Babcock International Group PLC
Interim report 2006

Welcome to Babcock

Financial highlights

	September 2006	September 2005	Percentage change
Revenue	£487.6m	£386.7m	+26
Operating profit	£29.3m	£22.3m	+31
Profit before tax	£26.4m	£18.9m	+40
Continuing earnings per share	9.85p	7.02p	+40
Net debt	£80.0m	£52.3m	+53
Dividend – interim proposed	2.40p	1.75p	+37

The following additional numbers show the 'underlying' results before amortisation of acquired intangibles of £2.9 million (2005: £1.6 million) and operating exceptionals of £1.3 million (2005: £nil), and before the related tax effects of £1.2 million (2005: £0.5 million). We believe that these adjusted results provide a better comparison of underlying performance.

Underlying	September 2006	September 2005	Percentage change
Operating profit	£33.5m	£23.9m	+40
Profit before tax	£30.6m	£20.5m	+49
Continuing earnings per share	11.29p	7.56p	+49

Business highlights

Strong growth trend continues: revenue up 26%, underlying profit before tax up 49%

Underlying operating margin up from 6.2% to 6.9%

Underlying earnings per share up 49% to 11.29p

Interim dividend increased by 37% to 2.40p per share

Further significant contracts secured to date include National Grid power transmission lines joint venture, Network Rail signalling framework contracts and Eskom power line refurbishment contracts

Alstec and Powerlines acquisitions performing ahead of expectations

High visibility of long-term revenue: order book at £2.3 billion

Bid pipeline strong

Operational and financial review

This has been a very strong half year for Babcock with two successful acquisitions, sustained strong growth in both revenue and profits from our existing businesses and a continued track record of double-digit growth.

Our trading environment remains excellent. We have a strong bid pipeline and are expecting selection of preferred bidder or financial close on a number of significant contracts over the next six months.

Above:
Peter Rogers Group Chief Executive
Bill Tame Group Finance Director

Introduction

Babcock has achieved strong growth in the first half with revenue up 26% and underlying profit before tax up 49%. We have recently secured a number of significant contracts including the National Grid power transmission lines joint venture, Network Rail signalling framework contracts and Eskom power line refurbishment contracts.

As anticipated, activity levels in all of the markets in which we operate have continued to increase as our customers maintain and upgrade their asset bases in the rail, power networks, energy generation and nuclear sectors. In the public sector, pressure on expenditure budgets continues to drive the rate of switching to outsourced service provision and this is clearly demonstrated in both our results and bid pipeline. Our interim results are a reflection of these high activity levels and our success in exploiting the opportunities presented.

Operational review

Defence Services: revenue £163.7 million (2005: £121.9 million)

Defence Services achieved an excellent performance in the first half with all contracts in the division delivering a good performance. The Regional Prime East contract for Defence Estates was successfully mobilised and is operating well, as is the Prime South West contract, now in its third year and which will benefit from an increase in its scope in 2007. Continuing improvement of our management of the various Multi Activity Contracts led to higher margins.

At HM Naval Base Clyde the certainty resulting from the award of the contract extension last year has allowed further savings to be realised and we continue actively to pursue further broadening of the scope of this contract.

The Alstec airports business, part of Alstec Group acquired in May 2006 and included within Babcock Infrastructure Services, performed ahead of our acquisition plan targets.

We are currently awaiting the award of an extension to the SLAM contract (SLAM 2) and the announcement of the preferred bidder for Defence Training Review, package 2, both of which are expected at the end of November. The Royal School of Military Engineering project continues to progress towards financial close in 2007.

Technical Services: revenue £85.7 million (2005: £65.7 million)

The completion of the refit of HMS Ark Royal and RFA Fort Rosalie in the period helped lift profits in Technical Services but the major boost was from very high levels of demand for design work on the new aircraft carriers (CVF) project and significant volumes of work from the civil sector, in particular the design of ship conversions. A number of smaller contracts for supply to the Ministry of Defence were won by Supply Chain Services during the period and activity both on the Post Nuclear Contract and planning for the ISOLUS programme remained at good levels.

Progress towards main-gate approval by the MoD at the end of this calendar year for the construction phase of the CVF is still on track with Rosyth designated as the assembly and commissioning site. Negotiations with the Ministry of Defence and other warship refit providers have led to the award of three of the five scheduled refits this year to Rosyth. Discussions continue on next year’s programme but we expect the results to be positive.

Babcock, as part of a consortium with Nukem and Stoller, has been selected as one of the final three bidders for the management of the UK's low level waste repository at Drigg – a contract valued at some £16 million annually for five years.

The results from the Alstec nuclear and defence businesses are included within Technical Services.

Engineering and plant services: revenue £80.2 million (2005: £68.3 million)

Another excellent six months was achieved in Africa although the result was held back by currency movements. The economic environment in Southern Africa continues to be good and this has benefited the Construction Equipment business in particular. The acquisition of Powerlines was a significant step in establishing a support services business in Africa. In the first four months of our ownership the business has performed ahead of our planning assumptions and a major contract for a new high voltage transmission line valued at some £11 million has just been secured.

Networks: revenue £42.4 million (2005: £36.7 million)

The activity level on overhead transmission continued to be high throughout the period and orders secured will result in strong engineering activity over the remainder of the year. As predicted the expenditure on refurbishment of overhead transmission lines is growing rapidly and the industry is likely to be constrained by a shortage of skilled staff in the medium-term. We have been appointed preferred bidder for the West Overhead Line and Cable Alliance in partnership with Amec and Mott McDonald which secures our position in this growing market. The award is for the delivery of National Grid's capital works programme for overhead transmission lines and cable works in the West of England and throughout Wales. The contract, worth approximately £250 million to Babcock for an initial period of five years, renewable for a further five years, is expected to be finalised in January 2007.

Activity levels in the telecoms business were stable as the network owners reviewed their own expenditure plans. A boost has been given to this area of activity, as expected, by the Digital Switch Over programme and we have received our first 'high-mast' orders. This work will continue through to 2010/2011.

Rail: revenue £115.6 million (2005: £94.1 million)

The rail business produced excellent revenue growth during the period but, as indicated in the pre-close trading update, margins were below expectations. The new information systems that we have put in place within the business are now largely complete and installed – to plan. A rationalisation of the business to a regional structure which matches that of Network Rail is being implemented and benefits will start to flow in the next financial year. During the period the business continued to win contracts, notably the two signalling framework contracts which will secure work for the next five years. We have also been short-listed as one of the final two bidders for the Greater Manchester Passenger Transport Executive tramways infrastructure bid.

Acquisitions

Alstec was acquired in May 2006 for a net cash consideration of £44.9 million and since then has contributed £42.2 million in sales and £4.5 million in operating profit, giving an operating margin of 10.7%. Since acquisition the business has performed ahead of our original planning assumptions. Alstec's nuclear expertise was a significant factor in the Babcock consortium being short-listed amongst the last three bidders for the low level waste repository project.

The South African Powerlines business which was acquired in June 2006 for £5.2 million is also performing well with contracts already secured. Eskom has predicted a 'significant' rise in expenditure in Powerlines area of business and prospects therefore look excellent. Powerlines has contributed £5 million in sales and £0.6 million in operating profit, an operating margin of 12%. The need to expand and refurbish the high voltage network in South Africa is acute and the award of an initial £11 million contract by Eskom for completion in 2006/2007 is indicative of the opportunity available.

Financial review

In this review, unless otherwise stated, revenue, operating profit, operating margin, profit before tax and earnings per share refer to results from continuing operations, before amortisation of acquired intangibles and exceptional items. We believe that these adjusted results provide a better comparison of underlying performance.

Revenue and operating profit

With the underlying operating margin up from 6.2% to 6.9% on revenue up 26% at £487.6 million (2005: £386.7million), group underlying operating profit increased by 40% to £33.5 million (2005: £23.9 million). The combined contribution to revenue and operating profit from Alstec and Powerlines was £47.2 million and £5.1 million respectively. Excluding the effect of acquisitions, revenue growth was 14% and underlying operating profit growth was 19%. Adverse exchange rate movements against the pound of the Rand reduced operating profit by approximately £0.6 million when compared to the equivalent period last year.

Interest, profit before tax, earnings

After a net interest charge of £3.0 million (2005: £3.4 million) and a £0.1 million contribution from joint ventures, Group profit before tax, amortisation of intangible assets and exceptional items, was £30.6 million, up 49% from £20.5 million last year. The Group's effective rate of tax was slightly lower than last half year at approximately 22%. Underlying earnings per share increased by 49% to 11.29p or by 40% to 9.85p per share after amortisation and exceptional charges.

Acquired intangible amortisation and exceptional items

Included within exceptional items for the first half year is £0.7 million in relation to Rail restructuring costs, which we anticipate will increase to approximately £2 million by the year end. In addition within exceptional items there is £0.6 million of costs arising from the BAE Systems plc and VT Group plc aborted bid.

Acquired intangible amortisation at the half year was £2.9 million (2005: £1.6 million).

Pensions

We continue to manage the assets and liabilities of the group's defined benefit pension schemes closely and at the half year end the schemes were in a net IAS19 surplus of £51.5 million (2005: £9.7 million) before the related deferred tax liability. The IAS19 net credit to the profit and loss account was £0.7 million (2005: a charge of £1.9 million).

Cash flow and net debt

Cash generated from operations of £27.1 million was above our target for cash conversion of 80% over the medium-term and represented 92% of operating profit (2005: £23.8 million and 105%). Sales growth meant that working capital increased by a net £9 million compared to an increase of £4.5 million in 2005. Net expenditure on acquisitions was £51.5 million and on tangible and intangible assets, £3.2 million. After net interest payments of £2.9 million and taxation of £2.7 million, net debt was £80 million at the 30 September 2006 (2005: £52.3 million).

Dividend

Following the group's strong performance in the first half and the Board's improved expectations for the full year, the interim dividend has been increased by 37% to 2.40p per share.

Outlook

Our trading environment remains excellent. We have a strong bid pipeline and are expecting selection of preferred bidder or financial close on a number of significant contracts over the next six months.

The group has built strong momentum over the last four years which we are confident we can sustain through growing organically and by acquisition. Alstec and Powerlines are performing ahead of our expectations and we will continue to look to acquire other businesses in the technically sophisticated area of support services in which we operate, applying our usual strict disciplines in the assessment of acquisitions in order to ensure that shareholder value is enhanced.

Following the group's strong performance in the first half of the year and our recent contract wins, the Board now believes that the full year result will be ahead of our earlier expectations at the time of our trading update in September 2006.

Peter Rogers Group Chief Executive

Bill Tame Group Finance Director

Group income statement

For the six months ended 30 September 2006

Year ended 31 March 2006 Total (audited) £m		Note	Six months ended 30 September 2006: Before acquired intangible amortisation and exceptional items (unaudited) £m	Six months ended 30 September 2006: Acquired intangible amortisation and exceptional items (unaudited) £m	Six months ended 30 September 2006: Total (unaudited) £m	Six months ended 30 September 2005: Before acquired intangible amortisation and exceptional items (unaudited) £m	Six months ended 30 September 2005: Acquired intangible amortisation and exceptional items (unaudited) £m	Six months ended 30 September 2005: Total (unaudited) £m
836.7	Revenue	2	487.6	–	487.6	386.7	–	386.7
46.6	Operating profit	2, 3	33.5	(4.2)	29.3	23.9	(1.6)	22.3
(8.9)	Finance costs		(4.8)	–	(4.8)	(5.1)	–	(5.1)
3.7	Finance income		1.8	–	1.8	1.7	–	1.7
(0.1)	Share of profit from joint ventures	2	0.1	–	0.1	–	–	–
41.3	Profit before tax		30.6	(4.2)	26.4	20.5	(1.6)	18.9
(8.2)	Income tax expense	6	(6.7)	1.2	(5.5)	(4.9)	0.5	(4.4)
33.1	Profit for the period from continuing operations		23.9	(3.0)	20.9	15.6	(1.1)	14.5
	Discontinued operations							
(3.2)	Profit/(loss) for period on discontinued operations	2, 4	–	–	–	0.2	–	0.2
29.9	Profit for the period		23.9	(3.0)	20.9	15.8	(1.1)	14.7
	Attributable to:							
29.7	Equity holders of the parent				20.2			14.6
0.2	Minority interest				0.7			0.1
29.9					20.9			14.7
	Earnings per share from continuing and discontinued operations	7						
14.49p	– Basic				9.85p			7.13p
14.15p	– Diluted				9.59p			7.10p
	Earnings per share from continuing operations	7						
16.06p	– Basic				9.85p			7.02p
15.68p	– Diluted				9.59p			6.98p

Group balance sheet

For the six months ended 30 September 2006

As at 31 March 2006 (audited) £m		Note	As at 30 September 2006 (unaudited) £m	As at 30 September 2005 (unaudited) £m
	Assets			
	Non-current assets			
164.0	Goodwill		200.6	164.5
13.8	Other intangible assets		25.9	14.2
25.3	Property, plant and equipment		27.9	36.1
0.6	Investments in joint ventures		0.9	0.5
64.9	Retirement benefits		59.6	63.0
0.3	Trade and other receivables		2.6	–
4.5	Deferred tax asset		–	4.1
273.4			317.5	282.4
	Current assets			
41.5	Inventories		35.8	35.3
168.5	Trade and other receivables		170.2	179.8
0.2	Income tax recoverable		0.7	0.1
0.1	Other financial assets		1.0	–
109.0	Cash and cash equivalents	10	84.7	30.0
319.3			292.4	245.2
9.6	Assets held for sale	4	–	1.0
602.3	Total assets		609.9	528.6
	Equity and liabilities			
	Equity attributable to equity holders of the parent			
125.5	Share capital		125.8	125.3
69.7	Share premium		70.0	69.6
32.3	Other reserves		26.8	30.6
(57.3)	Retained earnings		(32.4)	(82.4)
170.2			190.2	143.1
0.4	Minority interest		1.0	0.2
170.6	Total equity	9	191.2	143.3
	Non current liabilities			
6.5	Bank and other borrowings	10	4.9	6.8
0.1	Income tax payable		–	–
35.6	Retirement liabilities		8.1	53.3
12.6	Provisions for other liabilities		11.3	25.2
–	Deferred tax liability		4.9	–
54.8			29.2	85.3
	Current liabilities			
212.9	Trade and other payables		211.6	206.8
7.0	Income tax payable		5.0	9.8
0.2	Other financial liabilities		–	0.3
140.7	Bank and other borrowings	10	159.8	75.5
12.3	Provisions for other liabilities		13.1	7.0
373.1			389.5	299.4
3.8	Liabilities held for sale	4	–	0.6
431.7	Total liabilities		418.7	385.3
602.3	Total equity and liabilities		609.9	528.6

Group cash flow statement

For the six months ended 30 September 2006

Year ended 31 March 2006 (audited) £m		Note	Six months ended 30 September 2006 (unaudited) £m	Six months ended 30 September 2005 (unaudited) £m
	Cash flows from operating activities			
54.1	Cash generated from operations	11	27.1	23.8
(5.8)	Income tax paid		(2.7)	(1.4)
(8.9)	Interest paid		(4.7)	(5.2)
3.8	Interest received		1.8	1.7
43.2	Net cash flows from operating activities		21.5	18.9
	Cash flows from investing activities			
2.5	Disposal of subsidiaries		1.7	1.0
0.9	Proceeds on disposal of property, plant and equipment		0.4	0.5
(6.8)	Purchases of property, plant and equipment		(2.8)	(3.8)
(2.7)	Purchases of intangible assets		(0.8)	(1.1)
–	(Purchase)/sale of investment in joint ventures		(0.2)	0.1
(4.3)	Acquisition of subsidiary net of cash acquired		(51.5)	–
(10.4)	Net cash flows from investing activities		(53.2)	(3.3)
	Cash flows from financing activities			
(9.0)	Dividends paid		(8.7)	(5.4)
(3.6)	Finance lease principal payments		(0.5)	(1.5)
(22.5)	Bank loans raised/(repaid)		55.9	(12.4)
0.9	Net proceeds on issue of shares		0.5	0.5
–	Movement on own shares		0.2	–
(34.2)	Net cash flows from financing activities		47.4	(18.8)
(1.4)	Net increase/(decrease) in cash, cash equivalents and bank overdrafts		15.7	(3.2)
26.4	Cash, cash equivalents and bank overdrafts at start of period		25.3	26.4
0.3	Effects of exchange rate fluctuations		(3.0)	0.2
25.3	Cash, cash equivalents and bank overdrafts at end of period	13	38.0	23.4

Group statement of total recognised income and expense

For the six months ended 30 September 2006

Year ended 31 March 2006 (audited) £m		Six months ended 30 September 2006 (unaudited) £m	Six months ended 30 September 2005 (unaudited) £m
29.9	Profit for the period (including discontinued operations)	20.9	14.7
1.6	Currency translation differences	(5.6)	0.8
42.2	Net actuarial gains in respect of pensions	16.5	28.2
(12.6)	Tax on net actuarial gains in respect of pensions	(4.9)	(8.5)
61.1	Total recognised income and expense	26.9	35.2
	Attributable to:		
60.8	Equity holders of the parent	26.3	35.1
0.3	Minority interest	0.6	0.1
61.1		26.9	35.2

Notes to the consolidated financial statements

For the six months ended 30 September 2006

1 Basis of preparation

The consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as adopted by the European Union and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. They should be read in conjunction with the Annual Report for the year ended 31 March 2006 (the 'Annual Report'). The financial information has been prepared in accordance with the Listing Rules of the Financial Services Authority. The accounting policies used are consistent with those used in the Annual Report. The presentation of these consolidated interim financial statements is consistent with the Annual Report. Where necessary, the comparatives have been reclassified or extended from the previously reported interim results to take into account any presentational changes made in the Annual Report or in these consolidated interim financial statements including the restatement of discontinued businesses.

The Group has chosen not to early adopt IAS34, 'Interim Financial Statements', in preparing its 2006 interim statements.

Statutory accounts for the year ended 31 March 2006 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 2006 was approved by the Directors on 13 November 2006.

2 Segmental analysis

	Six months ended 30 September 2006				Six months ended 30 September 2005			
	Group revenue £m	Operating profit before acquired intangible amortisation, exceptional items £m	Acquired intangible amortisation and exceptional items £m	Group operating profit £m	Group revenue £m	Operating profit before acquired intangible amortisation, exceptional items £m	Acquired intangible amortisation and exceptional items £m	Group operating profit £m
Continuing operations								
Defence Services	163.7	13.6	(0.7)	12.9	121.9	8.9	–	8.9
Technical Services	85.7	7.3	(0.8)	6.5	65.7	5.3	–	5.3
Engineering and Plant Services	80.2	6.7	–	6.7	68.3	4.0	–	4.0
Networks	42.4	4.8	(0.3)	4.5	36.7	4.0	(0.4)	3.6
Rail	115.6	4.4	(1.8)	2.6	94.1	4.2	(1.2)	3.0
Unallocated	–	(3.3)	(0.6)	(3.9)	–	(2.5)	–	(2.5)
Total continuing operations	487.6	33.5	(4.2)	29.3	386.7	23.9	(1.6)	22.3
Discontinued operations								
HS&E and other	–	–	–	–	4.9	(1.0)	–	(1.0)
Networks	–	–	–	–	12.2	1.2	–	1.2
Total discontinued operations	–	–	–	–	17.1	0.2	–	0.2
Group total	487.6	33.5	(4.2)	29.3	403.8	24.1	(1.6)	22.5

The tax credit related to discontinued operations was £nil (2005: £0.1 million).

The share of joint venture results not separately disclosed above is:

	Six months ended 30 September 2006				Six months ended 30 September 2005			
	Revenue £m	Operating profit £m	Tax and interest £m	Net JV results £m	Revenue £m	Operating profit £m	Tax and interest £m	Net JV results £m
Continuing operations								
Defence Services	0.9	0.1	–	0.1	3.8	0.1	–	0.1
Networks	0.1	–	–	–	0.1	(0.1)	–	(0.1)
Group total	1.0	0.1	–	0.1	3.9	–	–	–

3 Operating exceptional items and acquired intangible amortisation

In 2006 there were £1.3 million operating exceptional items with £0.7 million being reorganisation costs in the Rail segment and £0.6 million being bid defence costs arising out of a possible joint bid from BAE Systems plc and VT Group plc. Acquired intangible amortisation was £2.9 million with £0.3 million relating to the Networks segment, £1.1 million relating to the Rail segment, and with the Alstec Group Limited acquisition giving the following; £0.8 million within the Technical Services segment and £0.7 million within the Defence Services segment.

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.

4 Discontinued operations

Eve Trakway Limited was sold on 4 April 2006 at its held for sale value of £5.8 million after allowing for costs.

5 Acquisitions

On 9 May 2006 the group acquired Alstec Group Limited for net cash consideration before costs of £44.9 million. Goodwill amounted to £36.6 million after valuing the acquired intangibles at £14.6 million.

On 1 June 2006 the group acquired certain assets and the high voltage power lines and mobile telecoms business divisions of ABB South Africa (Pty) Ltd for £5.2 million with the related property purchase of £0.7 million completing post half year end.

The total revenue from acquisitions in the period was £47.2 million and the related operating profit was £5.1 million.

6 Taxation

The charge for taxation has been based on the estimated effective tax rate, of 22%, for the year ended 31 March 2007. (For September 2005, the charge for tax was based on an estimated effective tax rate of 24% for the year ended 31 March 2006). A tax credit of £0.9 million relates to acquired intangible amortisation and a tax credit of £0.3 million relates to operating exceptional items. For 2005 the tax charge included a credit of £0.5 million, which related to acquired intangible amortisation.

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 2006	Six months to 30 September 2005
Weighted average number of ordinary shares for the purpose of basic EPS	205,336,699	204,360,013
Effect of dilutive potential ordinary shares: share options	5,600,135	1,022,110
Weighted average number of ordinary shares for the purpose of diluted EPS	210,936,834	205,382,123

	Six months to 30 September 2006			Six months to 30 September 2005		
	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	20.2	9.85	9.59	14.6	7.13	7.10
Add back:						
Amortisation of acquired intangible assets, net of tax	2.0	0.98	0.95	1.1	0.54	0.53
Exceptional items	1.0	0.46	0.45	–	–	–
Earnings before amortisation and exceptionals	23.2	11.29	10.99	15.7	7.67	7.63
Earnings per share from continuing operations	20.2	9.85	9.59	14.3	7.02	6.98
Add back:						
Amortisation of acquired intangible assets, net of tax	2.0	0.98	0.95	1.1	0.54	0.53
Exceptional items	1.0	0.46	0.45	–	–	–
Earnings before discontinued operations, amortisation and exceptionals	23.2	11.29	10.99	15.4	7.56	7.51

8 Dividends

An interim dividend of 2.40p per 60p ordinary share (2005: 1.75p per 60p ordinary share) was declared after the balance sheet date and will be paid on 17 January 2007 to shareholders registered on 15 December 2006.

9 Reconciliation of changes of net equity

Year ended 31 March 2006 (audited) £m		Six months ended 30 September 2006 (unaudited) £m	Six months ended 30 September 2005 (unaudited) £m
112.4	Equity at beginning of period	170.6	112.4
0.9	Shares issued in the period	0.5	0.5
61.1	Total recognised income and expense	26.9	35.2
(9.0)	Dividends	(8.7)	(5.4)
1.1	Share based payments	0.9	0.6
4.1	Tax on share based payments	0.8	–
–	Movement on ESOP	0.2	–
58.2	Net movement in equity	20.6	30.9
170.6	Equity at end of period	191.2	143.3
	Attributable to:		
170.2	Equity holders of the parent	190.2	143.1
0.4	Minority interest	1.0	0.2
170.6		191.2	143.3

10 Cash and cash equivalents

In 2005, the group's cash balances were reported net of bank overdrafts where a cash pool was in operation and the legal right of offset existed. On adoption of IAS32, netting can only occur to the extent that there is both a legal ability and the intention to settle net by entity. Although the group's cash is, where practical, managed on a pooled basis and the interest is charged or earned on a net basis, there is a grossing up of cash and borrowings in 2006. If this grossing up had been applied in September 2005 the balances would have been adjusted by £78.7 million.

11 Reconciliation of operating profit to cash generated from operations

Year ended 31 March 2006 (audited) £m		Six months ended 30 September 2006 (unaudited) £m	Six months ended 30 September 2005 (unaudited) £m
	Cash flows from operating activities		
46.6	Operating profit	29.3	22.3
(0.6)	Profit/(loss) from discontinued operations	–	0.2
(0.4)	Add back tax on discontinued operations	–	0.1
45.6		29.3	22.6
7.1	Depreciation of property plant and equipment	2.7	3.5
3.6	Amortisation and impairment of intangible assets	3.3	1.7
1.1	Equity share-based payments	0.9	0.6
0.3	(Profit)/loss on disposal of property, plant and equipment	(0.1)	(0.1)
57.7	Operating cash flows before movement in working capital	36.1	28.3
1.5	Decrease in inventories	7.5	6.1
52.8	(Increase)/decrease in receivables	(1.3)	49.8
(49.2)	(Decrease) in payables	(12.1)	(56.4)
(8.7)	(Decrease) in provisions	(3.1)	(4.0)
54.1	Cash generated from operations	27.1	23.8

Notes to the consolidated financial statements continued

12 Movement in net debt

Year ended 31 March 2006 (audited) £m		Six months ended 30 September 2006 (unaudited) £m	Six months ended 30 September 2005 (unaudited) £m
(1.4)	Increase/(decrease) in cash in the period	15.7	(3.2)
26.1	Cash flow from the (increase)/decrease in debt and lease financing	(55.4)	13.8
24.7	Change in net funds resulting from cash flows	(39.7)	10.6
0.1	Loans and finance leases disposed of with subsidiaries	–	0.1
(0.4)	New finance leases	–	(0.4)
0.3	Foreign currency translation differences	(2.1)	0.3
24.7	Movement in net debt in the period	(41.8)	10.6
(62.9)	Net debt at the start of the period	(38.2)	(62.9)
(38.2)	Net debt at the end of the period	(80.0)	(52.3)

13 Changes in net debt

	At 1 April 2006 (audited) £m	Cash flow £m	Acquisitions and disposals £m	New finance leases £m	Exchange movement £m	At 30 September 2006 (unaudited) £m
Cash and bank balances	109.0	(21.2)	–	–	(3.1)	84.7
Bank overdrafts	(83.7)	36.9	–	–	0.1	(46.7)
Cash, cash equivalents and bank overdrafts at end of period	25.3	15.7	–	–	(3.0)	38.0
Loans	(58.1)	(55.9)	–	–	0.4	(113.6)
Finance leases	(5.4)	0.5	–	–	0.5	(4.4)
	(63.5)	(55.4)	–	–	0.9	(118.0)
Total	(38.2)	(39.7)	–	–	(2.1)	(80.0)

14. The financial information in this interim statement does not constitute statutory accounts within the meaning of S240 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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