

Notes to the Group accounts (continued)

28. Reconciliation of operating business cash flow

	2007 £m	Restated ¹ 2006 £m
Cash inflow from operating activities	2,162	778
Purchases of property, plant and equipment	(307)	(419)
Additions to intangible assets	(31)	(27)
Equity accounted investment funding	(4)	–
Proceeds from the sale of property, plant and equipment	13	135
Proceeds from the sale of investment property	53	174
Proceeds from the sale of non-current other investments	15	1
Purchase of non-current other investments	(1)	(5)
Dividends received from equity accounted investments	78	145
Operating business cash flow	1,978	782
Electronics, Intelligence & Support	302	273
Land & Armaments	10	137
Programmes & Support	807	449
International Businesses	678	171
HQ & Other Businesses	181	(225)
Discontinued operations	–	(23)
Operating business cash flow	1,978	782

1 business group analysis restated following changes to the Group's organisational structure

29. Net cash/(debt) as defined by the Group

	2007 £m	2006 £m
Term deposits – non-current	–	4
Term deposits – current	164	503
Cash and cash equivalents	3,062	3,100
	3,226	3,607
Loans – non-current	(2,197)	(2,776)
Loans – current	(283)	(308)
Overdrafts – current	(16)	(26)
Loans and overdrafts – current	(299)	(334)
Cash received on customers' account ¹ (included within payables)	(30)	(62)
	(2,526)	(3,172)
Closing net cash as defined by the Group	700	435

Movement in net cash/(debt) as defined by the Group

	2007 £m	2006 £m
Operating business cash flow	1,978	782
Interest and preference dividends	(65)	(207)
Taxation	(112)	(85)
Free cash inflow	1,801	490
Acquisitions and disposals	(1,574)	1,330
Debt acquired on acquisition of subsidiary undertaking	(538)	–
Proceeds from issue of share capital	805	53
Equity dividends paid	(396)	(346)
Dividends paid to minority interests	(1)	–
Preference share conversion	245	6
Other non-cash movements	57	(11)
Purchase of treasury shares	(152)	(112)
Purchase of own shares	(50)	(12)
Foreign exchange	36	323
Movement in cash received on customers' account ¹	32	(9)
Movement in net cash as defined by the Group	265	1,712
Opening net cash/(debt) as defined by the Group	435	(1,277)
Closing net cash as defined by the Group	700	435

1 cash received on customers' account is the unexpended cash received from customers in advance of delivery which is subject to advance payments guarantees unrelated to company performance

29. Net cash/(debt) as defined by the Group (continued)

Cash flows in relation to acquisitions and disposals

	Subsidiaries						Equity accounted investments			Total £m
	Armor Holdings £m	Other acquisitions ² £m	Total acquisitions £m	Inertial Products £m	SELEX £m	Other disposals ² £m	Total disposals £m	XPS/XHRS £m	Other £m	
Cash (consideration)/proceeds	(1,696)	(9)	(1,705)	65	24	7	96	57	(1)	(1,553)
Transaction costs incurred by acquiree	(26)	–	(26)	–	–	–	–	–	–	(26)
	(1,722)	(9)	(1,731)	65	24	7	96	57	(1)	(1,579)
Cash and cash equivalents net of overdrafts acquired/(disposed)	6	–	6	(1)	–	–	(1)	–	–	5
Acquisitions and disposals	(1,716)	(9)	(1,725)	64	24	7	95	57	(1)	(1,574)
Debt acquired on acquisition of subsidiary	(538)	–	(538)	–	–	–	–	–	–	(538)
	(2,254)	(9)	(2,263)	64	24	7	95	57	(1)	(2,112)

2 other acquisitions and disposals are described in notes 31 and 9, respectively

30. Dividends

	2007 £m	2006 £m
Equity dividends		
Prior year final 6.9p dividend per ordinary share paid in the year (2006 6.3p)	221	203
Interim 5.0p dividend per ordinary share paid in the year (2006 4.4p)	175	143
	396	346

After the balance sheet date, the directors proposed a final dividend of 7.8p (2006 6.9p). The dividend, which is subject to shareholder approval, will be paid on 2 June 2008 to shareholders registered on 18 April 2008. The ex-dividend date is 16 April 2008.

Shareholders who do not at present participate in the Company's Dividend Reinvestment Plan and wish to receive the final dividend in shares rather than cash should complete a mandate form for the Dividend Reinvestment Plan and return it to the registrars no later than 9 May 2008.

31. Acquisition of subsidiaries

The Group made a number of acquisitions during the year, the most significant of which was of Armor Holdings, Inc. in the US. The acquisitions took place throughout the year, but if they had occurred on 1 January 2007, combined sales of Group and equity accounted investments would have been £17.4bn, revenue £16.0bn and profit for the year from continuing operations £946m.

Armor Holdings, Inc.

On 31 July 2007, the Group acquired 100% of the issued share capital of Armor Holdings, Inc. (Armor), in the US, for a consideration of £1,696m, excluding transaction costs incurred by the acquiree (£26m). Goodwill arising on consolidation amounted to £1,554m. Armor is a major manufacturer of tactical wheeled vehicles and a leading provider of vehicle and individual armour systems and survivability technologies for the military and for the law enforcement and commercial security markets.

In the period from acquisition to 31 December 2007, Armor contributed EBITA¹ of £77m and profit after tax of £18m to the Group's consolidated results.

Mobile International, a subsidiary of Armor, was acquired with a view to immediate resale. Accordingly, it has been classified as held for sale in the acquisition balance sheet and as at 31 December 2007 (note 19).

The acquisition of Armor complements the existing US business in the Land & Armaments business group creating synergy potential. It allows for continued development of the Mine Resistant Ambush Protected (MRAP) vehicles and Family of Medium Tactical Vehicles (FMTV) programmes, as well as advanced ceramics for body armour. The opportunities presented by these circumstances do not translate to separately identifiable intangible assets, but represent much of the assessed value within the Land & Armaments business group supporting the recognised goodwill.

Certain of the fair values assigned to the net assets acquired are provisional. These will be amended as necessary in light of subsequent knowledge or events to the extent that these reflect conditions as at the date of acquisition.

1 earnings before amortisation and impairment of intangible assets, finance costs and taxation expense

Notes to the Group accounts (continued)

31. Acquisition of subsidiaries (continued)

The acquisition had the following effect on the Group's assets and liabilities:

	Book value £m	Accounting policy alignments £m	Fair value adjustments £m	Fair value £m
Intangible assets	172	–	581	753
Property, plant and equipment	85	(1)	8	92
Inventories	163	(5)	(4)	154
Receivables	158	(1)	(1)	156
Current tax receivable	33	–	2	35
Deferred tax assets	23	3	–	26
Payables	(204)	(1)	(20)	(225)
Deferred tax liabilities	(87)	–	(145)	(232)
Retirement benefit obligations	(24)	4	(2)	(22)
Provisions	(13)	–	(57)	(70)
Cash and cash equivalents	6	–	–	6
Loans	(386)	(5)	(147)	(538)
Held for sale	14	–	(7)	7
Net (liabilities)/assets acquired	(60)	(6)	208	142
Goodwill				1,554
Consideration				1,696

Consideration satisfied by:

Cash	1,682
Directly attributable costs:	
Paid	14
Accrued	–
	1,696

The intangible assets acquired as part of the acquisition of Armor can be analysed as follows:

	£m
Programmes	551
Customer relationships	129
Trademarks	69
Patents	4
	753

Other acquisitions

Other acquisitions include the acquisition of Pitch Technologies AB and iSC for a consideration of £5m and £4m, respectively. In each case, 100% of the shares were acquired. As a result of these acquisitions, an additional £9m of goodwill was generated in the year.

During 2006, the Group acquired 100% of the shares of National Sensor Systems, LLC. for £5m in cash and paid deferred consideration of £7m in respect of its acquisition, in May 2005, of OMC Group.