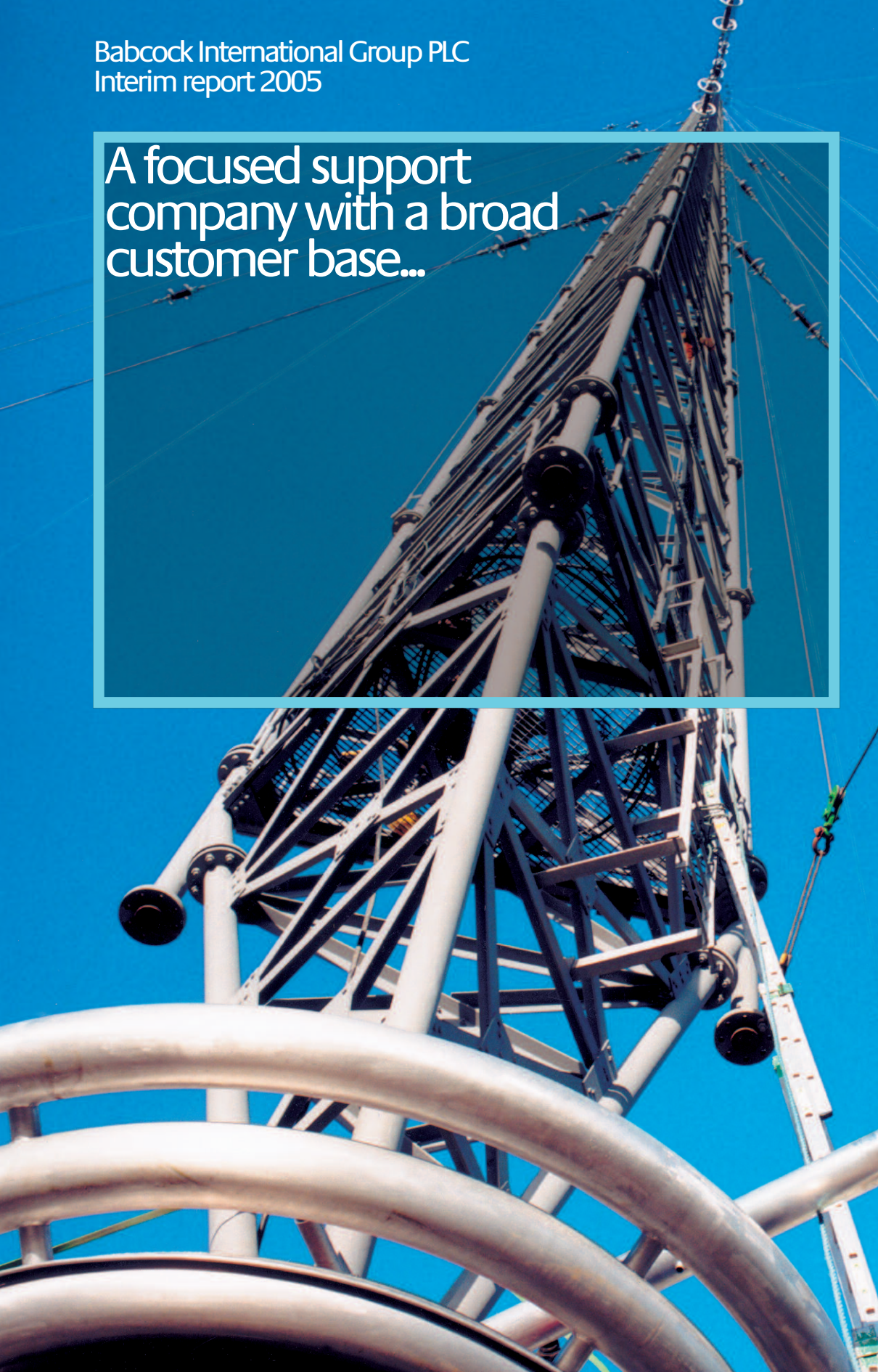


A focused support
company with a broad
customer base...



Financial highlights

	September 2005	September 2004	% Change
Sales	£398.9m	£332.8m	20
Operating profit	£23.6m	£13.4m	76
Profit before tax	£20.2m	£11.2m	80
Continuing Earnings per share	7.53p	4.80p	57
Net debt	£52.3m	£71.1m	
Dividend – interim declared	1.75p	1.35p	30

The following table shows the ‘underlying’ results before amortisation of acquired intangibles £1.6 million (2004: £1.6 million) and operating exceptionals £nil (2004: £5.9 million loss), and before the related tax effects of credit £0.5 million (2004: credit £1.6 million). We believe that these adjusted results provide a better comparison of underlying performance.

Underlying	September 2005	September 2004	% Change
Operating profit	£25.2m	£20.9m	21
Profit before tax	£21.8m	£18.7m	17
Continuing Earnings per share	8.06p	8.21p	(2)

Business highlights

Sales and profits continue double-digit growth

Significant contract wins in Defence and Rail

Order book at £2 billion

Cash conversion again excellent – net debt at £52.3 million

First half margins maintained above 6%

Interim dividend raised by 30%

Introduction

A good first half of the financial year continued to provide double-digit growth in both sales and profits with sales from continuing operations increasing by almost 20% and underlying operating profits (pre amortisation of acquired intangibles and exceptional items) from continuing operations rising by just over 20%.

During the period we secured the expected extension to the contract for management of HM Naval Base, Clyde, and won the contract for management of the Ministry of Defence estate in the East of England (Regional Prime Contract East). The contract to manage the third of Network Rail's High Output equipment was also won during the period. We have, in addition, won a number of smaller contracts with Network Rail and National Grid Transco. Progress has been made on the Royal School of Military Engineering PFI and on our bid for the Defence Training Review, which is due for submission this month.

The broadened customer base we secured with the acquisition of Peterhouse Group is providing the benefits we forecast and we continue to be well positioned for future growth.

Defence services: turnover £121.9 million (2004: £107.5 million)

Defence Services continued its pattern of profitable growth with sales up by 13% and underlying operating profits increasing by 16%. These figures reflect the running rate of contracts started last financial year which are now fully on stream.

The award of the Regional Prime Contract East (RPCE) was an excellent achievement – Babcock is the only company to have a share in two (of the five) Regional Prime Contracts and more than justifies our commitment to bidding on all of these. Equally welcome was the certainty brought to the business by the extension to the contract to manage HM Naval Base Clyde. We will be using this stability to broaden our activities.

We continue to make progress on the Royal School of Military Engineering which is now scheduled for 'Main Gate' (ministry approval) in the first half of 2006. We have committed a significant amount of time and resource to our bid for the Defence Training Review and that bid was submitted on 14 November. We do not expect selection of Preferred Bidder until late 2006.

Technical services: turnover £65.7 million (2004: £81.7 million)

The decline in activity at Rosyth continued, as predicted, through the period. The Naval refit programme is approaching its low point and will now pick up gradually. We have continued to manage the cost-base at Rosyth to ensure that it remains profitable with this lower level of refit work.

We are participating in discussions on the Future Aircraft Carrier and with the Ministry of Defence on the Maritime Industrial Strategy. No clear picture has yet emerged of the possible outcomes but we will continue to judge proposals on the basis of shareholder value.

The module construction work on Terminal 5 has now ended – we are looking for further opportunities in similar fields and are hopeful that the construction work for the 2012 Olympics will employ similar techniques.

Design and Technology, Supply Chain Services and the post-nuclear programmes continue to perform satisfactorily and the action we took last year to reduce costs in the FBM business has restored it to profitability.

Engineering and plant services: turnover £68.3 million (2004: £52.5 million)

Our African business continues to grow rapidly with the market for construction equipment remaining strong. Parts sales are developing as anticipated and the improved margin on these sales is helping to drive up margins. Eskom (the power generation monopoly) has announced a substantial investment programme over the next decade in which we would expect to participate.

The small US pipeline business (Eagleton) has had a much improved first half. Initially the improvement was driven by the increased investment resulting from higher oil prices but the destruction caused by Hurricane Rita has also resulted in a high level of demand for the services which Eagleton provide.

Networks: turnover £48.9 million (2004: £28.7 million)

A good first half for networks was underpinned by the 3G roll out and increasing investment in infrastructure by National Grid. We continue to secure contracts with the network operators through both Eve and the Turner and Partners business.

A number of trials have been carried out with customers on the 'CARE' system developed by Eve. This system logs assets and predicts asset condition dependent on the environment in which those assets operate. We are optimistic that revenues from this product will increase over the next three years.

Rail: turnover £94.1 million (2004: £62.4 million)

The award of the second high output contract to our joint venture First Swietelsky was the high point of the first six months. We are now responsible for the operation of two out of three of the most modern track reinstatement facilities in the UK, with framework contracts in place until 2009.

While track replacement work has been maintained at very high levels the start of the period was very slow in signalling work. However the volume of work now being placed by Network Rail will ensure that we remain busy in this area for the balance of the year.

We continue to reduce overheads in this business and the plan to consolidate the Glasgow operations into a single, lower-cost facility is on track. We will also take the opportunity to consolidate our data centres into the new facility.

The Scottish Executive have provided considerable sums of money in their 10 year plan for work on railways including airport links for both Glasgow and Edinburgh airports and the reopening of a number of rail lines. We would expect to play a significant part in any such projects.

Financial review

IFRS

The Group results for the six months to 30 September 2005 are the first to be presented under IFRS. All comparative values for the previous year have been restated to align with IFRS requirements. A reconciliation between comparative values under IFRS and as reported under UK Generally Accepted Accounting Principles (UK GAAP) has been published previously and is available on the Group's website at www.babcock.co.uk. The information provided also includes a restatement of segmental performance and details of accounting policies adopted by the Group under IFRS.

Operating results from continuing businesses

Sales revenue increased 20% to £398.9 million (2004: £332.8 million) and included a full six months trading from the Rail and Networks businesses acquired with the Peterhouse Group in June 2004. Operating profit, stated before amortisation of acquired intangibles and exceptional items ('underlying operating profit'), was £25.2 million, an increase on last year of 21% and representing an operating margin of 6.3% (2004: 6.3%). After amortisation of acquired intangibles £1.6 million (2004: £1.6 million) and exceptional items, which were zero in the first six months (2004: £5.9 million loss), operating profit was £23.6 million (2004: £13.4 million).

Significant growth was achieved in all sectors bar Technical Services and more than compensated for the anticipated downturn in warship refit work in that business. Defence Services underlying operating profit was £8.9 million (2004: £7.7 million) on sales up 13% to £121.9 million. Networks sales grew 70% to £48.9 million and generated underlying operating profit of £5.3 million (2004: £2.8 million) whilst the Rail businesses returned £4.2 million (2004: £3.2 million) of underlying operating profit on sales up 51% at £94.1 million. Engineering and Plant Services also continued to deliver strong growth with sales up 30% at £68.3 million and underlying operating profit up 67% to £4.0 million (2004: £2.4 million) on significantly enhanced margins.

Cash conversion was again strong at 84% of operating profit in the first half leaving net debt at £52.3 million at the end of September.

Net interest payable (finance costs less finance income) increased to £3.4 million from £2.4 million last year on monthly average net borrowings throughout the period of £76.3 million (2004: £55.9 million). Average net borrowings were adversely affected by delays, now resolved, in collecting receivables in the Rail division.

Profit before tax from continuing operations, pre amortisation of acquired intangibles and exceptional items, was £21.8 million, up from £18.7 million last year, an increase of 17%.

Tax

Based on the expected full year rate, the Group's effective rate of tax on profit before exceptional items and amortisation was 24% (2004: 24%) as a result of differential tax rates on overseas earnings.

Discontinued operations

The Group's Health, Safety and Environmental businesses have been classified as discontinued operations following the disposal of Pivotal Services, as explained in note 5 to the interim accounts and the ongoing disposal process for IETG. The combined post tax loss incurred by these operations in the first six months was £0.8 million (2004: £0.5 million loss). No profit or loss arose on disposal of the Pivotal business.

Earnings per share

Fully diluted earnings per share, after amortisation and exceptional items, from continuing operations increased 56% to 7.49p (2004: 4.80p). Underlying, fully diluted earnings per share, before amortisation and exceptional items, which is a more comparable measure, decreased slightly to 8.02p from 8.19p last year. The one-off increase in interest charges explained above and the effect of including the low activity months of April and May for the Networks businesses were the principal causes.

Dividend

The Group's stated medium term target dividend cover of 2.5 to 3.0 times was reviewed in light of the change to IFRS accounting conventions and the Board has confirmed that this target should remain in place, measured on the basis of profits after tax before exceptional items and amortisation of acquired intangibles.

Consequently, the Directors are pleased to declare an interim dividend of 1.75p per ordinary share. This represents an increase of 30% from last year including an element of realignment following the significant increase in the 2004/05 final dividend.

Summary and prospects

The first half of the year has fully met our expectations and the continuing growth in both sales and profits is highly satisfactory. Contract activity and opportunities in Rail and Networks are strong and there is now significant activity in bidding for Ministry of Defence business. We continue to look for other opportunities where our skills would be appropriately valued. Overall we are confident that we are well placed to remain a major force in public sector outsourcing markets and in other technically demanding areas.

We expect further progress to be made in the second half and the full year result to be ahead of our original expectations.



Peter Rogers Chief Executive



Summarised group income statement

For the six months ended 30 September 2005

Year ended 31 March 2005 Total (Unaudited) £m	Six months ended 30 September 2005			Six months ended 30 September 2004			
	Before acquired intangible amortisation and exceptional items (unaudited) £m	Acquired intangible amortisation and exceptional items (unaudited) £m	Total (unaudited) £m	Before acquired intangible amortisation and exceptional items (unaudited) £m	Acquired intangible amortisation and exceptional items (unaudited) £m	Total (unaudited) £m	
745.3	Revenue	398.9	–	398.9	332.8	–	332.8
35.9	Operating profit	25.2	(1.6)	23.6	20.9	(7.5)	13.4
(8.5)	Finance costs	(5.1)	–	(5.1)	(3.7)	–	(3.7)
2.5	Finance income	1.7	–	1.7	1.3	–	1.3
0.2	Share of profit from joint ventures	–	–	–	0.2	–	0.2
30.1	Profit before tax	21.8	(1.6)	20.2	18.7	(7.5)	11.2
(8.3)	Income tax expense	(5.2)	0.5	(4.7)	(4.4)	1.6	(2.8)
21.8	Profit for the year from continuing operations	16.6	(1.1)	15.5	14.3	(5.9)	8.4
	Discontinued operations						
(1.0)	Current year loss after tax on discontinued operations	(0.8)	–	(0.8)	(0.5)	–	(0.5)
(1.6)	Loss on disposals	–	–	–	–	(1.6)	(1.6)
19.2	Profit for the period	15.8	(1.1)	14.7	13.8	(7.5)	6.3
	Attributable to:						
19.1	Equity holders of the parent			14.6			6.3
0.1	Minority interest			0.1			–
	Earnings per share from continuing and discontinued operations						
10.08	– Basic			7.13p			3.62p
10.07	– Diluted			7.10p			3.62p
	Earnings per share from continuing operations						
11.47	– Basic			7.53p			4.80p
11.45	– Diluted			7.49p			4.80p

Group balance sheet

For the six months ended 30 September 2005

As at 31 March 2005 Total (unaudited) £m		As at 30 September 2005 (unaudited) £m	As at 30 September 2004 (unaudited) £m
	Note		
Assets			
Non-current assets			
36.0		36.1	36.9
161.3		164.5	161.3
14.8		14.2	16.4
0.6		0.5	0.5
0.1		-	5.2
41.5		63.0	38.5
0.4		-	0.3
11.8		4.1	17.9
266.5		282.4	277.0
Current assets			
40.6		35.3	23.0
231.7		179.8	205.2
0.3		0.1	1.2
0.5		-	0.4
33.1	12	30.0	39.1
306.2		245.2	268.9
-	5	1.0	-
572.7		528.6	545.9
Equity and liabilities			
Equity attributable to equity holders of the parent			
	9		
125.0		125.3	124.6
69.3		69.6	69.0
30.6		30.6	30.6
(112.6)		(82.4)	(125.4)
112.3		143.1	98.8
0.1		0.2	-
112.4		143.3	98.8
Non current liabilities			
2.1	12	1.8	0.5
6.2	12	5.0	6.7
61.8		53.3	68.4
23.4		25.2	18.2
93.5		85.3	93.8
Current liabilities			
260.8		206.8	226.7
6.2		9.8	9.2
2.2		0.3	0.9
2.3	12	2.4	3.1
85.4	12	73.1	99.9
9.9		7.0	13.5
366.8		299.4	353.3
-	5	0.6	-
460.3		385.3	447.1
572.7		528.6	545.9

Summarised group cash flow statement

For the six months ended 30 September 2005

Year ended 31 March 2005 Total (unaudited) £m		Six months ended 30 September 2005 (unaudited) £m	Six months ended 30 September 2004 (unaudited) £m
		Note	
	Cash flows from operating activities		
43.5	Cash generated from operations	10	23.8
(4.8)	Income tax paid		(1.4)
(8.4)	Interest paid		(5.2)
2.5	Interest received		1.7
32.8	Net cash flows from operating activities		18.9
	Cash flows from investing activities		
5.0	Proceeds on disposal of other investments		-
(3.2)	Disposal of subsidiaries		1.0
4.9	Proceeds on disposal of property, plant and equipment		0.5
(4.5)	Purchases of property, plant and equipment		(3.8)
(1.4)	Purchases of intangible assets		(1.1)
	– Sale/(purchase) of investments		0.1
(26.5)	Acquisition of subsidiary net of cash acquired		-
(25.7)	Net cash flows from investing activities		(3.3)
	Cash flows from financing activities		
(7.0)	Dividends paid		(5.4)
(3.3)	Finance lease principal payments		(1.5)
23.1	Bank loans (repaid)/raised		(12.4)
	– Net proceeds on issue of shares		0.5
0.3	Movement on own shares		-
13.1	Net cash flows from financing activities		(18.8)
20.2	Net (decrease)/ increase in cash and cash equivalents		(3.2)
6.3	Net cash and cash equivalents at start of period		26.4
(0.1)	Effects of exchange rate fluctuations on cash held		0.2
26.4	Net cash and cash equivalents at end of period	12	23.4

Group statement of total recognised income and expense

For the six months ended 30 September 2005

Year ended 31 March 2005 Total (unaudited) £m		Six months ended 30 September 2005 (unaudited) £m	Six months ended 30 September 2004 (unaudited) £m
		Note	
19.2	Profit for the period (including discontinued operations)		14.7
0.1	Currency translation differences		0.8
(34.8)	Net actuarial gains/(losses) in respect of pensions		28.2
10.4	Tax on items taken directly to reserves		(8.5)
(5.1)	Net income recognised directly in equity		35.2
	– Adoption of IAS 39 at 1 April 2005	13	-
(5.1)	Total recognised income and expense		35.2
	Attributable to:		
(5.2)	Equity holders of the parent		35.1
0.1	Minority interest		(20.1)

Notes to the financial statements

For the six months ended 30 September 2005

1 Accounting policies

As an EU-listed company, Babcock are required to adopt International Financial Reporting Standards (IFRS) with effect from 1 April 2005. The results for the six months to September 2005 represent the group's first interim financial statements prepared in accordance with the basis as set out in note 2 below. The group's first Annual Report under IFRS will be for the year ended 31 March 2006. Previously, Babcock reported under UK generally accepted accounting policies (UK GAAP). A description of how the group's reported results and financial position are affected by this change in accounting policy, including reconciliations from UK GAAP to IFRS for prior year results and the revised summary of significant accounting policies under IFRS, is shown on the group's website at www.babcock.co.uk.

As permitted by IFRS1 'First Time Adoption of International Reporting Standards', the group has elected not to restate comparative information for the Financial Instrument standards IAS32 and IAS39. The impact of adopting IAS32 and IAS39 is included in note 13, with the opening balance sheet at 1 April 2005 restated.

2 Basis of preparation

The group is required to present its interim financial statements in accordance with the relevant standards anticipated to be in effect at the first reporting date which is 31 March 2006. The interim financial statements have been prepared on the assumption that all IFRS statements, including Standing Interpretations Committee interpretations (SICs) and International Financial Reporting Interpretations Committee interpretations (IFRICs) issued by the International Accounting Standard Board (IASB) as effective for 2006 reporting will be endorsed by the EU. These are subject to ongoing review and endorsement by the EU or possible amendment by interpretive guidance from the IASB and are therefore still subject to change. It is possible, therefore, that further changes will be required to the comparative financial information restated in accordance with IFRS, as well as the 2005 information presented in these 2005 interim financial statements, before the 2006 Annual Report is published. The Directors have anticipated that the revised versions of IAS39 'Financial Instruments: Recognition and Measurement' and IAS19 'Employee Benefits' which have yet to be formally adopted for use in the EU, will be adopted in time to be applicable to the next annual accounts.

Statutory accounts for the year ended 31 March 2005, prepared under UK GAAP have been delivered to the Registrar of Companies. The auditors have reported on those accounts, their report was not qualified and did not contain a statement under section 273(2) or (3) of the Companies Act 1985.

The interim report for the six months ended 30 September 2005 was approved by the Directors on 14 November 2005.

3 Segmental analysis

	Six months ended 30 September 2005				Six months ended 30 September 2004			
	Revenue	Operating profit			Revenue	Operating profit		
	Group revenue £m	Before acquired intangible amortisation exceptionals £m	Acquired intangible amortisation and exceptionals £m	Group operating profit £m	Group revenue £m	Before acquired intangible amortisation exceptionals £m	Acquired intangible amortisation and exceptionals £m	Group operating profit £m
Continuing operations								
Defence Services	121.9	8.9	-	8.9	107.5	7.7	-	7.7
Technical Services	65.7	5.3	-	5.3	81.7	7.5	(5.6)	1.9
Engineering & Plant Services	68.3	4.0	-	4.0	52.5	2.4	-	2.4
Networks	48.9	5.3	(0.4)	4.9	28.7	2.8	(0.2)	2.6
Rail	94.1	4.2	(1.2)	3.0	62.4	3.2	(0.2)	3.0
Unallocated	-	(2.5)	-	(2.5)	-	(2.7)	(1.5)	(4.2)
Total continuing operations	398.9	25.2	(1.6)	23.6	332.8	20.9	(7.5)	13.4
Discontinued operations								
HS&E and other	4.9	(1.0)	-	(1.0)	4.7	(0.6)	(1.6)	(2.2)
Group total	403.8	24.2	(1.6)	22.6	337.5	20.3	(9.1)	11.2

The tax credit related to discontinued operations was £0.2 million (2004: £0.1 million).

The share of turnover and profit after tax, not included above, relating to joint ventures was as follows: Turnover £3.9 million (2004: £2.1 million), profit after tax of £nil (2004: £0.2 million) of which £0.1 million (2004: £0.1 million) was from Defence Services, £nil (2004: £0.2 million) from Technical Services, and a loss of £0.1 million (2004: £0.1 million) from Networks.

4 Operating exceptional items and acquired intangible amortisation

In 2005 there were no operating exceptional items. Acquired intangible amortisation was £1.6 million with £0.4 million relating to the Networks segment and £1.2 million relating to the Rail segment. Acquired intangibles are those arising from fair value adjustments on acquisition of a business.

In 2004 operating exceptional items were £5.9 million. This related to £0.8 million of restructuring costs and £4.8 million of goodwill write-off within the Technical Services segment, £10.0 million credit relating to the transfer of rail maintenance back to Network Rail, offset by £8.8 million of exceptional acquired intangible amortisation relating to rail maintenance, and a £1.5 million charge relating to the closure costs of the Peterhouse head office in the unallocated segment. Acquired intangible amortisation was £1.6 million with £0.2 million relating to the Networks segment and £1.4 million relating to the Rail segment.

5 Discontinued operations

On 22 July 2005, the group sold the trade and assets of the Pivotal Services Group. The business of IETG was transferred to assets held for sale as the Group is currently actively pursuing a disposal. The trade of these two companies comprises the HS&E segment which is therefore shown as discontinued. The net assets disposed of for the Pivotal Services Group were £1.7 million with gross consideration of £4.5 million. After provision for costs and an allowance for price adjustments there was no profit on disposal.

6 Taxation

The charge for taxation has been based on the estimated effective tax rate, of 24%, for the year ended 31 March 2006. A tax credit of £0.5 million relates to acquired intangible amortisation. For 2004 the tax charge included a credit of £1.6 million, of which £0.5 million related to acquired intangible amortisation, and £1.1 million to operating exceptional items.

7 Earnings per share

The calculation of the basic and diluted EPS is based on the following data:

Number of shares	Six months to 30 September 2005	Six months to 30 September 2004
Weighted average number of ordinary shares for the purpose of basic EPS	204,360,013	174,971,031
Effect of dilutive potential ordinary shares: share options	1,022,110	259,322
Weighted average number of ordinary shares for the purpose of diluted EPS	205,382,123	175,230,353

	Six months to 30 September 2005			Six months to 30 September 2004		
	Earnings £m	Basic per share pence	Diluted per share pence	Earnings £m	Basic per share pence	Diluted per share pence
Earnings per share from continuing and discontinued operations	14.6	7.13	7.10	6.3	3.62	3.62
Add back:						
Amortisation of acquired intangible assets, net of tax	1.1	0.54	0.53	1.1	0.65	0.65
Exceptional items	-	-	-	6.4	3.70	3.68
Earnings before amortisation and exceptionals	15.7	7.67	7.63	13.8	7.97	7.95
Earnings per share from continuing operations	15.4	7.53	7.49	8.4	4.80	4.80
Add back:						
Amortisation of acquired intangible assets, net of tax	1.1	0.53	0.53	1.1	0.65	0.65
Exceptional items	-	-	-	4.8	2.76	2.74
Earnings before discontinued operations, amortisation and exceptionals	16.5	8.06	8.02	14.3	8.21	8.19

8 Dividends

An interim dividend of 1.75p per 60p ordinary shares (2004: 1.35p per 60p ordinary share) was declared after the balance sheet date and will be paid on 20 January 2006 to shareholders registered on 16 December 2005.

9 Reconciliation of changes of net equity

Year ended 31 March 2005 (unaudited) £m		Six months ended 30 September 2005 (unaudited) £m	Six months ended 30 September 2004 (unaudited) £m
58.6	Equity at beginning of period	112.4	58.6
65.6	Shares issued in the period	0.5	64.9
(5.1)	Total recognised income and expense	35.2	(20.1)
(7.0)	Dividends	(5.4)	(4.3)
-	- Movement on minority interest	-	-
0.3	Movement on ESOP reserve	0.6	(0.3)
53.8	Net movement in equity	30.9	40.2
112.4	Equity at end of period	143.3	98.8
	Attributable to:		
112.3	Equity holders of the parent	143.1	98.8
0.1	Minority interest	0.2	-

10 Reconciliation of operating profit to cash generated from operations

Year ended 31 March 2005 (unaudited) £m		Six months ended 30 September 2005 (unaudited) £m	Six months ended 30 September 2004 (unaudited) £m
35.9	Operating profit	23.6	13.4
(1.0)	Loss from discontinued operations	(0.8)	(0.5)
(0.3)	Add back tax on discontinued operations	(0.2)	(0.1)
34.6		22.6	12.8
7.4	Depreciation of property, plant and equipment	3.5	3.2
19.0	Amortisation and impairment of intangible assets	1.7	16.1
0.9	Equity based payments	0.6	0.4
0.9	(Gain)/loss on disposal of property, plant and equipment	(0.1)	0.5
62.8	Operating cash flows before movement in working capital	28.3	33.0
(6.0)	Decrease/(increase) in inventories	6.1	11.7
(30.9)	Decrease/(increase) in receivables	49.8	(2.6)
18.2	(Decrease)/increase in payables	(56.4)	(18.3)
(0.6)	(Decrease)/increase in provisions	(4.0)	1.4
43.5	Cash generated from operations	23.8	25.2

11 Movement in net debt

Year ended 31 March 2005 (unaudited) £m		Six months ended 30 September 2005 (unaudited) £m	Six months ended 30 September 2004 (unaudited) £m
20.2	(Decrease)/increase in cash in the period	(3.2)	26.0
(19.8)	Cash flow from the decrease/(increase) in debt and lease financing	13.8	(34.6)
0.4	Change in net funds resulting from cash flows	10.6	(8.6)
(47.2)	Loans and finance leases (acquired)/disposed of with subsidiaries	0.1	(47.1)
(0.9)	New finance leases	(0.4)	-
0.2	Foreign currency translation differences	0.3	-
(47.5)	Movement in net debt in the period	10.6	(55.7)
(15.4)	Net debt at the start of the period	(62.9)	(15.4)
(62.9)	Net debt at the end of the period	(52.3)	(71.1)

12 Changes in net debt

	At 1 April 2005 (unaudited) £m	Cash flow £m	Acquisitions and disposals £m	New finance leases £m	Exchange movement £m	At 30 September 2005 (unaudited) £m
Cash and bank balances	33.1	(3.3)	–	–	0.2	30.0
Bank overdrafts	(6.7)	0.1	–	–	–	(6.6)
	26.4	(3.2)	–	–	0.2	23.4
Debt	(80.8)	12.3	–	–	0.2	(68.3)
Finance leases	(8.5)	1.5	0.1	(0.4)	(0.1)	(7.4)
	(89.3)	13.8	0.1	(0.4)	0.1	(75.7)
Total	(62.9)	10.6	0.1	(0.4)	0.3	(52.3)

13 First time adoption of IAS39 at 1 April 2005

The group has taken advantage of the exemption not to restate comparatives for IAS32 'Financial Instruments': 'Disclosure and Presentation' (IAS32) and IAS39 'Financial Instruments: Recognition and Measurement' (IAS39) but to apply these from 1 April 2005. As a result the comparative information is presented on the existing UK GAAP basis. The following table shows the impact of adopting IAS32 and IAS39.

	Book value at 31 March 2005 £m	IAS39 Transition adjustments £m	Book value at 1 April 2005 £m
Assets			
Non-current assets			
Property, plant and equipment	36.0	–	36.0
Goodwill	161.3	–	161.3
Other intangible assets	14.8	–	14.8
Investments in joint ventures	0.5	–	0.5
Other investments	0.2	–	0.2
Retirement benefits	41.5	–	41.5
Trade and other receivables	0.4	–	0.4
Deferred tax assets	11.8	(0.1)	11.7
	266.5	(0.1)	266.4
Current assets			
Inventories	40.6	–	40.6
Trade and other receivables	231.7	0.3	232.0
Income tax recoverable	0.3	–	0.3
Other financial assets	0.5	0.1	0.6
Cash and cash equivalents	33.1	–	33.1
	306.2	0.4	306.6
Total assets	572.7	0.3	573.0
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital	125.0	–	125.0
Share premium	69.3	–	69.3
Other reserves	30.6	–	30.6
Retained earnings	(112.6)	–	(112.6)
	112.3	–	112.3
Minority interest	0.1	–	0.1
Total equity	112.4	–	112.4

13 First time adoption of IAS 39 at 1 April 2005 (continued)

	Book value at 31 March 2005 £m	IAS39 Transition adjustments £m	Book value at 1 April 2005 £m
Non-current liabilities			
Long-term borrowings	2.1	–	2.1
Obligations under finance leases	6.2	–	6.2
Retirement liabilities	61.8	–	61.8
Provisions for other liabilities	23.4	–	23.4
	93.5	–	93.5
Current liabilities			
Trade and payables	260.8	2.1	262.9
Income tax payable	6.2	–	6.2
Other financial liabilities	2.2	(1.8)	0.4
Obligations under finance leases	2.3	–	2.3
Bank overdrafts and loans	85.4	–	85.4
Provisions for other liabilities	9.9	–	9.9
	366.8	0.3	367.1
Total liabilities	460.3	0.3	460.6
Total equity and liabilities	572.7	0.3	573.0

On adopting IAS39 prospectively from 1 April 2005, net assets have decreased by £5,000 principally resulting from restating financial assets and liabilities to fair value or an amortised cost basis.

14 The financial information in this interim statement does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985 (as amended).

15 Distribution

Copies of this interim report will be distributed to all holders of the company's ordinary shares. Copies will also be available at the company's registered office: 2 Cavendish Square, London W1G 0PX. In addition, this report is available on the company's website: www.babcock.co.uk.

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The logo consists of a dark blue teardrop shape pointing downwards, with the word "babcock" written in white lowercase letters inside it.

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