Ultra Electronics Holdings plc

Interim Report and Accounts **2006**

Ultra Electronics is a group of specialist businesses offering a through-life product and service portfolio that includes systems, sub-systems, products and components for defence, security, aerospace and transport applications worldwide.

Ultra, which employs 3,000 people in the UK and North America, focuses on high integrity sensing, control, communication and display systems with an emphasis on integrated information technology solutions. The group concentrates on obtaining competitive advantage through technological edge and by having a leading position in niche markets.

Ultra's products and services are used on aircraft, ships, submarines, armoured vehicles, surveillance and communication systems, airports and transport systems around the world. Increasingly, Ultra undertakes specialist system and sub-system integration using the combined expertise of the group businesses and by teaming with world-class international partners.

THE QUEEN'S AWARDS
FOR ENTERPRISE:
INNOVATION
2003

THE QUEEN'S AWARD
FOR ENTERPRISE 2003
FOR
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AT PRECISION
AIR SYSTEMS

Chairman's Statement

Ultra continued to make good progress in the first half of 2006. Trading remained strong, reflecting the buoyant market conditions in many of the sectors within which Ultra has positioned itself. The good sales and profit growth included contributions from the 2005 acquisitions, Horizon Aerospace and Audiopack, and from Polyflex, acquired in January 2006. Despite the effects of currency, Ultra has maintained its operating margin[1], reflecting the constant management focus on achieving efficiencies in all areas of operation. The Group has continued to win new business on a broad range of international programmes and the closing order book of £554m gives good visibility of earnings.

Financial Results

	Six months ended 30 June 2006	Six months ended 30 June 2005	Growth
	£m	£m	
Order book			
Aircraft & Vehicle Systems	**150.6**	75.0	100.8%
Information & Power Systems	**115.6**	113.4	1.9%
Tactical & Sonar Systems	**287.4**	219.0	31.2%
Total order book	**553.6**	407.4	**35.9%**
Revenue			
Aircraft & Vehicle Systems	**45.6**	39.5	15.4%
Information & Power Systems	**60.1**	58.8	2.2%
Tactical & Sonar Systems	**75.0**	59.9	25.2%
Total revenue	**180.7**	158.2	**14.2%**
Organic growth			**10.8%**
Operating profit[1]			
Aircraft & Vehicle Systems	**6.9**	7.7	(10.4%)
Information & Power Systems	**9.1**	7.3	24.7%
Tactical & Sonar Systems	**9.3**	7.3	27.4%
Total operating profit[1]	**25.3**	22.3	13.5%
Interest	**(1.5)**	(1.6)	
Headline profit before tax[2]	**23.8**	20.7	15.0%
Operating margin[1]			
Aircraft & Vehicle Systems	**15.1%**	19.5%	
Information & Power Systems	**15.1%**	12.4%	
Tactical & Sonar Systems	**12.4%**	12.2%	
Total operating margin[1]	**14.0%**	14.1%	
Operating cash flow[3]	**18.4**	16.3	
Cash conversion[4]	**73%**	73%	
Net debt[5] at period-end	**31.0**	24.3	
Bank interest cover	**17.1x**	20.7x	
Earnings per share[2]	**25.5p**	22.4p	13.8%

[1] before amortisation of intangibles arising on acquisition.
[2] before amortisation of intangibles arising on acquisition and profit on fair value movements on derivatives.
[3] cash generated by operations, less net capital expenditure, R&D and LTIP share purchases.
[4] cash generated by operations, less net capital expenditure, R&D and LTIP share purchases as % of profit from operations before amortisation of intangibles arising on acquisition.
[5] bank overdrafts and loans less cash and cash equivalents.

Revenue was 14% higher at £180.7m, compared to £158.2m for the same period last year

- of this revenue growth, 11% was organic
- at constant currencies, underlying revenue growth was 8%

Operating profit[1] increased 13% to £25.3m (2005: £22.3m)

- operating margin[1] maintained at 14%
- at constant currencies operating profit growth was 21%

Operating cash conversion[4] was better than expected at 73% due to higher than anticipated customer receipts at the end of the period. This was in spite of the Group's continuing investment in the Boeing 787 and Airbus A400M programmes. Net debt[5] at the end of the period was £31.0m compared to £34.3m at the beginning of the year. The Group's balance sheet remains strong, with net interest payable on borrowings covered approximately 17 times by operating profit[1].

An interim dividend of 5.9p (2005: 5.2p) will be paid on 29 September 2006 to those shareholders on the register at the close of business on 25 August 2006.

Operational Review

Aircraft & Vehicle Systems

Revenue in Aircraft & Vehicle Systems increased by 15% to £45.6m compared to £39.5m for the same period last year while operating profit[1] was 10% lower at £6.9m (2005: £7.7m). At £150.6m, the value of the order book at the end of the period was double that at June 2005 reflecting, in the main, the receipt of a number of contracts for equipment for the second tranche of the Eurofighter aircraft programme.

Revenue growth was driven by the buoyant civil aerospace market and by the early stages of customer-funded development programmes. The results include a contribution from Polyflex, acquired in January 2006 and now integrated into the Group's Precision Air Systems business.

Operating profit[1] for the division reflected an adverse currency impact and Ultra's investment in the wing ice protection system for Boeing's 787 aircraft.

Highlights in the performance of this division included:

- on-schedule development of the de-icing system for the Boeing 787
- selection by Pratt & Whitney to supply de-icing equipment for its F-135 engine for the F-35 Joint Strike Fighter aircraft, with an initial development contract worth $12m
- selection to supply specialist electronic modules within the cargo load-handling system of the Airbus A400M military transport aircraft. Ultra will now be supplying five sub-systems on the aircraft with a total value of £56m for the 192 aircraft currently on order

Information & Power Systems

Revenue in Information & Power Systems grew slightly to £60.1m compared to £58.8m for the same period last year while operating profit[1] increased by 25% to £9.1m (2005: £7.3m). The order book at the end of the period increased by 2% to £115.6m (2005: £113.4m).

Revenue growth benefited from strong growth in sales of ADSI command and control systems and of airport IT systems offset by the completion of some rail and naval power equipment contracts.

Operating profit[1] growth was increased by the licence fees associated with the high level of sales of ADSI systems and the benefit of last year's restructuring of the division's transit power activity.

Highlights of Information & Power Systems performance included:

- significant orders for battlespace IT products including a new application for ADSI in missile defence and resumed sales to the US Marine Corps
- strong growth of airport IT systems, with high levels of activity at London's Heathrow Terminal 5 and at Shanghai's Pudong international airport
- good progress developing new naval nuclear reactor control and instrumentation equipment for Rolls-Royce

[1] before amortisation of intangibles arising on acquisition.
[2] before amortisation of intangibles arising on acquisition and profit on fair value movements on derivatives.
[3] cash generated by operations, less net capital expenditure, R&D and LTIP share purchases.
[4] cash generated by operations, less net capital expenditure, R&D and LTIP share purchases as % of profit from operations before amortisation of intangibles arising on acquisition.
[5] bank overdrafts and loans less cash and cash equivalents.

Tactical & Sonar Systems

Revenue in Tactical & Sonar Systems increased by 25% to £75.0m (2005: £59.9m) and operating profit[1] increased by 27% to £9.3m (2005: £7.3m). The closing order book of £287.4m was 31% higher than at June 2005.

Revenue growth was strong, with contributions from the 2005 acquisitions, Audiopack and Horizon, as well as higher sales of tactical radios, mainly for the US Army, and of torpedo defence systems for the Royal Navy.

Operating profit[1] growth reflected the contribution from acquisitions and the increase in margin on programmes such as the Royal Navy torpedo defence system where system performance risks continue to be mitigated during the series production phase.

Highlights of this division's performance included:

- US sonobuoy revenue higher than the comparable period last year following the introduction of a new design variant
- the contract for the Litening electronic targeting pod for the RAF's Eurofighter Typhoon aircraft – another example of the successful strategy of teaming with 'best-of-breed' international partners, with Ultra providing the UK with sovereign operational independence
- the continuing development of the next generation of personal communication equipment for firefighters to ensure compliance with new legal requirements, to become effective in 2007
- selection to supply sonobuoy telemetry receivers for the Brazilian P-3 anti-submarine warfare aircraft upgrades

Prospects

The trend in defence budgets continues to focus on achieving smart capability through the procurement of new electronic equipment and the periodic upgrade of existing platforms. While there are ambitious plans for 'smarter' equipment, there continue to be pressures on budgets as funds are allocated to meet the priorities of current peacekeeping operations.

Ultra is well positioned in growth areas of the defence market. The Group is experiencing strong demand for its range of niche products such as battlespace IT equipment and solutions for improved mobility to support expeditionary operations. Ultra has continuing growth opportunities driven by its expertise in international teaming, its ability to support the UK's requirement for sovereign operational capability for its armed forces and its track record of providing and delivering excellent solutions to customers.

Trading conditions in civil aerospace remain buoyant, driven by increased demand for air transport. New aircraft build rates are increasing and the investment worldwide in airport infrastructure continues. Ultra is developing additional niche products and systems for new aircraft that will drive further growth in the civil market.

The value of the order book increased substantially to over £550m and continues to provide Ultra with a high level of earnings visibility. Ultra remains committed to maintaining a high level of investment, both internally through new product development and externally through acquisitions, to drive growth. With its strong balance sheet, Ultra has the capacity to acquire complementary niche businesses which have a proven track record and which can be acquired at realistic prices.

In conclusion, despite the recent volatility in exchange rates, Ultra's successful positioning on a broad range of major international programmes and its proven ability to execute contracts effectively continue to give the Board confidence in the Group's prospects for 2006.

Dr. Julian Blogh **Chairman**
31 July 2006

Consolidated Income Statement

	Note	Six months to 30 June 2006	Six months to 30 June 2005	Year to 31 December 2005
	Note	**£000**	£000	£000
Continuing operations				
Revenue	*2, 4*	**180,715**	158,200	342,410
Cost of sales		**(132,603)**	(118,264)	(250,160)
Gross profit		**48,112**	39,936	92,250
Other operating income		**-**	2,596	4,805
Distribution costs		**(321)**	(274)	(825)
Administrative expenses		**(23,839)**	(19,783)	(48,393)
Other operating expenses		**(371)**	(369)	-
Profit from operations	*2*	**23,581**	22,106	47,837
Investment revenue	*5*	**4,915**	72	553
Finance costs	*6*	**(1,849)**	(3,088)	(7,688)
Profit before tax		**26,647**	19,090	40,702
Tax on profit on ordinary activities	*7*	**(7,461)**	(5,292)	(11,292)
Profit for the period from continuing operations attributable to equity holders of the parent		**19,186**	13,798	29,410
Earnings per share (pence)				
From continuing operations				
– Basic	*9*	**28.5**	20.6	43.9
– Diluted	*9*	**28.3**	20.5	43.5

Consolidated Balance Sheet

	Note	At 30 June 2006	At 30 June 2005	At 31 December 2005
	Note	**£000**	£000	£000
Non-current assets				
Intangible assets		**150,726**	119,449	150,494
Property, plant and equipment		**21,346**	21,491	22,844
Deferred tax assets		**17,120**	14,230	17,301
		189,192	155,170	190,639
Current assets				
Inventories		**26,800**	19,774	25,937
Trade and other receivables		**72,682**	76,211	74,412
Cash and cash equivalents		**27,604**	17,267	40,193
		127,086	113,252	140,542
Total assets	*4*	**316,278**	268,422	331,181
Current liabilities				
Trade and other payables		**(88,768)**	(88,138)	(104,009)
Tax liabilities		**(9,854)**	(7,272)	(8,089)
Obligations under finance leases		**(29)**	(16)	(36)
Bank overdrafts and loans		**-**	(41,499)	-
Short-term provisions		**(5,482)**	(4,026)	(7,028)
		(104,133)	(140,951)	(119,162)
Non-current liabilities				
Retirement benefit obligations		**(46,113)**	(40,958)	(46,576)
Other payables		**(1,765)**	(1,416)	(930)
Deferred tax liabilities		**(1,280)**	(1,743)	(1,149)
Obligations under finance leases		**(57)**	(5)	(67)
Bank overdrafts and loans		**(58,517)**	-	(74,367)
Long-term provisions		**(7,838)**	(7,282)	(3,874)
		(115,570)	(51,404)	(126,963)
Total liabilities	*4*	**(219,703)**	(192,355)	(246,125)
Net assets		**96,575**	76,067	85,056
Equity				
Share capital	*10*	**3,373**	3,355	3,361
Share premium account		**32,712**	31,137	31,679
Own shares		**(2,692)**	(2,582)	(2,641)
Hedging and translation reserves		**(3,487)**	(221)	(990)
Retained earnings		**66,669**	44,378	53,647
Total equity attributable to equity holders of the parent		**96,575**	76,067	85,056

Consolidated Cash Flow Statement

	Note	**Six months to 30 June 2006**	Six months to 30 June 2005	Year to 31 December 2005
		£000	£000	£000
Net cash from operating activities	*11*	**15,961**	13,731	48,217
Investing activities				
Interest received		**523**	72	549
Purchase of property, plant and equipment		**(2,726)**	(3,031)	(7,311)
Proceeds on disposal of property, plant and equipment		**13**	17	100
Expenditure on product development and other intangibles		**(1,684)**	(895)	(2,909)
Acquisition of subsidiary undertakings (net of cash acquired)		**(4,443)**	(2,692)	(36,610)
Net cash used in investing activities		**(8,317)**	(6,529)	(46,181)
Financing activities				
Issue of share capital		**1,045**	841	1,389
Purchase of Long-Term Incentive Plan shares		**(513)**	(599)	(596)
Dividends paid		**(7,150)**	(6,078)	(9,567)
Increase/(repayments) of borrowings		**(13,167)**	(9,182)	21,747
Repayments of obligations under finance leases		**(17)**	(10)	(20)
New finance leases		**-**	-	92
Net cash used in financing activities		**(19,802)**	(15,028)	13,045
Net (decrease)/increase in cash and cash equivalents		**(12,158)**	(7,826)	15,081
Cash and cash equivalents at beginning of period		**40,193**	24,060	24,060
Effect of foreign exchange rate changes		**(431)**	1,033	1,052
Cash and cash equivalents at end of period		**27,604**	17,267	40,193

Consolidated Statement of Recognised Income & Expense

	Six months to 30 June 2006	Six months to 30 June 2005	Year to 31 December 2005
	£000	£000	£000
Exchange differences on translation of foreign operations	**(2,497)**	877	108
Actuarial losses on defined benefit pension schemes	**-**	-	(3,580)
Tax on items taken directly to equity	**-**	-	(522)
Fair value of derivatives at 1 January 2005	**-**	2,268	2,268
Gain/(loss) on cash flow hedge	**763**	-	(144)
Net income/(expense) recognised directly in equity	**(1,734)**	3,145	(1,870)
Profit for the period	**19,186**	13,798	29,410
Total recognised income and expense for the period attributable to equity holders of the parent	**17,452**	16,943	27,540

Notes to the Interim Statement

1. General information

The financial information contained in this statement does not constitute statutory accounts, as defined in section 240 of the Companies Act 1985, and has not been audited or reviewed. The unaudited accounts for the half years ended 30 June 2006 and 30 June 2005 have been prepared using accounting policies that are consistent with those used in the statutory accounts for the year ended 31 December 2005. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on those accounts was not qualified and did not contain statements under section 237(2) or (3) of the Companies Act 1985.

2. Segment information

	Six months to 30 June 2006	Six months to 30 June 2005	Year to 31 December 2005
	£000	£000	£000
External revenue			
Aircraft & Vehicle Systems	**45,583**	39,437	84,370
Information & Power Systems	**60,067**	58,818	117,268
Tactical & Sonar Systems	**75,065**	59,945	140,772
	180,715	158,200	342,410
Profit from operations			
Aircraft & Vehicle Systems	**6,867**	7,678	15,923
Information & Power Systems	**9,074**	7,340	18,094
Tactical & Sonar Systems	**9,312**	7,271	17,117
	25,253	22,289	51,134
Amortisation of intangibles arising on acquisition*	**(1,672)**	(183)	(3,297)
Profit from operations	**23,581**	22,106	47,837
Investment revenue	**4,915**	72	553
Finance costs	**(1,849)**	(3,088)	(7,688)
Profit before tax	**26,647**	19,090	40,702

*During 2006, £1,497,000 has been incurred by Tactical & Sonar Systems and £175,000 has been incurred by Aircraft & Vehicle Systems. The whole of the 2005 charge related to Tactical & Sonar Systems.

3. Additional performance measures

To present the underlying profitability of the Group on a consistent basis year on year, additional performance indicators have been used. These are calculated as follows:

	Six months to 30 June 2006	Six months to 30 June 2005	Year to 31 December 2005
	£000	£000	£000
Profit from operations	**23,581**	22,106	47,837
Add: Amortisation of intangibles arising on acquisition	**1,672**	183	3,297
Operating profit (adjusted)[a]	**25,253**	22,289	51,134
Profit before tax	**26,647**	19,090	40,702
(Profit)/Loss on fair value movements on derivatives	**(4,541)**	1,461	3,436
Add: Amortisation of intangibles arising on acquisition	**1,672**	183	3,297
Profit before tax (adjusted)[b]	**23,778**	20,734	47,435
Cash generated by operations *(see note 11)*	**23,328**	20,845	64,499
Purchase of property, plant and equipment	**(2,726)**	(3,031)	(7,311)
Proceeds on disposal of property, plant and equipment	**13**	17	100
Expenditure on product development and other intangibles	**(1,684)**	(895)	(2,909)
Purchase of Long-Term Incentive Plan shares	**(513)**	(599)	(596)
Operating cash flow (adjusted)[c]	**18,418**	16,337	53,783

Operating profit at [a] above has been shown before the amortisation of intangible assets arising on acquisitions, which relates to acquired intellectual property, customer relationships and profit in order book. Under UK GAAP this charge would have formed part of the amortisation of goodwill, which was also excluded from headline operating profit. Since the remainder of goodwill is no longer amortised, this charge has been excluded for consistency. Profit before tax as shown at [b] in the above table and adjusted earnings per share *(see note 9)* are also presented before the amortisation of intangible assets arising on acquisition.

IAS 39 requires the Group to 'fair value' the derivative instruments used to manage Ultra's foreign exchange exposures. This creates volatility in the valuation of the outstanding instruments as exchange rates move over time. This will have minimal impact on profit over the full term of the instruments, but can cause significant volatility on particular balance sheet dates. Ultra is therefore stating profit before tax ([b] in the above table) and adjusted earnings per share *(see note 9)* before changes in the valuation of these instruments so that the underlying operating performance of the Group can be seen more clearly.

The Group is cash generative and reinvests funds to support the continuing growth of the business. It seeks to use an accurate and appropriate measure of the funds generated internally while sustaining this growth. For this, Ultra uses operating cash flow (adjusted) [c] rather than cash generated by operations, as its preferred indicator of cash generated and available to cover non-operating expenses such as tax and interest payments. The Group believes that using cash generated by operations, with the exclusion of net expenditure in property, plant and equipment and outflows for capitalised product development and other intangibles, would result in an understatement of the true cash cost of sustaining a growing business.

4. Segment information

	At 30 June 2006	at 30 June 2005	At 31 December 2005
	£000	£000	£000
Total assets by division			
Aircraft & Vehicle Systems	**76,750**	65,867	67,144
Information & Power Systems	**62,356**	69,245	64,439
Tactical & Sonar Systems	**128,316**	101,005	141,441
	267,422	236,117	273,024
Unallocated	**48,856**	32,305	58,157
Total assets	**316,278**	268,422	331,181

Unallocated assets represent deferred tax assets, derivatives at fair value, cash and cash equivalents.

	At 30 June 2006	at 30 June 2005	At 31 December 2005
	£000	£000	£000
Total liabilities by division			
Aircraft & Vehicle Systems	**(27,645)**	(23,763)	(25,454)
Information & Power Systems	**(38,596)**	(42,810)	(38,528)
Tactical & Sonar Systems	**(37,557)**	(34,311)	(49,987)
	(103,798)	(100,884)	(113,969)
Unallocated	**(115,905)**	(91,471)	(132,156)
Total liabilities	**(219,703)**	(192,355)	(246,125)

Unallocated liabilities represent derivatives at fair value, tax payables, retirement benefit obligations, bank loans and overdrafts.

	Six months to 30 June 2006	Six months to 30 June 2005	Year to 31 December 2005
	£000	£000	£000
Revenue by geographical destination			
United Kingdom	**70,782**	64,949	132,603
Continental Europe	**15,405**	17,002	38,938
North America	**79,849**	58,605	145,338
Rest of World	**14,679**	17,644	25,531
	180,715	158,200	342,410

5. Investment revenue

	Six months to 30 June 2006	Six months to 30 June 2005	Year to 31 December 2005
	£000	£000	£000
Interest revenue	**374**	72	553
Profit on fair value movements on derivatives	**4,541**	-	-
	4,915	72	553

6. Finance costs

	Six months to 30 June 2006	Six months to 30 June 2005	Year to 31 December 2005
	£000	£000	£000
Amortisation of finance costs of debt	**31**	65	137
Interest payable on bank loans and overdrafts	**1,816**	1,084	3,164
Interest payable on finance leases	**2**	2	2
Total borrowing costs	**1,849**	1,151	3,303
Loss on fair value movements on derivatives	**-**	1,461	3,436
Retirement benefit scheme finance charges	**-**	476	949
	1,849	3,088	7,688

7. Tax on profit on ordinary activities

	Six months to 30 June 2006	Six months to 30 June 2005	Year to 31 December 2005
	£000	£000	£000
Current tax			
United Kingdom	**4,474**	3,087	7,254
Overseas	**3,239**	1,977	5,805
	7,713	5,064	13,059
Deferred tax			
United Kingdom	**(378)**	(164)	(2,105)
Overseas	**126**	392	338
	(252)	228	(1,767)
Total	**7,461**	5,292	11,292

8. Ordinary dividends

Amounts recognised as distributions to equity holders in the period:

	Six months to 30 June 2006	Six months to 30 June 2005
	£000	£000
Final dividend for the year ended 31 December 2005 of 10.7p (2004: 9.2p) per share	**7,150**	6,078
Proposed interim dividend for the year ended 31 December 2006 of 5.9p (2005: 5.2p) per share	**3,980**	3,489

The proposed interim dividend was approved by the Board after 30 June 2006 and has not been included as a liability as at 30 June 2006.

9. Earnings per share (pence)

	Six months to 30 June 2006	Six months to 30 June 2005	Year to 31 December 2005
From continuing operations			
Basic adjusted (see below)	**25.5**	22.4	50.7
Diluted adjusted (see below)	**25.2**	22.3	50.3
Basic	**28.5**	20.6	43.9
Diluted	**28.3**	20.5	43.5

The calculation of the basic, adjusted and diluted earnings per share is based on the following data:

	Six months to 30 June 2006	Six months to 30 June 2005	Year to 31 December 2005
	£000	£000	£000
Earnings			
Earnings for the purposes of earnings per share being profit for the period from continuing operations	**19,186**	13,798	29,410
Adjusted earnings			
Profit for the period from continuing operations	**19,186**	13,798	29,410
(Profit)/loss on fair value movements on derivatives (net of tax)	**(3,270)**	1,023	2,433
Amortisation of intangibles arising on acquisition (net of tax)	**1,204**	183	2,143
Earnings for the purposes of adjusted earnings per share	**17,120**	15,004	33,986

The weighted average number of shares is given below:

	Six months to 30 June 2006	Six months to 30 June 2005	Year to 31 December 2005
Number of shares used for basic EPS	**67,246,726**	66,875,638	67,074,121
Number of shares deemed to be issued at nil consideration following exercise of share options	**567,845**	505,881	524,441
Number of shares used for fully diluted EPS	**67,814,571**	67,381,519	67,598,562

10. Share capital

234,244 shares, with a nominal value of £11,712, have been allotted in the first six months of 2006 under the terms of the Group's various share option schemes. The aggregate consideration received by the Company was £1,045,356.

Notes to the Interim Statement (continued)

11. Cash flow information

	Six months to 30 June 2006	Six months to 30 June 2005	Year to 31 December 2005
	£000	£000	£000
Profit from operations	**23,581**	22,106	47,837
Adjustments for:			
Depreciation of property, plant and equipment	**3,249**	2,726	6,132
Amortisation of intangible assets	**1,942**	620	5,450
Cost of equity settled employee share schemes	**685**	575	1,212
Increase/(decrease) in post employment benefit obligation	**200**	260	120
Loss on disposal of property, plant and equipment	**-**	20	(4)
Increase/(decrease) in provisions	**(231)**	460	(366)
Operating cash flows before movements in working capital	**29,426**	26,767	60,381
(Increase)/decrease in inventories	**(1,620)**	(1,858)	(1,643)
(Increase)/decrease in receivables	**4,435**	(5,263)	(1,313)
Increase/(decrease) in payables	**(8,913)**	1,199	7,074
Cash generated by operations	**23,328**	20,845	64,499
Income taxes paid	**(5,540)**	(5,806)	(13,001)
Interest paid	**(1,827)**	(1,308)	(3,281)
Net cash from operating activities	**15,961**	13,731	48,217

Reconciliation of net movement in cash and cash equivalents to movement in net debt

	Six months to 30 June 2006	Six months to 30 June 2005	Year to 31 December 2005
	£000	£000	£000
Net (decrease)/increase in cash and cash equivalents	**(12,158)**	(7,826)	15,081
Cash (inflow)/outflow from (increase)/decrease in debt and finance leasing	**13,184**	9,192	(21,727)
Change in net debt arising from cash flows	**1,026**	1,366	(6,646)
Amortisation of finance costs of debt	**(31)**	(65)	(137)
Finance leases	**-**	-	(92)
Translation differences	**2,283**	(1,479)	(3,327)
Movement in net debt in the period	**3,278**	(178)	(10,202)
Net debt at start of period	**(34,277)**	(24,075)	(24,075)
Net debt at end of period	**(30,999)**	(24,253)	(34,277)

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