822**
Interests in joint ventures and associates	**455**	**7**	**23**	**–**	**485**
Segment liabilities	**(25,163)**	**(3,193)**	**(1,852)**	**(92)**	**(30,300)**
Net (liabilities)/assets	**(6,639)**	**311**	**2,301**	**34**	**(3,993)**
At 31 December 2022					
Segment assets	17,537	3,430	4,084	135	25,186
Interests in joint ventures and associates	387	4	31	–	422
Segment liabilities	(25,357)	(3,146)	(1,802)	(97)	(30,402)
Net (liabilities)/assets	(7,433)	288	2,313	38	(4,794)

Reconciliation to the balance sheet

	30 June 2023 £m	31 December 2022 £m
Total reportable segment assets	**25,822**	25,186
Other businesses	**10**	19
Corporate and inter-segment	**(2,810)**	(2,460)
Interests in joint ventures and associates	**485**	422
Cash and cash equivalents and short-term investments	**2,861**	2,618
Fair value of swaps hedging fixed rate borrowings	**109**	194
Deferred and income tax assets	**2,674**	2,858
Post-retirement scheme surpluses	**591**	613
Total assets	**29,742**	29,450
Total reportable segment liabilities	**(30,300)**	(30,402)
Other businesses	**(53)**	(34)
Corporate and inter-segment	**2,810**	2,456
Borrowings and lease liabilities	**(5,657)**	(5,955)
Fair value of swaps hedging fixed rate borrowings	**(158)**	(108)
Deferred and income tax liabilities	**(348)**	(390)
Post-retirement scheme deficits	**(1,002)**	(1,033)
Total liabilities	**(34,708)**	(35,466)
Net liabilities	**(4,966)**	(6,016)

3 Research and development

	Half-year to 30 June 2023 £m	Half-year to 30 June 2022 £m
Gross research and development costs	**(684)**	(599)
Contributions and fees [1]	**254**	218
Expenditure in the period	**(430)**	(381)
Capitalised as intangible assets	**84**	48
Amortisation and impairment of capitalised costs	**(43)**	(40)
Net cost recognised in the income statement	**(389)**	(373)
Underlying adjustments relating to the effects of acquisition accounting and foreign exchange	**–**	2
Net underlying cost recognised in the income statement	**(389)**	(371)

[1] Includes government funding

4 Net financing

	Half-year to 30 June 2023		Half-year to 30 June 2022	
	Statutory £m	**Underlying [1] £m**	Statutory £m	Underlying [1] £m
Interest receivable	**56**	**56**	9	9
Net fair value gains on foreign currency contracts	**407**	**–**	–	–
Net fair value gains on non-hedge accounted interest rate swaps [2]	**60**	**–**	97	–
Net fair value gains on commodity contracts	**–**	**–**	95	–
Financing on post-retirement scheme surpluses	**15**	**–**	14	–
Net foreign exchange gains	**396**	**–**	–	–
Financing income	**934**	**56**	215	9
Interest payable	**(173)**	**(133)**	(171)	(171)
Net fair value losses on foreign currency contracts	**–**	**–**	(1,537)	–
Financial charge relating to RRSAs	**–**	**–**	(6)	(6)
Net fair value losses on commodity contracts	**(52)**	**–**	–	–
Financing on post-retirement scheme deficits	**(22)**	**–**	(12)	–
Net foreign exchange losses	**–**	**–**	(464)	–
Cost of undrawn facilities	**(32)**	**(32)**	(31)	(31)
Other financing charges	**(34)**	**(40)**	(48)	(37)
Financing costs	**(313)**	**(205)**	(2,269)	(245)
Net financing income/(costs)	**621**	**(149)**	(2,054)	(236)
Analysed as:				
Net interest payable	**(117)**	**(77)**	(162)	(162)
Net fair value gains/(losses) on derivative contracts	**415**	**–**	(1,345)	–
Net post-retirement scheme financing	**(7)**	**–**	2	–
Net foreign exchange gains/(losses)	**396**	**–**	(464)	–
Net other financing	**(66)**	**(72)**	(85)	(74)
Net financing income/(costs)	**621**	**(149)**	(2,054)	(236)

[1] See note 2 for definition of underlying results

[2] The Condensed Consolidated Income Statement shows the net fair value gains/(losses) on any interest rate swaps not designated into hedging relationships for accounting purposes. Underlying financing reclassifies the realised fair value movements on these interest rate swaps to net interest payable

5 Taxation

The income tax expense has been calculated by applying the annual effective tax rate for each jurisdiction to the half-year profits of each jurisdiction.

The tax charge for the half-year is £196m on a statutory profit before taxation of £1,419m (30 June 2022: tax credit of £143m on a statutory loss before taxation of £1,754m), giving a statutory rate of 13.8% (30 June 2022: 8.1%). The key drivers of the tax charge in 2023 are the profits in key jurisdictions taxed at local rates together with the impact of the re-recognition of UK deferred tax assets relating to the unrealised foreign exchange losses on derivative contracts and tax losses.

Tax reconciliation – continuing operations:

	Half-year to 30 June 2023		Half-year to 30 June 2022	
	£m	**Tax rate**	£m	Tax rate
Profit/(loss) before taxation	**1,419**		(1,754)	
Nominal tax charge/(credit) at UK corporation tax rate of 23.5% (30 June 2022: 19%)	**333**	**23.5%**	(333)	19.0%
Movement in UK deferred tax assets not recognised [1]	**(100)**	**(7.1%)**	161	(9.2%)
Other	**(37)**	**(2.6%)**	29	(1.7%)
Statutory tax charge/(credit) and rate	**196**	**13.8%**	(143)	8.1%
Analysis of statutory tax charge/(credit):				
Underlying items	**120**		77	
Non-underlying items (see note 2)	**76**		(220)	
	196		(143)	

[1] Half-year to 30 June 2023 includes the re-recognition of deferred tax assets relating to foreign exchange and commodity financial assets and liabilities and UK tax losses. Half-year to 30 June 2022 mainly relates to UK tax losses not recognised

Deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which to recover the asset. Where necessary, this is based on management's assumptions and probability assessments relating to the amounts and timing of future taxable profits. The Directors' continually reassess the appropriateness of recovering deferred tax assets, which includes a consideration of the level of future profits and the time period over which they are recovered.

Based on the assessment undertaken at 30 June 2023 and taking into account the financial results in the period to 30 June 2023, new contracts announced in that period and the emerging benefits from transformation, the Group has re-recognised £52m of the previously derecognised deferred tax asset relating to UK tax losses.

Sensitivity analyses are also performed as part of the assessment. At 30 June 2023, the following sensitivities have been modelled to demonstrate the impact of changes in assumptions on the recoverability of deferred tax assets:

- A 5% change in margin in the main Civil Aerospace large engine programmes
- A 5% change in the number of shop visits driven by EFHs
- Assumed future cost increases from climate change expected to pass through to customers at 100% are restricted to 90% pass through

All of these could be driven by a number of factors, including the impact of climate change and changes in foreign exchange rates.

A 5% change in margin or shop visits (which could be driven by fewer EFHs due to climate change) would result in an increase/decrease in the deferred tax asset of around £130m.

If only 90% of assumed future cost increases from climate change are passed on to customers, this would result in a decrease in the deferred tax asset of around £50m, and if carbon prices were to double, this would be £80m. The assumptions around carbon pricing are consistent with those at 31 December 2022.

The deferred tax asset arising on unrealised losses on derivative contracts that remain hedged has also been assessed resulting in a decrease in the deferred tax asset of £163m. This is net of the re-recognition of a deferred tax asset of £57m based on the assessment undertaken at 30 June 2023.

These assessments are in line with the approach set out in note 5 of the 2022 Annual Report and take into account a 25% probability of there being a severe but plausible downside scenario.

IAS 12 *Income Taxes* has been amended to incorporate the following revisions:

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction; and
- International Tax Reform: Pillar Two Model Rules

There is no material impact on the Group as a result of the amendments relating to Deferred Tax related to Assets and Liabilities arising from a Single Transaction.

The Group is within the scope of the OECD Pillar Two (Global Minimum Tax) model rules. The legislation has been substantively enacted in some of the jurisdictions in which the Group operates including the UK and will be effective from 1 January 2024. An assessment of the potential impact on the Group including the application of the transitional safe harbour rules is currently being performed.

For the period to 30 June 2023, the Group has applied the mandatory exemption for recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.

6 Earnings per ordinary share

Basic earnings per share (EPS) is calculated by dividing the profit/(loss) 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.

If there is a continuing loss during the period, the effect of potentially dilutive ordinary shares is anti-dilutive.

	Half-year to 30 June 2023			Half-year to 30 June 2022		
	Basic	**Potentially dilutive share options**	**Diluted**	Basic	Potentially dilutive share options	Diluted
Profit/(loss) attributable to ordinary shareholders (£m):						
Continuing operations	**1,229**		**1,229**	(1,610)		(1,610)
Discontinued operations	**–**		**–**	56		56
	1,229		**1,229**	(1,554)		(1,554)
Weighted average number of ordinary shares (millions)	**8,359**	**18**	**8,377**	8,345	–	8,345
EPS (pence):						
Continuing operations	**14.70**	**(0.03)**	**14.67**	(19.29)	–	(19.29)
Discontinued operations	**–**	**–**	**–**	0.67	–	0.67
	14.70	**(0.03)**	**14.67**	(18.62)	–	(18.62)

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

	Half-year to 30 June 2023		Half-year to 30 June 2022	
	Pence	**£m**	Pence	£m
Underlying EPS / Underlying profit/(loss) from continuing operations attributable to ordinary shareholders	**4.90**	**410**	(2.24)	(187)
Total underlying adjustments to profit/(loss) before tax (note 2)	**10.71**	**895**	(19.69)	(1,643)
Related tax effects	**(0.91)**	**(76)**	2.64	220
EPS / profit/(loss) from continuing operations attributable to ordinary shareholders	**14.70**	**1,229**	(19.29)	(1,610)
Diluted underlying EPS from continuing operations attributable to ordinary shareholders	**4.89**		(2.24)	

7 Intangible assets

	Goodwill £m	Certification costs £m	Development expenditure £m	Customer relationships £m	Software [1] £m	Other £m	Total £m
Cost:							
At 1 January 2023	**1,135**	**935**	**3,604**	**512**	**978**	**886**	**8,050**
Additions	**–**	**–**	**84**	**–**	**34**	**5**	**123**
Acquisition of businesses (see note 19)	**–**	**–**	**–**	**–**	**–**	**5**	**5**
Disposals	**–**	**(4)**	**–**	**–**	**(12)**	**(2)**	**(18)**
Reclassifications [2]	**–**	**–**	**1**	**–**	**1**	**(1)**	**1**
Exchange differences	**(41)**	**(1)**	**(48)**	**(20)**	**(8)**	**(20)**	**(138)**
At 30 June 2023	**1,094**	**930**	**3,641**	**492**	**993**	**873**	**8,023**
Accumulated amortisation and impairment:							
At 1 January 2023	**36**	**447**	**1,912**	**406**	**675**	**476**	**3,952**
Charge for the period [3]	**–**	**12**	**43**	**19**	**42**	**19**	**135**
Impairment	**–**	**–**	**–**	**–**	**–**	**4**	**4**
Disposals	**–**	**(4)**	**–**	**–**	**(11)**	**(2)**	**(17)**
Reclassifications [2]	**–**	**–**	**1**	**–**	**–**	**(1)**	**–**
Exchange differences	**(1)**	**–**	**(37)**	**(16)**	**(5)**	**(11)**	**(70)**
At 30 June 2023	**35**	**455**	**1,919**	**409**	**701**	**485**	**4,004**
Net book value at:							
30 June 2023	**1,059**	**475**	**1,722**	**83**	**292**	**388**	**4,019**
1 January 2023	**1,099**	**488**	**1,692**	**106**	**303**	**410**	**4,098**

[1] Includes £93m (31 December 2022: £93m) of software under course of construction which is not amortised

[2] Includes reclassifications within intangible assets or from property, plant and equipment when available for use

[3] Charged to cost of sales and commercial and administrative costs except development costs, which are charged to research and development costs

Intangible assets (including programme intangible assets) have been reviewed for impairment in accordance with IAS 36 *Impairment of Assets*. Assessments have considered potential triggers of impairment such as external factors including climate change, significant changes with an adverse effect on a programme and by analysing latest management forecasts against those prepared in 2022 to identify any deterioration in performance. There have been no (31 December 2022: no) individually material impairment charges or reversals recognised during the period.

8 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 2023	**1,936**	**5,225**	**999**	**400**	**8,560**
Additions	**4**	**48**	**35**	**71**	**158**
Disposals/write-offs	**(3)**	**(86)**	**(7)**	**(8)**	**(104)**
Reclassifications [1]	**23**	**37**	**12**	**(58)**	**14**
Exchange differences	**(38)**	**(97)**	**(7)**	**(12)**	**(154)**
At 30 June 2023	**1,922**	**5,127**	**1,032**	**393**	**8,474**
Accumulated depreciation and impairment:					
At 1 January 2023	**695**	**3,507**	**413**	**9**	**4,624**
Charge for the period [2]	**35**	**141**	**30**	**–**	**206**
Impairment [3]	**–**	**(1)**	**1**	**–**	**–**
Disposals/write-offs	**(3)**	**(86)**	**(4)**	**–**	**(93)**
Reclassifications [1]	**1**	**8**	**8**	**(8)**	**9**
Exchange differences	**(13)**	**(63)**	**(3)**	**–**	**(79)**
At 30 June 2023	**715**	**3,506**	**445**	**1**	**4,667**
Net book value at:					
30 June 2023	**1,207**	**1,621**	**587**	**392**	**3,807**
1 January 2023	**1,241**	**1,718**	**586**	**391**	**3,936**

[1] Includes reclassifications of assets under construction to the relevant classification in property, plant and equipment, right-of-use assets or intangible assets when available for use

[2] Depreciation is charged to cost of sales and commercial and administrative costs or included in the cost of inventory as appropriate

[3] The carrying values of property, plant and equipment have been assessed during the period in line with IAS 36. Material items of plant and equipment and aircraft and engines are assessed for impairment together with other assets used in individual programmes – see potential triggers considered in note 7. Land and buildings are generally used across multiple programmes and are considered based on future expectations of the use of the site, which includes any implications from climate-related risks. As a result of this assessment, there are no (31 December 2022: none) individually material impairment charges or reversals in the period

9 Right-of-use assets

	Land and buildings £m	Plant and equipment £m	Aircraft and engines £m	Total £m
Cost:				
At 1 January 2023	**506**	**162**	**1,827**	**2,495**
Additions/modification of leases	**3**	**35**	**52**	**90**
Disposals	**(2)**	**(5)**	**–**	**(7)**
Reclassifications from PPE	**(5)**	**–**	**(10)**	**(15)**
Exchange differences	**(17)**	**(3)**	**(3)**	**(23)**
At 30 June 2023	**485**	**189**	**1,866**	**2,540**
Accumulated depreciation and impairment:				
At 1 January 2023	**230**	**84**	**1,120**	**1,434**
Charge for the period	**21**	**22**	**95**	**138**
Impairment [1]	**–**	**5**	**27**	**32**
Disposals	**(2)**	**(5)**	**–**	**(7)**
Reclassifications from PPE	**(1)**	**–**	**(8)**	**(9)**
Exchange differences	**(9)**	**(2)**	**(2)**	**(13)**
At 30 June 2023	**239**	**104**	**1,232**	**1,575**
Net book value at:				
30 June 2023	**246**	**85**	**634**	**965**
1 January 2023	**276**	**78**	**707**	**1,061**

[1] The carrying values of right-of-use assets have been assessed during the period in line with IAS 36. Material items of plant and equipment and aircraft and engines are assessed for impairment together with other assets used in individual programmes – see potential triggers considered in note 7. Land and buildings are generally used across multiple programmes and are considered based on future expectations of the use of the site (which includes any implications from climate-related risks). As a result of this assessment, the carrying values of assets where a trigger was identified have been assessed by reference to value in use considering assumptions such as estimated future cash flows, product performance related estimates and climate-related risks. An impairment charge of £32m has been recognised, which includes £27m in relation to lease engines that have been returned following the termination of the lease by the lessee (31 December 2022: no individually material impairment charges or reversals)

10 Trade receivables and other assets

	Current		Non-current		Total	
	30 June 2023 £m	31 December 2022 £m	**30 June 2023 £m**	31 December 2022 £m	**30 June 2023 £m**	31 December 2022 £m
Trade receivables [1]	**2,596**	2,376	**112**	43	**2,708**	2,419
Prepayments	**868**	886	**1,083**	893	**1,951**	1,779
Receivables due on RRSAs	**1,012**	928	**207**	255	**1,219**	1,183
Amounts owed by joint ventures and associates	**749**	632	**11**	16	**760**	648
Other taxation and social security receivable	**138**	147	**26**	9	**164**	156
Costs to obtain contracts with customers	**2**	12	**69**	67	**71**	79
Other receivables [2]	**455**	617	**50**	55	**505**	672
	5,820	5,598	**1,558**	1,338	**7,378**	6,936

[1] Non-current trade receivables relate to amounts not expected to be received in the next 12 months in line with specific customer payment arrangements, including customers on payment plans

[2] Other receivables includes unbilled recoveries relating to completed overhaul activity where the right to consideration is unconditional

The Group has adopted the simplified approach to provide for expected credit losses (ECLs), measuring the loss allowance at a probability weighted amount incorporated by using credit ratings which are publicly available, or through internal risk assessments derived using the customer's latest available financial information.

The ECLs for trade receivables and other assets has decreased by £53m to £293m (31 December 2022: increased by £87m to £346m). This movement is mainly driven by the Civil Aerospace business of £57m, of which £51m relates to specific customers and £6m relates to updates to the recoverability of other receivables.

The movements of the Group's ECLs provision are as follows:

	30 June 2023 £m	31 December 2022 £m
At 1 January	**(346)**	(259)
Increases in loss allowance recognised in the income statement during the period	**(51)**	(118)
Loss allowance utilised	**15**	22
Releases of loss allowance previously provided	**70**	45
Exchange differences	**19**	(36)
At 30 June/31 December	**(293)**	(346)

11 Contract assets and liabilities

	Current		Non-current [1]		Total	
	30 June 2023 £m	31 December 2022 £m	**30 June 2023 £m**	31 December 2022 £m	**30 June 2023 £m**	31 December 2022 £m
Contract assets						
Contract assets with customers	**566**	621	**537**	617	**1,103**	1,238
Participation fee contract assets	**26**	28	**204**	215	**230**	243
	592	649	**741**	832	**1,333**	1,481

[1] Contract assets and contract liabilities have been presented on the face of the balance sheet in line with the operating cycle of the business. Contract liabilities are further split according to when the related performance obligation is expected to be satisfied and therefore when revenue is estimated to be recognised in the income statement. Further disclosure of contract assets is provided in the table above, which shows within current the element of consideration that will become unconditional in the next year

The balance includes £684m (31 December 2022: £885m) of Civil Aerospace LTSA assets, with most of the remaining balance relating to Defence. The decrease in the Civil Aerospace balance is due to the collection of higher cash receipts than revenue recognised in relation to the completion of performance obligations on those contracts with a contract asset balance. Revenue recognised in the period in Civil Aerospace was adjusted by £(37)m (31 December 2022: £26m) in relation to performance obligations satisfied in previous years. No impairment losses in relation to these contract assets (31 December 2022: none) have arisen during the period.

Participation fee contract assets have reduced by £13m (31 December 2022: £3m) due to amounts recognised in revenue exceeding additions by £10m, and foreign exchange on consolidation of £3m.

11 Contract assets and liabilities continued

	Current		Non-current		Total	
	30 June 2023 £m	31 December 2022 £m	**30 June 2023 £m**	31 December 2022 £m	**30 June 2023 £m**	31 December 2022 £m
Contract liabilities	**5,104**	4,825	**8,005**	7,337	**13,109**	12,162

Contract liabilities have increased by £947m. The movement in the Group balance is largely as a result of increases in Civil Aerospace of £825m and Defence of £62m. The main reason for the Civil Aerospace increase is a growth in LTSA liabilities of £656m to £8,913m (31 December 2022: £8,257m) and is driven by growth in customer payments as EFHs continue to rise and price escalation. In addition, commercial discipline has resulted in additional invoicing through EFH reconciliations and recovery of contractual fees. This has been partly offset by revenue being recognised in relation to performance obligations satisfied in previous years of £60m (31 December 2022: £334m) as contract performance improves, which decreases the contract liability. An increase in Defence is from the receipt of deposits in advance of performance obligations being completed.

12 Borrowings and lease liabilities

	Current		Non-current		Total	
	30 June 2023 £m	31 December 2022 £m	**30 June 2023 £m**	31 December 2022 £m	**30 June 2023 £m**	31 December 2022 £m
Unsecured						
Overdrafts	**6**	2	**–**	–	**6**	2
Bank loans	**1**	1	**–**	–	**1**	1
Loan notes	**462**	–	**3,495**	4,095	**3,957**	4,095
Other loans	**–**	–	**9**	10	**9**	10
Total unsecured	**469**	3	**3,504**	4,105	**3,973**	4,108
Lease liabilities	**287**	355	**1,397**	1,492	**1,684**	1,847
Total borrowings and lease liabilities	**756**	358	**4,901**	5,597	**5,657**	5,955

All outstanding items described as loan notes above are listed on the London Stock Exchange

The Group has access to the following undrawn committed borrowing facilities at the end of the period:

	30 June 2023 £m	31 December 2022 £m
Expiring within one year	**–**	–
Expiring after one year	**4,500**	5,500
Total undrawn facilities	**4,500**	5,500

Further details can be found in the going concern statement on page 17

During the period to 30 June 2023, the Group cancelled its undrawn £1bn bank loan facility which was due to expire in January 2024. The facility had remained undrawn during the period.

Under the terms of certain recent loan facilities, the Company is restricted from declaring, making or paying distributions to shareholders from 1 January 2023 unless certain conditions are satisfied. The conditions attached to these loan facilities are linked to free cash flow performance in the prior year, and actual and forecast minimum liquidity levels. In addition, the conditions restrict the value of distributions that could be made. These loan facilities expire in 2026 and 2027. The restrictions on distributions do not prevent the Company from redeeming any unredeemed C Shares issued prior to March 2021.

13 Trade payables and other liabilities

	Current		Non-current		Total	
	30 June 2023 £m	31 December 2022 £m	**30 June 2023 £m**	31 December 2022 £m	**30 June 2023 £m**	31 December 2022 £m
Trade payables	**1,767**	1,735	**–**	–	**1,767**	1,735
Accruals	**1,313**	1,477	**59**	199	**1,372**	1,676
Customer discounts [1]	**944**	828	**767**	1,016	**1,711**	1,844
Payables due on RRSAs	**1,746**	1,392	**–**	–	**1,746**	1,392
Deferred receipts from RRSA workshare partners	**43**	32	**804**	829	**847**	861
Amounts owed to joint ventures and associates	**822**	567	**–**	–	**822**	567
Government grants	**39**	21	**54**	41	**93**	62
Other taxation and social security	**93**	88	**–**	–	**93**	88
Other payables [2]	**726**	843	**218**	279	**944**	1,122
	7,493	6,983	**1,902**	2,364	**9,395**	9,347

[1] Customer discounts include OE concessions given to airframers and operators, discounts given to customers based on performance of engines compared to their specification, and discounts on aftermarket parts. Revenue recognised comprises sales to the Group's customers after such items. Warranty credits and customer concessions have been represented at 30 June 2023 to be included within customer discounts to better reflect the nature of these balances

[2] Other payables includes parts purchase obligations, payroll liabilities and HM Government UK levies

The Group's payment terms with suppliers vary on the products and services being sourced, the competitive global markets the Group operates in and other commercial aspects of suppliers' relationships. Industry average payment terms vary between 90 to 120 days. The Group offers reduced payment terms for smaller suppliers, who are typically on 75-day payment terms, so that they are paid in 30 days. In line with civil aviation industry practice, the Group offers a supply chain financing (SCF) programme in partnership with banks to enable suppliers, including joint ventures who are on 90-day standard payment terms, to receive their payments sooner. The SCF programme is available to suppliers at their discretion and does not change rights and obligations with suppliers nor the timing of payment of suppliers. At 30 June 2023, suppliers had drawn £802m under the SCF scheme (31 December 2022: £422m) of which £573m (31 December 2022: £180m) is drawn by joint ventures. The Group, in some cases, settles the costs incurred by the joint venture as a result of them utilising either the Group offered SCF arrangement, or an alternative SCF arrangement. During the period to 30 June 2023, the Group incurred costs of £12m (30 June 2022: £5m) to settle the costs incurred by joint ventures as a result of them utilising the Group offered SCF arrangement, these costs are included within other financing charges.

14 Financial assets and liabilities

Carrying value of other financial assets and liabilities

	Derivatives							
	Foreign exchange contracts £m	**Commodity contracts £m**	**Interest rate contracts [1] £m**	**Total derivatives £m**	**Financial RRSAs £m**	**Other £m**	**C Shares £m**	**Total £m**
At 30 June 2023								
Non-current assets	**15**	**3**	**374**	**392**	**–**	**22**	**–**	**414**
Current assets	**4**	**12**	**23**	**39**	**–**	**11**	**–**	**50**
Assets	**19**	**15**	**397**	**431**	**–**	**33**	**–**	**464**
Current liabilities	**(573)**	**(6)**	**(28)**	**(607)**	**(7)**	**(22)**	**(24)**	**(660)**
Non-current liabilities	**(2,158)**	**(9)**	**(106)**	**(2,273)**	**(10)**	**(82)**	**–**	**(2,365)**
Liabilities	**(2,731)**	**(15)**	**(134)**	**(2,880)**	**(17)**	**(104)**	**(24)**	**(3,025)**
	(2,712)	**–**	**263**	**(2,449)**	**(17)**	**(71)**	**(24)**	**(2,561)**
At 31 December 2022								
Non-current assets	58	25	436	519	–	23	–	542
Current assets	87	40	2	129	–	12	–	141
Assets	145	65	438	648	–	35	–	683
Current liabilities	(966)	(1)	(2)	(969)	(8)	(15)	(24)	(1,016)
Non-current liabilities	(3,030)	(2)	(98)	(3,130)	(14)	(86)	–	(3,230)
Liabilities	(3,996)	(3)	(100)	(4,099)	(22)	(101)	(24)	(4,246)
	(3,851)	62	338	(3,451)	(22)	(66)	(24)	(3,563)

[1] Includes the foreign exchange impact of cross-currency interest rate swaps

Derivative financial instruments

Movements in fair value of derivative financial assets and liabilities were as follows:

	Half-year to 30 June 2023 £m					Year-ended 31 December 2022 £m
	Foreign exchange instruments £m	Commodity instruments £m	Interest rate instruments – hedge accounted [1] £m	Interest rate instruments – non-hedge accounted £m	Total	Total
At 1 January	**(3,851)**	**62**	**125**	**213**	**(3,451)**	(2,913)
Movements in fair value hedges	**–**	**–**	**(98)**	**–**	**(98)**	(74)
Movements in cash flow hedges	**–**	**–**	**(30)**	**–**	**(30)**	86
Movements in other derivative contracts [2]	**407**	**(52)**	**–**	**60**	**415**	(1,579)
Contracts settled	**732**	**(10)**	**28**	**(35)**	**715**	1,029
At 30 June/31 December	**(2,712)**	**–**	**25**	**238**	**(2,449)**	(3,451)

[1] Includes the foreign exchange impact of cross-currency interest rate swaps

[2] Included in net financing

Financial risk and revenue sharing arrangements (RRSAs) and other financial assets and liabilities

Movements in the carrying values were as follows:

	Financial RRSAs		Other - assets		Other - liabilities	
	Half-year to 30 June 2023 £m	Year-ended 31 December 2022 £m	Half-year to 30 June 2023 £m	Year-ended 31 December 2022 £m	Half-year to 30 June 2023 £m	Year-ended 31 December 2022 £m
At 1 January	**(22)**	(12)	**25**	15	**(101)**	(75)
Exchange adjustments included in OCI	**1**	(2)	**(1)**	2	**3**	(4)
Additions	**–**	(6)	**–**	11	**(7)**	(35)
Financing charge [1]	**–**	–	**–**	–	**–**	(4)
Excluded from underlying profit:						
Changes in forecast payments [1]	**–**	(7)	**–**	–	**–**	–
Cash paid	**4**	5	**–**	(3)	**1**	8
Other	**–**	–	**–**	–	**–**	9
At 30 June/31 December	**(17)**	(22)	**24**	25	**(104)**	(101)

[1] Included in net financing

14 Financial assets and liabilities continued

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

	Half-year to 30 June 2023		Year-ended 31 December 2022	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Borrowings – Level 1	**(3,957)**	**(3,806)**	(4,095)	(3,812)
Borrowings – Level 2	**(16)**	**(18)**	(13)	(15)
Financial RRSAs – Level 3	**(17)**	**(17)**	(22)	(22)

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. There have been no transfers during the period from or to Level 3 valuation. Fair values have been determined with reference to available market information at the balance sheet date, using the methodologies described below.

- Non-current investments primarily comprise unconsolidated companies where fair value approximates to the book value. Listed investments are valued using Level 1 methodology.
- Money market funds, included within cash and cash equivalents, are valued using Level 1 methodology. Fair values are assumed to approximately equal 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.
- The fair values of held to collect trade receivables and similar items, trade payables and other similar items, other non-derivative financial assets and liabilities, 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 and trade receivable held to collect or sell are estimated by discounting expected future contractual cash flows using prevailing interest rate curves or cost of borrowing, as appropriate. 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*).
- Borrowings are carried at amortised cost. Amounts denominated in foreign currencies are valued at the exchange rate prevailing at the balance sheet date. The fair value of borrowings is estimated using quoted prices (Level 1 as defined by IFRS 13) or by discounting contractual future cash flows (Level 2 as defined by IFRS 13).
- The fair values of RRSAs and other liabilities, which primarily includes royalties to be paid to airframers, are estimated by discounting expected future cash flows. The contractual cash flows are based on future trading activity, which is estimated based on latest forecasts (Level 3 as defined by IFRS 13).
- Other assets are included on the balance sheet at fair value, derived from observable market prices or latest forecast (Level 2/3 as defined by IFRS 13). At 30 June 2023, Level 3 assets totalled £24m (31 December 2022: £25m).
- The fair value of lease liabilities are estimated by discounting future contractual cash flows using either the interest rate implicit in the lease or the Group's incremental cost of borrowing (Level 2 as defined by IFRS 13).

15 Provisions for liabilities and charges

	At 1 January 2023 £m	Charged to income statement [1] £m	Reversed £m	Utilised £m	Exchange differences £m	At 30 June 2023 £m
Contract losses	1,592	177	(235)	(86)	(3)	1,445
Warranty and guarantees	317	55	(3)	(52)	(11)	306
Trent 1000 wastage costs	179	43	(29)	(44)	–	149
Insurance	40	12	(2)	(4)	–	46
Employer liability claims	33	–	–	–	–	33
Restructuring	6	12	–	–	(1)	17
Tax related interest and penalties	16	–	–	(1)	–	15
Claims and litigation	82	47	(1)	(5)	–	123
Other	68	9	(5)	(33)	(1)	38
	2,333	355	(275)	(225)	(16)	2,172
Current liabilities	632					651
Non-current liabilities	1,701					1,521

[1] The charge to the income statement includes £2m (30 June 2022: £15m) as a result of the unwinding of the discounting of provisions previously recognised

Contract losses

Provisions for contract losses are recorded when the direct costs to fulfil a contract are assessed as being greater than the expected recoverable amount. Provisions for contract losses are measured on a fully costed basis and during the period, additional contract losses for the Group of £177m have been recognised as a result of changes in future cost estimates and number of shop visits. Contract losses of £235m previously recognised have been reversed as a result of changes in future estimates, contractual improvements and extensions. The Group continues to monitor the contract loss provision for changes in the market and revises the provision as required. The value of the remaining contract loss provisions reflect, in each case, the single most likely outcome. The provisions are expected to be utilised over the term of the customer contracts, typically within 8 to 16 years.

Warranty and guarantees

Provisions for warranty and guarantees relate to products sold and are calculated based on an assessment of the remediation costs related to future claims based on past experience. The provision generally covers a period of up to three years.

Trent 1000 wastage costs

In November 2019, the Group announced the outcome of testing and a thorough technical and financial review of the Trent 1000 TEN programme, following technical issues which were identified in 2019, resulting in a revised timeline and a more conservative estimate of durability for the improved HP turbine blade for the TEN variant. During the period, the Group has utilised £44m of the Trent 1000 wastage costs provision. This represents customer disruption costs and remediation shop visit costs. During the period, additional Trent 1000 costs of £43m have been recognised reflecting delays in certification which have led to revised cost and timing estimates. The value of the remaining provision reflects the single most likely outcome and is expected to be utilised over the period 2023-2024.

Insurance

The Group’s captive insurance company retains a portion of the exposures it insures on behalf of the remainder of the Group which include policies for aviation claims, employer liabilities and healthcare claims. Significant delays can occur in the notification and settlement of claims and judgement is involved in assessing outstanding liabilities, the ultimate cost and timing of which cannot be known with certainty at the balance sheet date. The insurance provisions are based on information currently available, however it is inherent in the nature of the business that ultimate liabilities may vary if the frequency or severity of claims differs from estimated. Provisions for outstanding claims are established to cover the outstanding expected liability as well as claims incurred but not yet reported.

Employer liability claims

The provision relating to employer healthcare liability claims is as a result of an historical insolvency of the previous provider and is expected to be utilised over the next 30 years.

Claims and litigation

Provisions for claims and litigation represent ongoing matters where the outcome for the Group may be unfavourable. Included in the provision is a legal claim for £98m where judgment was rendered by the High Court on 3 July 2023, resulting in a charge to the income statement of £34m to reflect the expected sum due. The provision for this claim is expected to be utilised in the second half of the year. The value of any remaining provisions reflects the single most likely outcome in each case.

Other

Other provisions predominately include other items that are individually immaterial. The value of any remaining provisions reflects the single most likely outcome in each case.

16 Post-retirement benefits

The net post-retirement surplus/(deficit) as at 30 June 2023 is calculated on a year to date basis, using the latest valuation as at 30 March 2020, updated to 30 June 2023 for the principal schemes.

Amounts recognised in the balance sheet in respect of defined benefit schemes

	UK schemes £m	Overseas schemes £m	Total £m
At 1 January 2023	**594**	**(1,014)**	**(420)**
Exchange adjustments	**–**	**38**	**38**
Current service cost and administrative expenses	**(4)**	**(18)**	**(22)**
Past service cost	**–**	**(3)**	**(3)**
Financing recognised in the income statement	**14**	**(21)**	**(7)**
Contributions by employer	**–**	**38**	**38**
Actuarial gains/(losses) recognised in OCI [1]	**219**	**(21)**	**198**
Returns on plan assets excluding financing recognised in OCI [1]	**(249)**	**16**	**(233)**
At 30 June 2023	**574**	**(985)**	**(411)**
Post-retirement scheme surpluses – included in non-current assets [2]	**574**	**17**	**591**
Post-retirement scheme deficits – included in non-current liabilities	**–**	**(1,002)**	**(1,002)**

[1] Actuarial gains and losses and returns on plan assets recognised in OCI on the UK scheme are primarily driven by movements in discount rate increases, which the movements in the fair value of the scheme assets predominately offset

[2] The surplus in the Rolls-Royce UK Pension Fund (RRUKPF) is recognised as, on ultimate wind-up when there are no longer any remaining members, any surplus would be returned to the Group, which has the power to prevent the surplus being used for other purposes in advance of this event

Changes to defined benefit schemes

During the period, Power Systems continued to replace a number of their existing defined benefit schemes with a new company pension scheme to offer payment options at time of retirement for other employee populations not included in 2022. The new system, which is similar in structure to a defined contribution scheme with a guarantee from the Company in accordance with German legislation, significantly reduces interest risks and longevity risks for the employer for future commitments. A past service cost of £3m has been recognised within non-underlying operating profit.

17 Contingent liabilities and commitments

In January 2017, after full cooperation, the Company concluded deferred prosecution agreements (DPA) with the SFO and the US Department of Justice (DoJ) and a leniency agreement with the MPF, the Brazilian federal prosecutors. The terms of both DPAs have now expired. The Company continues to co-operate with the Controller General, Brazil (CGU) under the terms of a two-year leniency agreement signed in October 2021 relating to the same historical matters. Certain authorities are investigating members of the Group for matters relating to misconduct in relation to historical matters. The Group is responding appropriately. Action may be taken by further authorities against the Company or individuals. In addition, the Group could still be affected by actions from other parties, including customers, customers' financiers and the Company's current and former investors, including certain potential claims in respect of the Group's historical ethics and compliance disclosures which have been notified to the Company. The Directors are not currently aware of any matters that are likely to lead to a material financial loss over and above the penalties imposed to date, but cannot anticipate all the possible actions that may be taken or their potential consequences.

Contingent liabilities exist in respect of guarantees provided by the Group in the ordinary course of business for product delivery, commitments made for future service demand in respect of maintenance, repair and overhaul, and 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 party to legal actions and claims (including with tax authorities) 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.

In connection with the sale of its products, the Group will, on some occasions, provide financing support for its customers, generally in respect of civil aircraft. The Group's commitments relating to these financing arrangements are spread over many years, relate to a number of customers and a broad product portfolio and are generally secured on the asset subject to the financing. These include commitments of $1.1bn (31 December 2022: $1.2bn) (on a discounted basis) to provide facilities to enable customers to purchase aircraft (of which approximately $0.3bn could be called during 2023). These facilities may only be used if the customer is unable to obtain financing elsewhere and are priced at a premium to the market rate. Significant events impacting the international aircraft financing market, the failure by customers to meet their obligations under such financing agreements, or inadequate provisions for customer financing liabilities may adversely affect the Group's financial position.

Customer financing provisions are made to cover guarantees provided for asset value and/or financing where it is probable that a payment will be made. These are reported on a discounted basis at the Group's borrowing rate to better reflect the time span over which these exposures could arise. The values of aircraft providing security are based on advice from a specialist aircraft appraiser. There were no provisions for customer financing provisions at 30 June 2023 or 31 December 2022.

The Group has responded appropriately to the Russia-Ukraine conflict to comply with international sanctions and export control regime, and also to implement the business decision to exit from Russia. The Group could be subject to action by impacted customers and other contract parties.

While the outcome of the above 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.

18 Related party transactions

	Half-year to 30 June 2023 £m	Half-year to 30 June 2022 £m
Sale of goods and services [1]	**2,156**	1,312
Purchases of goods and services [1]	**(2,692)**	(2,340)

[1] Sales of goods and services to related parties and purchases of goods and services from related parties, including joint ventures and associates, are included at the average exchange rate, consistent with the statutory income statement

Included in sales of goods and services to related parties are sales of spare engines amounting to £1m (30 June 2022: £nil). Profit recognised in the period on such sales amounted to £30m (30 June 2022: £19m), including profit on current year sales and recognition of profit deferred on similar sales in previous years. Cash receipts relating to the sale of spare engines amounted to £nil (30 June 2022: £nil).

Included in other financing charges are interest costs of £15m (30 June 2022: £6m) incurred during the period which have been settled by the Group on behalf of joint ventures, including the costs incurred using the Group offered SCF arrangement set out in note 13.

19 Acquisitions, disposals and discontinued operations

Acquisitions

On 30 June 2023, the Group completed their acquisition of Team Italia Marine S.R.L for a cash consideration of £12m. Team Italia specialises in yacht bridges and marine navigation and automation systems. The acquisition will provide key technology for marine automation systems and will strengthen Power Systems' position as a yacht market leader. Of the acquisition cost of £12m, £5m has been allocated to identifiable intangible assets and £7m to other current assets and liabilities. As permitted by IFRS 3 *Business Combinations*, the fair value of acquired identifiable assets and liabilities have been presented on a provisional basis.

Disposals

During the period, the Group divested its 49% shareholding in its joint venture, Shanxi North MTU Diesel Co. Limited to the current JV partner for proceeds of £5m. The carrying value of the Group's share in its joint venture disposed was £5m which has been derecognised on the disposal resulting in nil profit on disposal.

Reconciliation of profit on disposal of businesses in continuing operations to the income statement:	**Total**
	£m
Profit before taxation on disposal	**–**
Adjustment to consideration on disposals completed in prior periods	**1**
Profit on disposal of businesses per income statement	**1**

Reconciliation of cash flow on acquisition and disposal of businesses to the cash flow statement:	**Total**
	£m
Proceeds on disposal (see above)	**5**
Cash outflow on acquisitions	**(12)**
Cash outflow on disposals completed in prior periods	**(2)**
Cash flow on acquisition and disposal of businesses per cash flow statement	**(9)**

Discontinued operations

ITP Aero represented a separate major line of business and was classified as a disposal group held for sale up to the date of disposal. Therefore the results up to 15 September 2022, in line with IFRS 5, had been presented as discontinued operations.

The financial performance and cash flow information presented reflects the operations for the period that have been classified as discontinued operations.

	Half-year to 30 June 2023	Half-year to 30 June 2022
	£m	£m
Revenue	**–**	207
Operating profit [1]	**–**	72
Profit before taxation [1]	**–**	67
Income tax charge [1]	**–**	(7)
Profit for the period from discontinued operations on ordinary activities	**–**	60
Costs on disposal of discontinued operations [2]	**–**	(4)
Profit for the period from discontinued operations	**–**	56
Net cash inflow from operating activities [2]	**–**	56
Net cash outflow from investing activities [2]	**–**	(14)
Net cash outflow from financing activities	**–**	(32)
Exchange gains	**–**	1
Net change in cash and cash equivalents	**–**	11

[1] Profit/(loss) from discontinued operations on ordinary activities is presented net of intercompany trading eliminations and related consolidation adjustments

[2] Cash flows from investing activities include £nil (30 June 2022: included in operating activities of £1m) costs of disposal paid during the period that are not a movement in the cash balance of the disposal group as they were borne centrally

20 Derivation of summary funds flow statement

	Half-year to 30 June 2023					Half-year to 30 June 2022
	Cash flow £m	**Impact of hedge book £m**	**Impact of acquisition accounting £m**	**Impact of other non-underlying items £m**	**Funds flow £m**	Funds flow £m
Operating profit	**797**	**(165)**	**24**	**17**	**673**	125
Operating profit from discontinued operations	**–**	**–**	**–**	**–**	**–**	68
Depreciation, amortisation and impairment	**513**	**–**	**(24)**	**–**	**489**	455
Movement in provisions	**(142)**	**26**	**–**	**21**	**(95)**	(116)
Movement in Civil LTSA balance	**857**	**(130)**	**–**	**–**	**727**	433
(Profit)/loss on disposal of property, plant and equipment	**(1)**	**–**	**–**	**–**	**(1)**	16
Joint venture trading	**(73)**	**–**	**–**	**–**	**(73)**	(29)
Interest received	**60**	**–**	**–**	**–**	**60**	6
Contributions to defined benefit schemes in excess of underlying operating profit charge	**(13)**	**–**	**–**	**(3)**	**(16)**	(1)
Share-based payments	**23**	**–**	**–**	**–**	**23**	24
Other	**–**	**(7)**	**–**	**–**	**(7)**	(30)
Operating cash flow before working capital and taxation	**2,021**	**(276)**	**–**	**35**	**1,780**	951
Increase in inventories	**(557)**	**–**	**–**	**–**	**(557)**	(692)
Movement in trade receivables/payables and other assets/liabilities	**(666)**	**(290)**	**–**	**(9)**	**(965)**	320
Movement in contract assets/liabilities (excluding Civil LTSA)	**297**	**36**	**–**	**–**	**333**	287
Revaluation of trading assets (excluding exceptional items) [1]	**93**	**(2)**	**–**	**–**	**91**	(386)
Realised derivatives in financing [1]	**522**	**–**	**–**	**–**	**522**	202
Cash flows on other financial assets and liabilities held for operating purposes	**(516)**	**522**	**–**	**–**	**6**	35
Income tax	**(59)**	**–**	**–**	**–**	**(59)**	(88)
Cash from operating activities	**1,135**	**(10)**	**–**	**26**	**1,151**	629
Capital element of lease payments	**(167)**	**10**	**–**	**–**	**(157)**	(85)
Capital expenditure	**(287)**	**–**	**–**	**2**	**(285)**	(167)
Investment	**17**	**–**	**–**	**–**	**17**	6
Interest paid	**(159)**	**–**	**–**	**–**	**(159)**	(172)
Settlement of excess derivatives	**(210)**	**–**	**–**	**–**	**(210)**	(265)
Other (M&A, restructuring and exceptional transformation costs)	**27**	**–**	**–**	**(28)**	**(1)**	(23)
Free cash flow	**356**	**–**	**–**	**–**	**356**	(77)
Of which is continuing operations	***356***				***356***	*(68)*

[1] Included in working capital

The comparative information to 30 June 2022 has been presented in a different format to align to the current year presentation. In some instances, the groupings of items may have changed. All comparative figures remain unchanged versus those reported in the 2022 Condensed Consolidated Interim Financial Statements.

Free cash flow is a measure of the financial performance of the businesses' cash flows which is consistent with the way in which performance is communicated with the Board. Free cash flow is defined as cash flows from operating activities including capital expenditure and movements in investments, capital elements of lease payments, interest paid, amounts paid relating to the settlement of excess derivatives and excluding amounts spent or received on activity related to business acquisitions or disposals and other material exceptional or one-off cash flows.

Cash flow from operating activities is determined to be the nearest statutory measure to free cash flow.

Reconciliation of Alternative Performance Measures (APMs) to their statutory equivalent

Alternative Performance Measures (APMs)

Business performance is reviewed and managed on an underlying basis. These alternative performance measures reflect the economic substance of trading in the period. In addition, a number of other APMs are utilised to measure and monitor the Group's performance.

Definitions and reconciliations to the relevant statutory measure are included below. All comparative periods relate to 30 June 2022.

Underlying results from continuing operations

Underlying results include underlying revenue, underlying operating profit and underlying EPS. Underlying results are presented by recording all relevant revenue and cost of sales transactions at the average exchange rate achieved on effective settled derivative contracts in the period that the cash flow occurs. Underlying results also exclude: the effect of acquisition accounting and business disposals, impairment of goodwill and other non-current assets where the reasons for the impairment are outside of normal operating activities, exceptional items and certain other items which are market driven and outside of managements control. Statutory results have been adjusted for discontinued operations and underlying results from continuing operations have been presented on the same basis. Further detail can be found in note 2 and note 19.

	2023 £m	2022 £m
Revenue from continuing operations		
Statutory revenue	**7,523**	5,600
Derivative and FX adjustments	**(573)**	(292)
Underlying revenue	**6,950**	5,308

Operating profit from continuing operations		
Statutory operating profit	**797**	223
Derivative and FX adjustments	**(165)**	(119)
Programme exceptional credits	**(21)**	(22)
Exceptional restructuring and transformation charges	**35**	32
Acquisition accounting and M&A	**24**	23
Impairments	**–**	(11)
Other underlying adjustments	**3**	(1)
Underlying operating profit	**673**	125

	2023 pence	2022 pence
Basic EPS from continuing operations		
Statutory basic EPS	**14.70**	(19.29)
Effect of underlying adjustments to profit/(loss) before tax	**(10.71)**	19.69
Related tax effects	**0.91**	(2.64)
Basic underlying EPS	**4.90**	(2.24)

Underlying results from discontinued operations

	2023 £m	2022 £m
Results from discontinued operations		
Profit for the period on ordinary activities	**–**	60
Costs of disposal of discontinued operations	**–**	(4)
Statutory operating profit	**–**	56
Acquisition accounting and M&A	**–**	1
Derivative and FX adjustments	**–**	2
Underlying operating profit	**–**	59

Organic change

Organic change is the measure of change at constant translational currency applying full year 2022 average rates to 2023. The movement in underlying change to organic change is reconciled below.

All amounts below are shown on an underlying basis and reconciled to the nearest statutory measure above.

Total Group income statement

	2023 £m	2022 £m	Change £m	FX £m	Organic Change £m	Organic Change %
Underlying revenue	**6,950**	5,308	1,642	155	1,487	28%
Underlying gross profit	**1,515**	942	573	38	535	55%
Underlying operating profit	**673**	125	548	17	531	382%
Net financing costs	**(149)**	(236)	87	1	86	(36)%
Underlying profit/(loss) before taxation	**524**	(111)	635	18	617	(636)%
Taxation	**(120)**	(77)	(43)	(1)	(42)	55%
Underlying profit/(loss) for the period (continuing operations)	**404**	(188)	592	17	575	(330)%

Civil Aerospace

	2023 £m	2022 £m	Change £m	FX £m	Organic Change £m	Organic Change %
Underlying revenue	**3,257**	2,339	918	26	892	38%
Underlying OE revenue	**1,055**	660	395	10	385	58%
Underlying services revenue	**2,202**	1,679	523	16	507	30%
Underlying gross profit	**690**	256	434	9	425	162%
Commercial and administrative costs	**(171)**	(183)	12	(1)	13	(7)%
Research and development costs	**(195)**	(202)	7	(5)	12	(6)%
Joint ventures and associates	**81**	50	31	2	29	56%
Underlying operating profit/(loss)	**405**	(79)	484	5	479	(656)%

Defence

	2023 £m	2022 £m	Change £m	FX £m	Organic Change £m	Organic Change %
Underlying revenue	**1,913**	1,609	304	60	244	15%
Underlying OE revenue	**841**	697	144	23	121	17%
Underlying services revenue	**1,072**	912	160	37	123	13%
Underlying gross profit	**379**	326	53	10	43	13%
Commercial and administrative costs	**(86)**	(86)	–	(1)	1	(1)%
Research and development costs	**(34)**	(53)	19	(2)	21	(38)%
Joint ventures and associates	**2**	2	–	–	–	–
Underlying operating profit	**261**	189	72	7	65	33%

Power Systems

	2023 £m	2022 £m	Change £m	FX £m	Organic Change £m	Organic Change %
Underlying revenue	**1,774**	1,371	403	69	334	24%
Underlying OE revenue	**1,175**	849	326	45	281	33%
Underlying services revenue	**599**	522	77	24	53	10%
Underlying gross profit	**452**	401	51	19	32	8%
Commercial and administrative costs	**(233)**	(204)	(29)	(10)	(19)	9%
Research and development costs	**(96)**	(79)	(17)	(4)	(13)	16%
Joint ventures and associates	**2**	1	1	1	–	–
Underlying operating profit	**125**	119	6	6	–	–

New Markets

	2023 £m	2022 £m	Change £m	FX £m	Organic Change £m	Organic Change %
Underlying revenue	**1**	1	–	–	–	–
Underlying OE revenue	**1**	–	1	–	1	–
Underlying services revenue	**–**	1	(1)	–	(1)	(100)%
Underlying gross loss	**–**	(2)	2	–	2	(100)%
Commercial and administrative costs	**(14)**	(9)	(5)	–	(5)	56%
Research and development costs	**(64)**	(37)	(27)	(1)	(26)	70%
Underlying operating loss	**(78)**	(48)	(30)	(1)	(29)	60%

Reconciliation of Alternative Performance Measures (APMs) to their statutory equivalent continued

Trading cash flow

Trading cash flow is defined as free cash flow (as defined below) before the deduction of recurring tax and post-employment benefit expenses. Trading cash flow per segment is used as a measure of business performance for the relevant segments.

	2023 £m	2022 £m
Civil Aerospace	**401**	63
Defence	**76**	89
Power Systems	**22**	(76)
New Markets	**(42)**	(30)
Total reportable segments trading cash flow	**457**	46
Other businesses	**8**	(1)
Central and inter-segment	**(34)**	(24)
Trading cash flow from continuing operations	**431**	21
Discontinued operations	**–**	(9)
Trading cash flow	**431**	12
Underlying operating profit charge exceeded by contributions to defined benefit schemes	**(16)**	(1)
Tax [1]	**(59)**	(88)
Free cash flow	**356**	(77)

[1] See page 13 for tax paid in the statutory cash flow statement

Free cash flow

Free cash flow is a measure of the financial performance of the businesses' cash flows which is consistent with the way in which performance is communicated with the Board. Free cash flow is defined as cash flows from operating activities including capital expenditure and movements in investments, capital elements of lease payments, interest paid, amounts paid relating to the settlement of excess derivatives and excluding amounts spent or received on activity related to business acquisitions or disposals and other material exceptional or one-off cash flows. Free cash flow from continuing operations has been presented to remove free cash flow from discontinued operations as defined in note 19. For further detail, see note 20.

	2023 £m	2022 £m
Statutory cash flows from operating activities	**1,135**	597
Capital expenditure	**(287)**	(189)
Investment (including investment from NCI and movement in joint ventures, associates and other investments)	**17**	6
Capital element of lease payments	**(167)**	(95)
Interest paid	**(159)**	(172)
Settlement of excess derivatives	**(210)**	(265)
Exceptional restructuring and transformation costs	**28**	48
M&A costs	**–**	18
Other	**(1)**	(25)
Free cash flow	**356**	(77)
Discontinued operations free cash flow [1]	**–**	9
Free cash flow from continuing operations	**356**	(68)

[1] Discontinued operations free cash excludes: transactions with parent company of £nil (30 June 2022: £(34)m), movements in borrowings of £nil (30 June 2022: £25m), exceptional restructuring costs of £nil (30 June 2022: £nil), M&A costs of £nil (30 June 2022: £(2)m) and other of £nil (30 June 2022: £(8)m)

Gross R&D expenditure

R&D expenditure during the period excluding the impact of contributions and fees, including government funding, amortisation and impairment of capitalised costs and amounts capitalised during the period. For further detail, see note 3.

	2023 £m	2022 £m
Statutory research and development costs	**(389)**	(373)
Amortisation and impairment of capitalised cost	**43**	40
Capitalised as intangible assets	**(84)**	(48)
Contributions and fees	**(254)**	(218)
Gross R&D expenditure	**(684)**	(599)

Principal risks and uncertainties

Our risk management system is described on pages 42 to 47 of our 2022 Annual Report as a continuous process that requires risk owners to constantly reassess risks and include learning from incidents to drive improvements in our control environment.

We continue to review our principal risks and how we manage them to reflect their evolving nature. We review our risks in light of changes to the internal and external environment, in particular external pressures including inflation and supply chain constraints. We also focus on costs and productivity, tightly managing our cost base and making investment choices to deliver better performance, remain resilient and achieve our objectives. As part of the strategy review we are considering the principal risks facing the Group which are reported on pages 42 to 47 of our Annual Report 2022 and are summarised below:

Safety

Failure to: i) meet the expectations of our customers to provide safe products; or ii) create a place to work which minimises the risk of harm to our people, those who work with us, and the environment, would adversely affect our reputation and long-term sustainability.

Climate change

We recognise the urgency of the climate challenge and have committed to net zero carbon by 2050. The principal risk to meeting these commitments is the need to continue our transformation which will grow our business and allow us to play a stronger role in the energy transition. Failure to transition from carbon intensive products and services at pace could impact our ability to win future business; achieve operating results; attract and retain talent; secure access to funding; realise future growth opportunities; or force government intervention to limit emissions. In addition, physical risks from extreme weather events (and/or natural hazards) could potentially materialise, which may result in disruption for Rolls-Royce.

Compliance

Non-compliance by the Group with legislation or other regulatory requirements in the heavily regulated environment in which we operate (for example export controls, data privacy, use of controlled chemicals and substances, anti-bribery and corruption, human rights, and tax and customs legislation). This could affect our ability to conduct business in certain jurisdictions and would potentially expose the Group to: reputational damage; financial penalties; debarment from government contracts for a period of time; and suspension of export privileges (including export credit financing), each of which could have a material adverse effect.

Cyber threat

An attempt to cause harm to the Group, its customers, suppliers and partners through the unauthorised access, manipulation, corruption, or destruction of data, systems or products through cyberspace.

Financial shock

The Group is exposed to a number of financial risks, some of which are of a macroeconomic nature (for example foreign currency, interest rates, high inflation) and some of which are more specific to the Group (for example liquidity and credit risks).

Significant extraneous market events could also materially damage the Group's competitiveness and/or creditworthiness and our ability to access funding. This would affect operational results or the outcomes of financial transactions.

Strategic transformation

We see significant opportunities in playing a stronger role in the energy transition. Our strategy is to focus on delivering on our plans for existing and nascent business and to focus on exploiting opportunities to grow into new net zero areas, both organically and inorganically. Failure to execute this plan will prevent us from achieving our longer term ambitions.

Business continuity

The major disruption of the Group's operations, which results in our failure to meet agreed customer commitments and damages our prospects of winning future orders. Disruption could be caused by a range of events, for example: extreme weather or natural hazards (for example earthquakes, floods) which could increase in severity or frequency given the impact of climate change; political events; financial insolvency of a critical supplier; scarcity of materials; loss of data; fire; or infectious disease. The consequences of these events could have an adverse impact on our people, our internal facilities or our external supply chain.

Competitive environment

Existing competitors: the presence of competitors in the majority of our markets means that the Group is susceptible to significant price pressure for original equipment or services and we may have to absorb cost increases caused by high inflation. Our main competitors have access to significant government funding programmes as well as the ability to invest heavily in technology and industrial capability.

Existing products: failure to achieve cost reduction, contracted technical specification, product (or component) life or falling significantly short of customer expectations, would have potentially significant adverse financial and reputational consequences, including the risk of impairment of the carrying value of the Group's intangible assets and the impact of potential litigation.

New programmes and projects: failure to deliver key projects on time, within budget, to technical specification or falling significantly short of customer expectations would have potentially significant adverse financial and reputational consequences.

Disruptive technologies (or new entrants with alternative business models): could reduce our ability to sustainably win future business, achieve operating results and realise future growth opportunities.

Market shock

The Group is exposed to a number of market risks, some of which are of a macroeconomic nature (for example economic growth rates) and some of which are more specific to the Group (for example, reduction in air travel or defence spending, or disruption to other customer operations). A large proportion of our business is reliant on the civil aviation industry, which is cyclical in nature.

Demand for our products and services could be adversely affected by factors such as current and predicted air traffic, fuel prices and age/replacement rates of customer fleets.

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. Examples include changes in key political relationships, explicit trade protectionism, differing tax or regulatory regimes, potential for conflict or broader political issues; and heightened political tensions.

Talent and capability

Inability to identify, attract, retain and apply the critical capabilities and skills needed in appropriate numbers to effectively organise, deploy and incentivise our people would threaten the delivery of our strategies.

Payments to shareholders

We had a ten year track record of payments to shareholders prior to the pandemic but had to cease payments in 2020 to protect our balance sheet. We are still restricted by some of the conditions attached to our loan facilities from making payments to shareholders at this time. We are committed to returning to an investment grade credit rating through performance improvement and to resuming shareholder payments.

Shareholders wishing to redeem their existing C Shares must lodge instructions with the Registrar to arrive no later than 5.00pm on 1 December 2023 (CREST holders must submit their election in CREST by 2.55pm). The payment of C Share redemption monies will be made on 4 January 2024 and the CRIP purchase will begin as soon as practicable after 5 January 2024.

Statement of Directors' responsibilities

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

• the Condensed Consolidated Interim Financial Statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the UK;

• 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 Interim 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.

By order of the Board

Tufan Erginbilgic	Panos Kakoullis
Chief Executive	Chief Financial Officer
2 August 2023	2 August 2023

Independent review report to Rolls-Royce Holdings plc
Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed Rolls-Royce Holdings plc's condensed consolidated interim financial statements (the "interim financial statements") in the 2023 Half Year Results of Rolls-Royce Holdings plc for the 6 month period ended 30 June 2023 (the "period").

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

The interim financial statements comprise:

- the Condensed consolidated balance sheet as at 30 June 2023;
- the Condensed consolidated income statement and Condensed consolidated statement of comprehensive income for the period then ended;
- the Condensed consolidated cash flow statement for the period then ended;
- the Condensed consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the 2023 Half Year Results of Rolls-Royce Holdings plc have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Financial Reporting Council for use in the United Kingdom ("ISRE (UK) 2410"). 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, 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.

We have read the other information contained in the 2023 Half Year Results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed. This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410. However, future events or conditions may cause the group to cease to continue as a going concern.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The 2023 Half Year Results, including the interim financial statements, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the 2023 Half Year Results in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority. In preparing the 2023 Half Year Results, including the interim financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Our responsibility is to express a conclusion on the interim financial statements in the 2023 Half Year Results based on our review. Our conclusion, including our Conclusions relating to going concern, is based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion paragraph of this report. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants
London
2 August 2023