portfolio **strength…**
widening markets…
resilient performance

Ultra
ELECTRONICS

Ultra Electronics Holdings plc Interim Report and Accounts **2012**

Ultra is…

Ultra Electronics is a group of specialist businesses designing, manufacturing and supporting electronic, electro-mechanical and software systems, sub-systems and products for defence, security, transport and energy applications worldwide.

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Cautionary Statement

This document contains forward looking statements that are subject to risk factors associated with, amongst other things, the economic and business circumstances occurring from time to time in the countries and sectors in which the Group operates. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a wide range of variables which could cause actual results to differ materially from those currently anticipated.

Financial highlights

	Six months to 30 June 2012	Six months to 1 July 2011	**Change**
Revenue	**£370.2m**	£343.5m	**+8%**
Underlying operating profit[(1)]	**£57.5m**	£55.8m	**+3%**
Underlying profit before tax[(2)]	**£54.5m**	£52.1m	**+5%**
IFRS profit before tax	**£39.1m**	£43.9m	**-11%**
Underlying earnings per share[(2)]	**58.1p**	54.6p	**+6%**
Interim dividend per share	**12.2p**	11.7p	**+4%**

- **Steady performance in difficult market conditions delivering 8% revenue growth**
- **Continuing re-investment to drive future growth**
  – over 6% of revenue reinvested in new business and products
  – three acquisitions announced in the period
- **Underlying operating margin[(1)] of 15.5%**
- **12 month rolling cash conversion of 106%**
- **Robust balance sheet**
  – interest cover of over 24 times
  – headroom for further acquisitions

(1) before amortisation of intangibles arising on acquisition and adjustments to deferred consideration net of acquisition costs. IFRS operating profit £41.5m (2011: £44.0m). See Note 4 for reconciliation.

(2) before amortisation of intangibles arising on acquisition, fair value movements on derivatives and adjustments to deferred consideration net of acquisition costs. Basic EPS 41.9p (2011: 46.4p). See Note 9 for reconciliation.

*see footnote on page 09

the Ultra business model

Why we're different

a look at our DNA

What Ultra does

Ultra Electronics is a group of specialist businesses designing, manufacturing and supporting electronic, electro-mechanical and software systems, sub-systems and products for **defence**, **security**, **transport** and **energy** applications worldwide.

Ultra focuses on developing specialist capabilities that provide differentiated solutions to customers' requirements. Across the Group's businesses there are more than **180** of these specialist capability areas. These are categorised into three broad market areas (see revenue by capability pie adjacent) and are illustrated as the columns in the matrix shown in the graphic.

Ultra provides these specialist capabilities on a long list of international, multi-year platforms and programmes. These are shown as the rows in the matrix on the graphic. The Group is positioned on more than **350** such platforms and programmes. None typically contributes more than **5%** of Ultra's revenue in any year.

The Group constantly seeks to increase the number of columns in the matrix by adding new specialist capabilities in narrow market niches, to add more rows to the matrix by winning positions on more programmes and to maximise the value at each intersect in the matrix.

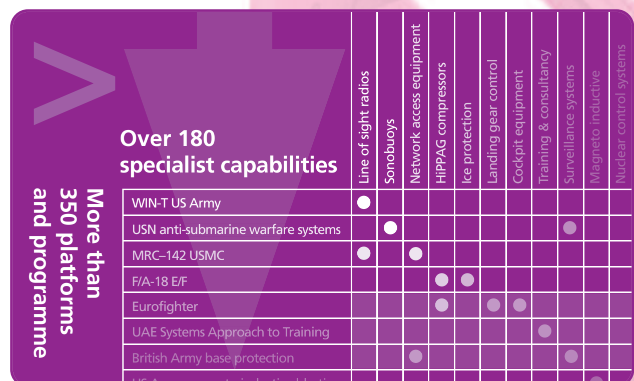
The broad spread of specialist capability areas mapped onto so many platforms and programmes provides resilience to Ultra's financial performance and reduces the Group's risk profile.

Ultra ensures that all of its businesses are well managed, profitable and cash generative (see the comments on Ultra's structure on **page 5**). This allows the Group to fund acquisitions that augment Ultra's position in its market areas. Since the Group's formation, Ultra has maintained a balance between organic and acquisition growth, having successfully integrated 47 acquisitions since 1993.

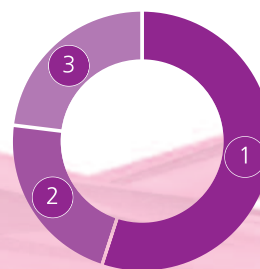
>180
specialist capabilities

>350
platforms & programmes… none of which typically contributes more than **5%** of Ultra's annual revenue

A representation of Ultra's capabilities mapped onto their corresponding programmes



Revenue by capability



1	Defence	**55%**
2	Security and cyber	**22%**
3	Transport and energy	**23%**

> The broad spread of **specialist capability** areas mapped onto so many platforms and programmes provides great resilience to Ultra's financial performance and reduces the Group's risk profile.

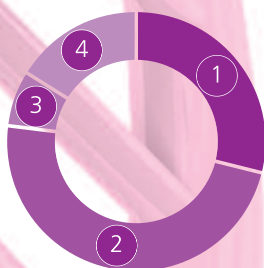
Where Ultra operates

Ultra's markets

Ultra has consistently and continuously positioned and repositioned itself in areas of preferential customer spend within its main **defence**, **security**, **transport** and **energy** markets. The Group has demonstrated a long track record of identifying such market sectors and then investing to create differentiated positions in them. Ultra's ever broadening range of specialist market positions continues to underpin the Group's growth momentum.

Ultra has pursued a strategic focus on gaining access to the two largest addressable defence budgets in the world, the US and the UK. The Group has expanded and developed a transatlantic capability and derives around half its revenue from **North America**. The **Middle East** and **Asia Pacific** regions are capable of being larger markets for Ultra and the Group is focused on broadening its geographic reach.

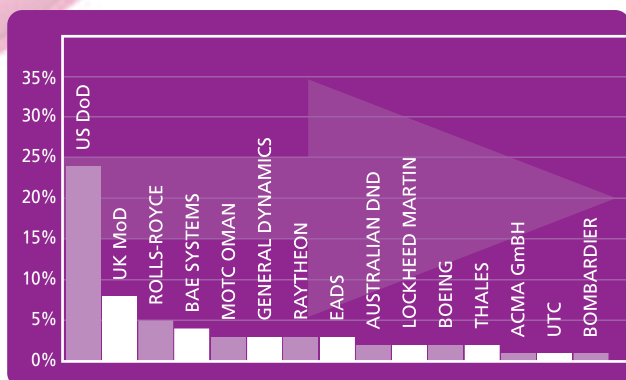
Revenue by region



	Region	%
1	United Kingdom	**29%**
2	North America	**48%**
3	Mainland Europe	**7%**
4	Rest of the world	**16%**

Ultra's customers

Ultra's independence allows it to work with the world's major prime contractors in its markets and to sell its wide portfolio of specialist capabilities to a broad range of customers around the world. The graphic below shows the major customers for the Group's 2011 revenue. Within the Group's top customers, such as the US Department of Defense (DoD), the UK Ministry of Defence (MoD) and BAE Systems, the Group actually supplies to a wide range of different project offices, integrated project teams and platform teams. Therefore, Ultra deals with a larger number of different customers than the graphic might first suggest.



Ultra's position in the supply chain

Within the definition of the supply chain shown in the graphic below, Ultra's specialist capabilities are mainly at tiers 3 and 4, supplying equipment and components to support tier 1 and 2 sub-systems and programmes. The Group does undertake tier 2 sub-system integration but does this mainly when integrating its own tier 3 offerings. Ultra therefore understands the tier 3 detailed interfaces and so is therefore able to manage the risk inherent in tier 2 sub-system integration activities.

Ultra has no strategic aim to be a tier 1, top level platform provider. The Group is therefore non-threatening to the tier 1 prime contractors such as BAE Systems or Rolls-Royce and counts them amongst its largest customers. They can rely on Ultra to provide the specialist capabilities at which the Group is expert. Concentrating on tiers 3 and 4, rather than aiming to be a tier 1 platform provider, means that no single platform or programme typically accounts for more than 5% of Group revenue for the year, so the cancellation or curtailment of any single programme is unlikely to have a significant adverse impact on the Group.

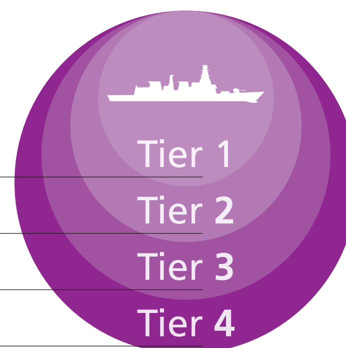
Supply chain

Platform provider

Sub-system integrator

Equipment supplier

Component supplier



Typical tier offerings

Tier 1 (Platform provider)
Responsible for being the prime contractor of the platform in question, examples being a naval vessel or a terminal at an airport.

Tier 2 (Sub-system integrator)
Responsible for integrating equipment or components that will make up a functional element of the platform. Examples of sub-system integration that Ultra has completed include integrated sonar systems and wing ice protection systems.

Tier 3 (Equipment supplier)
Ultra has a large presence at this level of the supply chain, supplying equipment such as data links, cryptographic equipment and large electrical transformers.

Tier 4 (Component supplier)
Ultra also provides a broad range of smaller components onto many programmes worldwide, including sensors for measuring the performance of a nuclear reactor and joysticks to control UAVs.

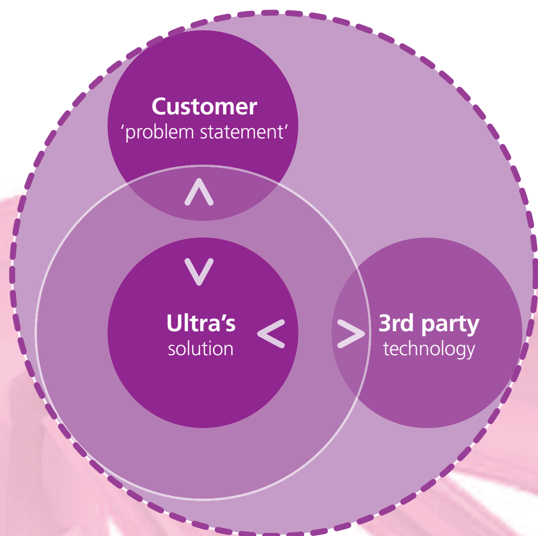
the Ultra business model
Why we're different
a look at our DNA (continued)

Innovative solutions – delivered in partnership

In its specialist capability areas, Ultra's understanding of the customer environment and the projected capability gaps that the customer would like addressed – in short, its understanding of the customer **'problem statement'** – is a key differentiator.

Ultra businesses constantly innovate to create solutions to customer requirements that are different from and better than those of the Group's competitors in a way that the customer values. In identifying differentiated solutions, prime consideration is given not to what Ultra would like to sell but to what the customer wants to buy. This flexibility covers not just the technical attributes of the product or system but also the commercial package, the training and the support in which the customer is interested.

The Group is agnostic as to the source of the technology that is required to deliver the solution. When proven technology that meets the customers' requirements exists outside the Group, Ultra is happy to form teaming partnerships to access it. Ultra sees these teaming arrangements as a source of competitive advantage, allowing Ultra to deliver differentiated solutions that meet customer needs efficiently. It is important that these teaming arrangements are of benefit to all parties – by working together, the team members are able to achieve something that would not be possible without teaming.



One example is reaching up the supply chain to supply an integrated torpedo defence system, with **twelve** businesses, inside and outside Ultra, providing elements of the solution. The Group has also teamed to transfer technology across international borders to deliver to the customer nation the sovereign operational capability it needs. The fact that Ultra is technology-agnostic makes it an ideal teaming partner for such technology transfer. Similarly, the Group shares the benefits of such teaming arrangements with its partners in an equitable fashion so that all teaming partners should want to work together on the next opportunity, resulting in long-term relationships that benefit all parties.

Ultra reinvests over **5%** of revenue in new product and business development. In addition, over **10%** of Group revenue is customer-funded product development. In total therefore over **15%** of revenue spend is focused on augmenting the portfolio of capabilities and programme positions that underpin further growth.

> "Over **15%** of revenue spend is focused on product and business development, of which over **10%** is customer funded."

Innovation at Ultra is driven by great people working in an environment that encourages innovation and audacity within a structure that allows individuals to make a real difference.

Organising the Group to deliver results

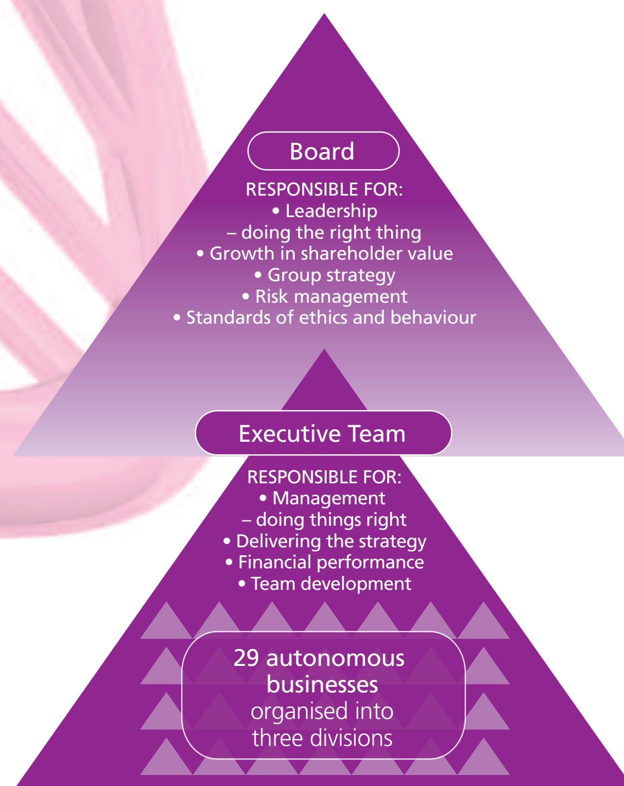
Structure

A key differentiator for Ultra is the agility that businesses in the Group exhibit in their dealings with customers. This agility is underpinned by Ultra's structure and its management and governance processes. In turn, these maintain a strong focus on operational autonomy, whilst ensuring that the appropriate levels of control and guidance are in place to support growth.

The Board provides effective leadership and direction in delivering the key corporate objective of reliable and consistent growth in shareholder value. The Board retains full responsibility for the Group strategy and receives a detailed annual presentation from the Executive Team on the proposed strategy for the following five years. It also ensures that internal controls and risk management are strong in all of Ultra's operations and ensures that appropriate standards of ethics and behaviour are in place across the Group and that the culture is positive and constructive. At the operational level, the Executive Team has responsibility for running the Group and for guiding the delivery of strategy, financial performance and team development.

With around **4,600** employees in **29 businesses**, the number of staff at Ultra's head office is fewer than **30**. This gives a clear signal about how it wants the Group to run. Across the Group, there are no more than **seven** levels of seniority from shop-floor operator or newly qualified engineer up to the Chief Executive. Flat management structures within the **29 businesses** are encouraged to facilitate agile behaviour at all levels. This balance of giving the businesses autonomy and responsibility for their success and regular Group-level review gives the businesses the agility needed to succeed in their markets whilst maintaining an appropriate level of central control.

Ultra's agile management structure



Focus on autonomy

As much authority and responsibility as possible is devolved to the Managing Directors and Presidents and their management teams. Ultra wants these teams to maintain the agility and sharp focus externally on customer requirements that are typical of owner-managed businesses. Ultra's central management processes therefore focus on just three topics. These are:

- **strategy** – agreeing and then delivering a five-year plan focused on positioning for growth in target markets through innovation that generates differentiated solutions to customer requirements for each of Ultra's specialist capability areas.
- **financial performance** – managing the main processes (for example, winning new business, execution of contracts, production and support) so that the business meets or beats the agreed financial budget. Across all Ultra businesses the focus is mainly on cash generation as an indicator of the high quality of earnings growth.
- **developing people** – developing the team and the individuals within the team so that they grow with the business and do not become a constraint on the development of the Group. Ultra's right people are its most important asset and great focus is placed on ensuring that the right people are in the right roles.

at a glance
Ultra's divisions
How the Group operates

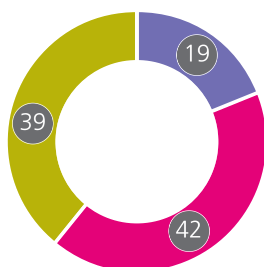
Locations in:
United Kingdom,
North America and
the Middle East

Maintaining an appropriate management span of control

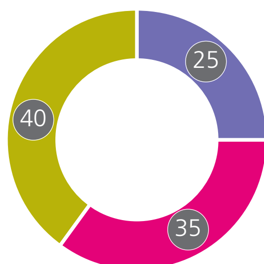
Ultra's Divisional Managing Directors and Presidents play a vital role in ensuring that an appropriate management span of control is maintained across the Group. Within a structure of delegated authorities, Divisional Managing Directors and Presidents work closely with business management teams to ensure that the agreed strategy is being delivered, that the financial performance is as planned and that the team members are being developed. The Divisional Managing Directors and Presidents meet as members of Ultra's Executive Team for at least two days each month. Cross-divisional as well as intra-divisional co-operation is actively encouraged.

Operationally, the Group is organised into three divisions:
Aircraft & Vehicle Systems,
Information & Power Systems and
Tactical & Sonar Systems.

Revenue % of Group



Profit* % of Group



Aircraft & Vehicle Systems

Capabilities

Ultra specialises in high integrity real-time control systems for aircraft and vehicle applications. These include airframe ice protection, power distribution and control equipment and noise and vibration cancellation systems. The Group also supplies advanced human-machine interfaces and systems, including those to control uninhabited ground and air vehicles. Ultra provides innovative small power sources including miniature pneumatic systems, propane-powered fuel cells and multi-fuel UAV engines.

Major customers

• EADS •ACMA • BAE Systems • Boeing • US DoD

Major successes in 2012

- electrical power distribution and other design work on the Lockheed Martin led, Warrior Capability Sustainment Programme (WCSP)
- a contract from Lockheed Martin to supply Ultra's innovative fuel cells to power Stalker UAVs, significantly enhancing their endurance
- an order to supply tactical robotic controllers for QinetiQ's unmanned ground vehicle programme in the USA

Revenue H1
£71.5m -11.3%
2011 H1 £80.6m

Underlying operating profit H1*
£14.1m +5.2%
2011 H1 £13.4m

Order book H1
£171.7m -20.0%
2011 H1 £214.7m

Number of employees
1,069

*see footnote on ipage 09

Locations in:
United Kingdom, North America and the Middle East

Information & Power Systems

Capabilities

Ultra supplies advanced command and control systems for battlespace visualisation, cyber surveillance systems, air defence and naval combat management. The Group provides perimeter security solutions for critical infrastructure, crisis response planning and management software and secured networks. Ultra's high integrity sensors and control systems are used for civil and military nuclear reactors and a range of specialist, solid-state electrical power systems are used for naval vessels and mass transit. Ultra is a world-leading integrator of airport and airline management and information systems.

Major customers

• US DoD • Rolls-Royce • MOTC Oman • BAE Systems
• General Dynamics

Major successes in 2012

- working closely on a key electrical power design and development programme for the Royal Navy's next generation nuclear deterrent submarines with BAE Systems
- a contract to supply additional specialist communication surveillance systems to agencies of the US Government
- an order for the first phase of a 20 year life extension programme for replacement reactor safety systems at a nuclear power station in the mid-west USA

Revenue H1
£155.2m +35.4%
2011 H1 £114.6m

Underlying operating profit H1*
£20.3m +58.6%
2011 H1 £12.8m

Order book H1
£425.4m -5.4%
2011 H1 £449.6m

Number of employees
1,793

Locations in:
United Kingdom, North America and Australia

Tactical & Sonar Systems

Capabilities

Ultra supplies advanced cyber security solutions, high capacity communication systems and tactical surveillance equipment to support network enabled warfare. Specialist areas include data links, encryption for information assurance and electronic warfare. The Group also supplies world-leading acoustic systems, equipment and products to meet the challenges of the underwater battlespace. These include advanced sonar, anti-submarine warfare and torpedo defence systems. Ultra has developed a range of highly efficient acoustic hailing devices.

Major customers

• US DoD • UK MoD • Australian DND • Raytheon
• Lockheed Martin

Major successes in 2012

- a multi-year, IDIQ contract to supply acoustic transducer arrays for US Navy submarines
- an initial contract to install Ultra's secure wireless perimeter protection and energy management systems at a number of US Air Force stations in addition to US Naval bases
- gaining a position to deliver high-capacity radios to the Indian consortium selected to provide the next generation of tactical communication systems to the Indian Army, including an agreement to satisfy indigenous content

Revenue H1
£143.5m -3.2%
2011 H1 £148.3m

Underlying operating profit H1*
£23.1m -22.0%
2011 H1 £29.6m

Order book H1
£346.6m -5.9%
2011 H1 £368.2m

Number of employees
1,808

*see footnote onon page 09

Interim Management Report

"These interim results reflect a steady performance in difficult conditions within Ultra's core defence markets. In the US, the forthcoming presidential election and the threat of sequestration combine to fuel funding uncertainties that will probably continue into 2013. In the UK, the prolonged effort to balance the defence budget has led to uncertainty in the procurement process, with contract officers unwilling to commit funds and delaying programmes. Within Ultra's non-defence markets there were good performances across the Group. Furthermore, investment has increased in new products and business development which, together with the acquisition of three companies, will underpin future growth.

The Board remains confident in the Group's strategies which are constantly to broaden Ultra's portfolio of products and services that are positioned on a large number of international platforms and programmes in the defence, security, transport and energy markets. Further, the Group looks to broaden its customer base with sales outside the UK now representing over 70% of Group revenue, while growing sales in the security and cyber, transport and energy markets account for about 45%. Ultra continues to be cash generative and has the balance sheet strength to maintain its investment, both in acquisitions and internally, in market sectors where customers will prioritise and protect expenditure. While recognising slower end markets and lower than normal visibility in the defence sector, the Group has a resilient business model and this underpins the Board's confidence of continued progress in 2012 and beyond."

Rakesh Sharma, Chief Executive

This Interim Management Report ("IMR") has been prepared solely to provide additional information to enable shareholders to assess Ultra's strategies and the potential for those strategies to be fulfilled. It should not be relied upon by any other party or for any other purpose.

This IMR contains certain forward-looking statements. Such statements are made by the Directors in good faith based on the information available to them at the time of their approval of this report, and they should be treated with caution due to the inherent uncertainties underlying such forward-looking information.

This IMR has been prepared for the Group as a whole and therefore gives greatest emphasis to those matters which are significant to Ultra when viewed as a complete entity.

Financial Results

	Six months ended 30 June 2012 £m	Six months ended 1 July 2011 £m	Growth
Order book			
Aircraft & Vehicle Systems	**171.7**	214.7	-20.0%
Information & Power Systems	**425.4**	449.6	-5.4%
Tactical & Sonar Systems	**346.6**	368.2	-5.9%
Total order book	**943.7**	1,032.5	-8.6%
Revenue			
Aircraft & Vehicle Systems	**71.5**	80.6	-11.3%
Information & Power Systems	**155.2**	114.6	+35.4%
Tactical & Sonar Systems	**143.5**	148.3	-3.2%
Total revenue	**370.2**	343.5	7.8%
Organic underlying revenue growth at constant currencies			-1.4%
Underlying operating profit			
Aircraft & Vehicle Systems	**14.1**	13.4	+5.2%
Information & Power Systems	**20.3**	12.8	+58.6%
Tactical & Sonar Systems	**23.1**	29.6	-22.0%
Total underlying operating profit	**57.5**	55.8	+3.0%
Organic underlying operating profit growth at constant currencies			-4.8%
Underlying operating margin			
Aircraft & Vehicle Systems	**19.7%**	16.6%	
Information & Power Systems	**13.1%**	11.2%	
Tactical & Sonar Systems	**16.1%**	20.0%	
Total underlying operating margin	**15.5%**	16.2%	
Finance charges*	**(3.0)**	(3.7)	-18.9%
Underlying profit before tax	**54.5**	52.1	+4.6%
Operating cash flow*	**35.4**	37.6	
Operating cash conversion*	**62%**	67%	
Net debt* at period-end	**67.6**	10.1	
Bank interest cover*	**24.7x**	21.3x	
Underlying earnings per share	**58.1p**	54.6p	+6.4%

Note

operating cash flow* is cash generated by operations, less net capital expenditure, R&D, LTIP share purchases and acquisition costs.

operating cash conversion* is cash generated by operations, less net capital expenditure, R&D, LTIP share purchases and acquisition costs as % of operating profit before the costs of acquisitions and amortisation of intangibles arising on acquisition.

net debt* comprises loans and overdrafts less cash and cash equivalents.

finance charges* exclude fair value movements on derivatives.

organic growth* (of revenue or profit) is the annual rate of increase in revenue or profit that was achieved, assuming that acquisitions made during the prior period were only included for the same proportion of the current period.

bank interest cover* is the ratio of underlying operating profit to finance costs associated with borrowings.

Revenue in the period was 8% higher at £370.2m (2011: £343.5m) with the strongest performance coming from the Group's Information & Power Systems division, held back by a poor performance from the Tactical & Sonar Systems division, primarily due to reduced US demand for tactical radios. Of the increase, acquisitions contributed about 8% while exchange rate movements increased revenue by over 1%; organic revenue at constant currencies declined by 1%.

Underlying operating profit increased 3% to £57.5m (2011: £55.8m). Foreign exchange increased profit by 2% and acquisitions contributed 6%. Internal investment in the development of new business and products in the period was increased to £22.6m (2011: £18.7m), which represented over 6% of revenue. This resulted in a decline in organic growth at constant currencies of 5%. The underlying operating margin was 15.5% (2011: 16.2%).

Underlying profit before tax increased by 5% to £54.5m (2011: £52.1m), after net financing charges of £3.0m (2011: £3.7m).

The Group's underlying tax rate in the period was 26.0% (2011: 28.0%) and the increase in underlying earnings per share was 6% to 58.1p (2011: 54.6p).

Reported (IFRS) profit before tax was £39.1m (2011: £43.9m) and reflected the combined effects of the elements detailed below:

	2012 £m	2011 £m
Underlying profit before tax	**54.5**	52.1
Amortisation of intangibles arising on acquisition	**(15.1)**	(10.9)
Profit on fair value movements on derivatives	**0.5**	3.5
Acquisition-related costs and adjustments	**(0.8)**	(0.8)
Reported profit before tax	**39.1**	43.9

The Group's balance sheet remains strong, with net interest payable on borrowings covered over 24 times by underlying operating profit. Operating cash flow in the period was £35.4m (2011: £37.6m), after the £1.2m increase in deficit-reduction payments for the UK pension scheme. Ultra had net debt at the end of the period of £67.6m (2011: £10.1m). Net cash expenditure on acquisitions in the period was £25m (2011: £32.2m) including the payment of deferred consideration in respect of acquisitions made in prior years. A payment of £8m will be made when the anticipated acquisition of RFI is completed.

The proposed interim dividend is 12.2p, an increase of 4%, with the dividend being covered 4.8 times (2011: 4.7 times) by underlying earnings per share. If approved, the dividend will be paid on 21 September 2012 to shareholders on the register at 17 August 2012.

The order book at the end of the period was £943.7m compared to £950.3m at the end of 2011. Order book cover against expected sales for the remainder of 2012 remains strong.

Reinvesting for growth

Ultra continues to invest in new product and business development and plans to sustain spending at our customary levels.

An example of this investment is the development of a new tactical communications pod (TACPOD) suitable for fitting to existing and new manned and unmanned aircraft. This equipment was developed to meet a rapidly emerging operational need and initial systems have been delivered to the customer. Flight testing and airworthiness trials will continue through the remainder of the year, leading to operational deployment in 2013. Follow on contracts for further development and integrated logistic support are being planned.

In the Group's nuclear businesses, investment has been made to achieve French certification for Ultra's specialist nuclear sensors, opening up opportunities with French-designed reactor builds in new regional markets. In addition, a strategically important contract has been won for a civil reactor safety system life-extension programme in the USA.

Over the period the Group announced three acquisitions and retains the headroom to pursue further opportunities.

In May, the Group acquired Giga Communications, to be known as Ultra Electronics GigaSat. The business develops, manufactures and supports fixed, mobile and transportable satellite terminals for a variety of users. These include deployable packages for military forces, news-gathering and vehicle-mounted applications. It operates from locations in the UK, USA and Australia. GigaSat has been integrated into Ultra's Tactical & Sonar Systems division.

In June, Ultra announced the acquisition of RFI, an established manufacturer of proprietary, high-voltage power conversion subsystems designed for industrial, medical, military and other commercial applications. It will be integrated into the Group's EMS business with which it has strong synergies and will sit within the Information & Power Systems division. The enlarged business will continue to be located on Long Island, New York. It is anticipated the acquisition will be completed by September 2012.

Barron McCann Technology and Barron McCann Payments (also known as BeMac) were also acquired in June. BeMac provides baseline crypto and key management services to the UK government, military, law enforcement agencies and the financial sector. The acquisition provides access to the attractive financial services market and deepens Ultra's crypto portfolio that now extends from the highest government security classification through to the commercial domain. BeMac will be consolidated into the Group's recently acquired AEP business in the Tactical & Sonar Systems division.

Board changes

Ian Griffiths stood down from the Board on 3 July 2012, having made a valuable contribution over nine years as a Non-Executive Director. As previously announced, he has been replaced by Martin Broadhurst OBE, who was Chief Executive of Marshall Aerospace for 15 years until his retirement in 2011.

*see footnote onon page 09

Operational review

Aircraft & Vehicle Systems

Revenue in Aircraft & Vehicle Systems reduced by 11% to £71.5m (2011: £80.6m) while underlying operating profit increased by 5% to £14.1m (2011: £13.4m). The division's order book reduced to £171.7m (2011: £214.7m).

Sales in the period reflected delays in some existing programmes, as well as a hiatus between recently completed aircraft programme sales and the higher production phases of new aircraft programmes, such as F-35 JSF and Boeing 787, expected to benefit Ultra in the medium term. The operating margin improved to 19.7% (2011: 16.6%) reflecting lower engineering costs and an improvement in the business mix. The order book was impacted by the cancellation of a contract to supply systems for a European military aircraft, previously reported at the end of 2011 and delays in other orders.

Highlights of activities in the period that will underpin the division's future performance included:

- electrical power distribution and other design work on the Lockheed Martin led, Warrior Capability Sustainment Programme (WCSP)
- a contract from Lockheed Martin to supply Ultra's innovative fuel cells to power Stalker UAVs, significantly enhancing their endurance
- an order to supply tactical robotic controllers for QinetiQ's unmanned ground vehicle programme in the USA

Information & Power Systems

Revenue in Information & Power Systems grew by 35% to £155.2m (2011: £114.6m), of which acquisitions provided 16%. Underlying operating profit increased by 59% to £20.3m (2011: £12.8m). These results include a substantial half-year contribution from SOTECH and Zu, acquired late in 2011. The order book at the end of the period was £425.4m (2011: £449.6m).

Performance in the period was underpinned by sales of electrical power management and specialist control equipment for both UK and US nuclear submarine programmes and initial sales of TACPOD. These sales offset the impact of delays in some other programmes while Ultra's Oman airport IT project is progressing as anticipated. The operating margin improved to 13.1% (2011: 11.2%) largely driven by the impact of higher margin acquisitions made in 2011.

Features of the division's performance in the period that will underpin future growth included:

- working closely on a key electrical power design and development programme for the Royal Navy's next generation nuclear deterrent submarines with BAE Systems
- a contract to supply additional specialist communication surveillance systems to agencies of the US Government
- an order for the first phase of a 20 year life extension programme for replacement reactor safety systems at a nuclear power station in the mid-west USA

Tactical & Sonar Systems

Revenue in Tactical & Sonar Systems reduced by 3% to £143.5m (2011: £148.3m) despite contributions from 2011 acquisitions (3eTI and AEP) and GigaSat. Underlying operating profit declined by 22% to £23.1m (2011: £29.6m) and the closing order book was £346.6m (2011: £368.2m).

US ground force reductions, planned phasing of programmes and delays in the procurement of the next generation army communication equipment has reduced demand for Ultra's tactical radios. The number of radios sold to the US DoD has fallen from a peak in 2010 back to levels previously experienced in 2005. TCS has moved quickly to reduce costs, while continuing to invest in the development of IP-enabled radios to meet emerging user needs in several markets. This reduction in US radio sales was partly offset by strong sales of Ultra's crypto and surveillance products. Ultra enjoyed continuing success in Anti-Submarine Warfare (ASW) systems in the USA, as well as in the provision of sonar and torpedo defence systems in Australia, the Netherlands and Turkey. The resulting operating margin across the division was 16.1% (2011: 20.0%) and the reduction was primarily due to lower overhead recovery on reduced volumes at TCS.

Future performance will be underpinned by the following developments in the period:

- a multi-year, IDIQ contract to supply acoustic transducer arrays for US Navy submarines
- an initial contract to install Ultra's secure wireless perimeter protection and energy management systems at a number of US Air Force stations in addition to US Naval bases
- gaining a position to deliver high-capacity radios to the Indian consortium selected to provide the next generation of tactical communication systems to the Indian Army, including an agreement to satisfy indigenous content

*see footnote on page 09

Market conditions

Many countries worldwide are still in the process of addressing the economic and political consequences of high budget deficits and this is exerting downward pressure on government spending. Overall, however, budgets addressable by Ultra remain sufficiently large to give headroom for further growth as the Group maintains its focus on innovation in market niches that command preferential spend by customers.

Defence

A shift resulting from greater military tensions in the Asia-Pacific region is now mirrored in US defence policy and plays strongly to Ultra's well-established strengths in anti-submarine warfare. Elsewhere, terrorism, political unrest and regional disputes continue to drive defence and security concerns. Focus is moving from the enduring counter-insurgency campaigns in Iraq and Afghanistan back to the stand-off, reactive capabilities more associated with maritime and air forces. Ultra has strong positions in these capabilities that require information superiority, command and control, long-life sensors and secure communications.

In Ultra's US market, programme uncertainty is driven by the presidential election year and the threat of budget sequestration. In 2011 the US Budget Control Act established a Joint Select Committee of Congress to propose a national deficit solution by 23 November that year. When the "super committee" failed it triggered a process called sequestration that would take effect in January 2013. Sequestration would apply across all programmes and could add another $500bn of non-discretionary cuts to the $487bn defence funding reduction over the next 10 years already announced in the Fiscal Year 2013 (FY13) budget. Politicians of both parties may seek to avoid sequestration but their opportunity to do so is narrow, while the continuing national deficit will maintain pressure on the defence budget. As a result, contract officers are acting now to protect priority programmes, while avoiding commitment or delaying programmes elsewhere and reducing internal costs. In the UK, it was announced in May 2012 that the budget was "balanced". A core programme of funded projects has now been established, with a contingency margin. This leaves most other previously endorsed projects waiting for funding to be allocated. Meanwhile, a far-reaching reorganisation of UK defence acquisition continues.

For these reasons, the defence market continues to experience programme delays in new procurements and incremental funding of established programmes. In both the UK and US this is compounded by organisational churn and resource reduction in contract offices. Ultra's agility, diversity and inclusion on a large number of platforms, together with a focus on niche, preferential capabilities will reduce the impact on the Group.

Ultra continues to position in new regional markets in the Middle East, Far East and Australasia. While the Australian government has recently announced defence cuts, key programmes, such as the submarine capability, continue to attract funding. In India the defence budget is expected to grow strongly, with an emphasis on maritime and air forces, and improved high-technology intelligence, surveillance and reconnaissance capabilities. In Turkey, Ultra has established a strong and well-regarded position in torpedo defence systems, supported by rapidly growing investment in defence. Each of these markets offers valuable opportunities for Ultra's capabilities.

Security & Cyber

The security market now represents over 20% of Group revenue, targeting the preferential customer spend arising from terrorism, organised crime and border protection. Globally, there is an increasing understanding of the scale and potential threat from individual and state-sponsored cyber-attacks on critical national and commercial infrastructures. As a result, increased demand and prioritised funding is evident in Ultra's core markets of the US, UK and the Middle East as well as new opportunities such as Australia. Ultra's wide portfolio of specialist capabilities in the security and cyber areas allow it to combine and tailor solutions to meet customer needs, or to contribute winning components within larger teaming arrangements. The Group has developed a comprehensive range of crypto capability that now spans from the highest levels of government security through to commercial and transaction-protection applications. These augment Ultra's unique key management and remote keying capabilities. The Group now has a wide range of lawful intercept and data analysis products to offer, together with the secure communications, networks and command & control systems to enable their use. In the wider security market, Ultra has developed a number of strong positions in the delivery of both perimeter and national border surveillance systems.

Transport & Energy

Population growth, shifts in global trade and the proliferation of low-cost airlines worldwide is driving demand for civil aircraft and infrastructure investment in mass passenger transport systems. Passenger traffic figures continue to exceed capacity growth, underpinning long order books in passenger aircraft manufacture by the main primes. Whilst investment decisions in some countries may be slowed by economic concerns, demand remains strong in the world's high-growth economies and Ultra continues to win business in these areas, which now represent 23% of Group revenue.

The long-term, worldwide increase in air travel drives investment in infrastructure, including airport IT systems where Ultra has a strong capability. Congestion of airspace will require enhanced technology to improve efficiency through better analysis of operational data. Elsewhere there is significant investment in airport upgrade and expansion. Ultra's ability to secure and deliver as a master systems integrator, for the Muscat and Salalah airports in Oman, clearly demonstrates the Group's capability in this market.

The investment in ground transport systems and specifically rail infrastructure is predicted to exceed airport investment over the next decade; an opportunity which should benefit Ultra with its established and specialist trackside power capability.

The report on the Fukushima disaster underwrote the need for high integrity safety systems in civil nuclear power. Despite some nations turning away from nuclear power, the imperative to deliver low-carbon energy remains high. During the period, the US approved four new-build Westinghouse reactors, each of which uses Ultra's specialist sensors, while the Group's involvement continues in China's civil nuclear reactor build programme, by far the largest in the world. Elsewhere, there has been a growing emphasis on reactor plant life extension as new builds are delayed; this plays well to the Group's safety system experience.

Risks and uncertainties

A number of potential risks and uncertainties exist which could have a material impact on the Group's performance in 2012 and beyond and which could cause actual results to differ materially from expected and historical levels. The directors do not consider that the principal risks and uncertainties have changed substantially since the publication of the Group's annual report for 2011. An explanation of the risks detailed below, and the robust business strategies that Ultra uses to manage and mitigate those risks and uncertainties, can be found on pages 35 to 39 of the annual report which is available for download at www.ultra-electronics.com/investors.

Excluding the Group's activities in the security and cyber fields, in which demand continues to grow, the defence sector contributes around 55% of Ultra's revenue and there is pressure on defence budgets. In the US, planning for the possible effects of sequestration is in train and the political acceptability of widespread cuts is not yet clear. In the UK, ministerial commitment to balancing the defence budget is putting pressure on previous procurement ambitions that fall outside the core programme. Nevertheless, the overall size of defence budgets worldwide, relative to the Group's revenue, provides sufficient headroom to support Ultra's continuing growth. In 2012 the normal defence procurement processes in the US and UK have been disrupted and it is likely that this impact will continue into 2013.

There is a risk of programme delays or cancellations but this has always been a feature of the Group's markets. Excluding the Oman Airport IT project, individual programmes typically represents less than 5% of Ultra's revenue in any year, so that the cancellation or curtailment of any single programme is unlikely to have a material impact on the Group.

Movements in foreign currency exchange rates result in both transaction and translation effects on the Group's results. Ultra's projected net transaction exposure is mitigated by the use of forward hedging contracts. By their nature, currency translation risks cannot be mitigated.

Confirmation of going concern

The Directors have considered the guidance issued by the Financial Reporting Council and hereby confirm that the Group continues to adopt the 'going concern' basis in preparing its accounts.

The Board has made appropriate enquiries to support this view, looking forward for a period of at least twelve months. Salient points taken into consideration were:

- the Group's record of delivering high quality profits growth
- the adequacy of Ultra's financing facilities
- Ultra's positions in growth sectors of its markets
- the long-term nature of Ultra's markets and contracts
- the Group's forecasting processes
- the Group's minimal exposure to trading denominated in the euro
- the risks as discussed above

Strategies for growth

Ultra continues to pursue strategies to mitigate risk in uncertain markets and provide a solid base on which to grow. Investment in the Group's wide portfolio of highly differentiated offerings, together with a good understanding of customer needs, allows Ultra to bring forward tailored, innovative proposals that secure positions on an increasing list of international, multi-year platforms and programmes. Ultra is adept at teaming in a leading or supporting position within the supply chain and has a broad customer base that includes governments and most of the world's major prime contractors. The Group constantly positions and repositions itself in its markets to maintain its focus on areas of preferential customer spend at a time of more general resource constraint; Ultra specialises in electronics and integrated solutions, which are attracting an increasing proportion of customer budgets, even in periods of market uncertainty. These enduring customer relationships and long-term programme positions give resilience to Ultra's business model and maintain momentum in the Group's continuing progress, despite market fluctuations.

Prospects

The Board remains confident in the Group's strategies which are constantly to broaden Ultra's portfolio of products and services that are positioned on a large number of international platforms and programmes in the defence, security, transport and energy markets. Further, the Group looks to broaden its customer base with sales outside the UK now representing over 70% of Group revenue, while growing sales in the security and cyber, transport and energy markets account for about 45%. Ultra continues to be cash generative and has the balance sheet strength to maintain its investment, both in acquisitions and internally, in market sectors where customers will prioritise and protect expenditure. While recognising slower end markets and lower than normal visibility in the defence sector, the Group has a resilient business model and this underpins the Board's confidence of continued progress in 2012 and beyond.

Group highlights

For the half-year ended 30 June 2012

	Six months to 30 June 2012	Six months to 1 July 2011	Year to 31 December 2011
	£'000	£'000	£'000
Revenue	**370,164**	343,455	731,733
Underlying operating profit	**57,523**	55,760	122,116
Operating profit	**41,520**	44,018	99,215
Underlying profit before tax	**54,525**	52,144	114,901
Profit before tax	**39,057**	43,937	91,179

	Six months to 30 June 2012	Six months to 1 July 2011	Year to 31 December 2011
	pence	pence	pence
Underlying earnings per share	**58.1**	54.6	120.2
Basic earnings per share	**41.9**	46.4	96.2
Dividend per share	**12.2**	11.7	38.5

Condensed Consolidated Income Statement

For the half-year ended 30 June 2012

	Note	**Six months to 30 June 2012 £'000**	Six months to 1 July 2011 £'000	Year to 31 December 2011 £'000
Continuing operations				
Revenue	*3*	**370,164**	343,455	731,733
Cost of sales		**(264,100)**	(239,425)	(514,944)
Gross profit		**106,064**	104,030	216,789
Other operating income		**1,117**	9	2,037
Distribution costs		**(293)**	(340)	(1,141)
Administrative expenses		**(66,324)**	(59,838)	(116,653)
Share of profit from associate		**1,375**	1,629	2,793
Other operating expenses		**(419)**	(1,472)	(4,610)
Operating profit	*3*	**41,520**	44,018	99,215
Investment revenue	*5*	**711**	3,624	296
Finance costs	*6*	**(3,174)**	(3,705)	(8,332)
Profit before tax		**39,057**	43,937	91,179
Tax	*7*	**(9,915)**	(11,995)	(25,015)
Profit for the period from continuing operations		**29,142**	31,942	66,164
Attributable to:				
Owners of the Company		**28,975**	31,942	65,884
Non-controlling interests		**167**	-	280
Earnings per ordinary share (pence)				
From continuing operations				
Basic	*9*	**41.9**	46.4	96.2
Diluted	*9*	**41.8**	46.2	95.8

Condensed Consolidated Statement of Compehensive Income

For the half-year ended 30 June 2012

	Six months to 30 June 2012 £'000	Six months to 1 July 2011 £'000	Year to 31 December 2011 £'000
Profit for the period	**29,142**	31,942	66,164
Exchange differences on translation of foreign operations	**(4,297)**	(3,468)	2,719
Gain on net investment hedges	**1,417**	838	289
Actuarial loss on defined benefit pension schemes	**-**	-	(8,312)
Loss on cash flow hedges	**-**	(73)	(84)
Transfer from profit and loss on cash flow hedges	**-**	861	1,702
Tax relating to components of other comprehensive income	**-**	-	98
Other comprehensive income for the period	**(2,880)**	(1,842)	(3,588)
Total comprehensive income for the period	**26,262**	30,100	62,576
Attributable to:			
Owners of the Company	**26,095**	30,100	62,296
Non-controlling interests	**167**	-	280

Condensed Consolidated Balance Sheet

As at 30 June 2012

	Note	**At 30 June 2012 £'000**	At 1 July 2011 £'000	At 31 December 2011 £'000
Non-current assets				
Goodwill		**297,933**	227,438	278,125
Other intangible assets		**147,116**	83,858	140,333
Property, plant and equipment	*10*	**51,999**	44,720	48,587
Interest in associate		**7,901**	5,219	6,610
Deferred tax assets		**9,358**	17,195	11,911
Derivative financial instruments		**2,263**	4,556	1,948
		516,570	382,986	487,514
Current assets				
Inventories		**50,158**	45,482	47,672
Trade and other receivables	*11*	**187,898**	178,668	197,071
Cash and cash equivalents		**65,628**	38,969	41,051
Derivative financial instruments		**2,521**	4,450	2,746
		306,205	267,569	288,540
Total assets	*3*	**822,775**	650,555	776,054
Current liabilities				
Trade and other payables	*12*	**(221,990)**	(197,476)	(235,709)
Tax liabilities		**(18,740)**	(14,546)	(19,721)
Derivative financial instruments		**(422)**	(1,413)	(263)
Obligations under finance leases		**(44)**	(98)	(63)
Borrowings		**(86,236)**	-	(78,912)
Short-term provisions	*13*	**(26,231)**	(16,904)	(14,457)
		(353,663)	(230,437)	(349,125)
Non-current liabilities				
Retirement benefit obligations		**(80,207)**	(77,390)	(82,871)
Other payables	*12*	**(20,083)**	(15,107)	(27,861)
Deferred tax liabilities		**(10,456)**	(11,520)	(11,942)
Derivative financial instruments		**(200)**	(440)	(804)
Obligations under finance leases		**(50)**	(179)	(76)
Borrowings		**(46,928)**	(48,794)	(8,148)
Long-term provisions	*13*	**(14,923)**	(8,326)	(10,059)
		(172,847)	(161,756)	(141,761)
Total liabilities	*3*	**(526,510)**	(392,193)	(490,886)
Net assets		**296,265**	258,362	285,168
Equity				
Share capital	*14*	**3,459**	3,440	3,449
Share premium account		**46,180**	42,121	43,862
Own shares		**(2,581)**	(2,581)	(2,581)
Hedging reserve		**(12,606)**	(14,304)	(14,023)
Translation reserve		**29,601**	27,711	33,898
Retained earnings		**231,631**	201,975	220,149
Total equity attributable to equity holders of the parent		**295,684**	258,362	284,754
Non-controlling interest		**581**	-	414
Total equity		**296,265**	258,362	285,168

Condensed Consolidated Statement of Changes in Equity

For the half-year ended 30 June 2012

Equity attributable to equity holders of the parent

	Share capital £'000	Share premium account £'000	Reserve for own shares £'000	Hedging reserve £'000	Translation reserve £'000	Retained earnings £'000	Non controlling interest £'000	Total equity £'000
Balance at 1 January 2012	**3,449**	**43,862**	**(2,581)**	**(14,023)**	**33,898**	**220,149**	**414**	**285,168**
Profit for the period	-	-	-	-	-	28,975	167	29,142
Other comprehensive income for the period	-	-	-	1,417	(4,297)	-	-	(2,880)
Total comprehensive income for the period	**-**	**-**	**-**	**1,417**	**(4,297)**	**28,975**	**167**	**26,262**
Equity-settled employee share schemes	10	2,318	-	-	-	973	-	3,301
Dividend to shareholders	-	-	-	-	-	(18,466)	-	(18,466)
Balance at 30 June 2012	**3,459**	**46,180**	**(2,581)**	**(12,606)**	**29,601**	**231,631**	**581**	**296,265**
Balance at 1 January 2011	**3,436**	**41,134**	**(2,653)**	**(15,930)**	**31,179**	**185,969**	**-**	**243,135**
Profit for the period	-	-	-	-	-	31,942	-	31,942
Other comprehensive income for the period	-	-	-	1,626	(3,468)	-	-	(1,842)
Total comprehensive income for the period	**-**	**-**	**-**	**1,626**	**(3,468)**	**31,942**	**-**	**30,100**
Own shares acquired	-	-	(422)	-	-	-	-	(422)
Disposal of own shares	-	-	494	-	-	(494)	-	-
Equity-settled employee share schemes	4	987	-	-	-	1,004	-	1,995
Dividend to shareholders	-	-	-	-	-	(16,446)	-	(16,446)
Balance at 1 July 2011	**3,440**	**42,121**	**(2,581)**	**(14,304)**	**27,711**	**201,975**	**-**	**258,362**
Balance at 1 January 2011	**3,436**	**41,134**	**(2,653)**	**(15,930)**	**31,179**	**185,969**	**-**	**243,135**
Profit for the year	-	-	-	-	-	65,884	280	66,164
Other comprehensive income for the year	-	-	-	1,907	2,719	(8,214)	-	(3,588)
Total comprehensive income for the year	**-**	**-**	**-**	**1,907**	**2,719**	**57,670**	**280**	**62,576**
Own shares acquired	-	-	(422)	-	-	-	-	(422)
Disposal of own shares	-	-	494	-	-	(494)	-	-
Equity-settled employee share schemes	13	2,728	-	-	-	1,974	-	4,715
Non-controlling interest's investment made in subsidiary	-	-	-	-	-	-	134	134
Dividend to shareholders	-	-	-	-	-	(24,469)	-	(24,469)
Tax on share-based payment transactions	-	-	-	-	-	(501)	-	(501)
Balance at 31 December 2011	**3,449**	**43,862**	**(2,581)**	**(14,023)**	**33,898**	**220,149**	**414**	**285,168**

Condensed Consolidated Cash Flow Statement

For the half-year ended 30 June 2012

	Note	**Six months to 30 June 2012 £'000**	Six months to 1 July 2011 £'000	Year to 31 December 2011 £'000
Net cash inflow from operating activities	*15*	**27,729**	24,497	115,413
Investing activities				
Interest received		**176**	89	296
Purchase of property, plant and equipment		**(8,327)**	(4,366)	(12,099)
Proceeds from disposal of property, plant and equipment		**15**	20	-
Expenditure on product development and other intangibles		**(1,287)**	(1,596)	(3,055)
Acquisition of subsidiary undertakings (including acquisition costs)		**(30,193)**	(32,149)	(146,180)
Net cash acquired with subsidiary undertakings		**5,437**	-	4,033
Net cash used in investing activities		**(34,179)**	(38,002)	(157,005)
Financing activities				
Issue of share capital		**2,328**	991	2,741
Purchase of Long-Term Incentive Plan shares		**-**	(422)	(422)
Dividends paid		**(18,466)**	(16,446)	(24,469)
Funding from government loans		**643**	-	1,621
Loan syndication costs		**-**	(755)	(771)
Increase in borrowings		**46,673**	-	35,776
Decrease in loan to associate		**-**	1,681	1,948
Minority investment		**-**	-	134
Repayment of obligations under finance leases		**(45)**	(35)	(173)
Net cash generated from/(used in) financing activities		**31,133**	(14,986)	16,385
Net increase/(decrease) in cash and cash equivalents		**24,683**	(28,491)	(25,207)
Cash and cash equivalents at beginning of period		**41,051**	68,129	68,129
Effect of foreign exchange rate changes		**(106)**	(669)	(1,871)
Cash and cash equivalents at end of period		**65,628**	38,969	41,051

Notes to the Condensed Consolidated Interim Financial Statements

For the half-year ended 30 June 2012

1 General information

The information for the year ended 31 December 2011 does not constitute statutory accounts as defined in section 435 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report and did not contain statements under section 498 (2) or (3) of the Companies Act 2006.

These interim Financial Statements, which were approved by the Board of Directors on 27 July 2012, have not been audited or reviewed by the Auditor.

2 Accounting policies

The annual financial statements of Ultra Electronics Holdings plc are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The condensed consolidated financial statements included in this half-yearly financial report have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with International Accounting Standard 34 'Interim Financial Reporting' as adopted by the European Union.

The same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the Group's latest annual audited financial statements, except as described below.

The following Standards and interpretations were adopted as at 1 January 2012:

- AS 12 Income Taxes (amended) – Deferred Tax: Recovery of Underlying Assets
- IFRS 7 Financial Instruments: Disclosures (amended) – Disclosures: Transfers of Financial Assets

The amendments do not affect the reported results or financial position.

3 Segment information

	Six months to 30 June 2012			Six months to 1 July 2011		
	External revenue £'000	**Internal revenue £'000**	**Total £'000**	External revenue £'000	Internal revenue £'000	Total £'000
Revenue						
Aircraft & Vehicle Systems	**71,502**	**6,270**	**77,772**	80,623	8,599	89,222
Information & Power Systems	**155,231**	**6,495**	**161,726**	114,612	3,355	117,967
Tactical & Sonar Systems	**143,431**	**9,113**	**152,544**	148,220	10,830	159,050
Eliminations	**-**	**(21,878)**	**(21,878)**	-	(22,784)	(22,784)
Consolidated revenue	**370,164**	**-**	**370,164**	343,455	-	343,455

	Six months to 30 June 2012			
	Aircraft & Vehicle Systems	**Information & Power Systems**	**Tactical & Sonar Systems**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Underlying operating profit	14,070	20,339	23,114	57,523
Amortisation of intangibles arising on acquisition	(1,817)	(6,941)	(6,371)	(15,129)
Adjustments to deferred consideration net of acquisition costs	(22)	(201)	(651)	(874)
Profit from operations	12,231	13,197	16,092	41,520
Investment revenue				711
Finance costs				(3,174)
Profit before tax				39,057
Tax				(9,915)
Profit after tax				29,142

3 Segment information (continued)

	Aircraft & Vehicle Systems	Information & Power Systems	Tactical & Sonar Systems	Total
Six months to 1 July 2011	£'000	£'000	£'000	£'000
Underlying operating profit	13,350	12,845	29,565	55,760
Amortisation of intangibles arising on acquisition	(2,156)	(3,906)	(4,880)	(10,942)
Adjustments to deferred consideration net of acquisition costs	(77)	(104)	(619)	(800)
Profit from operations	11,117	8,835	24,066	44,018
Investment revenue				3,624
Finance costs				(3,705)
Profit before tax				43,937
Tax				(11,995)
Profit after tax				31,942

	Aircraft & Vehicle Systems	Information & Power Systems	Tactical & Sonar Systems	Total
Year to 31 December 2011	£'000	£'000	£'000	£'000
Underlying operating profit	31,140	30,517	60,459	122,116
Amortisation of intangibles arising on acquisition	(4,168)	(8,270)	(10,695)	(23,133)
Adjustments to deferred consideration net of acquisition costs	1,559	(371)	(956)	232
Profit from operations	28,531	21,876	48,808	99,215
Investment revenue				296
Finance costs				(8,332)
Profit before tax				91,179
Tax				(25,015)
Profit after tax				66,164

	At 30 June 2012	At 1 July 2011	At 31 December 2011
	£'000	£'000	£'000
Total assets by segment			
Aircraft & Vehicle Systems	**146,464**	142,124	137,340
Information & Power Systems	**294,284**	216,110	311,576
Tactical & Sonar Systems	**302,257**	227,151	269,482
	743,005	585,385	718,398
Unallocated	**79,770**	65,170	57,656
Total assets	**822,775**	650,555	776,054

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

3 Segment information (continued)

	At 30 June 2012	At 1 July 2011	At 31 December 2011
	£'000	£'000	£'000
Total liabilities by segment			
Aircraft & Vehicle Systems	**41,872**	54,386	49,572
Information & Power Systems	**103,272**	71,864	113,620
Tactical & Sonar Systems	**138,177**	111,840	126,713
	283,321	238,090	289,905
Unallocated	**243,189**	154,103	200,981
Total liabilities	**526,510**	392,193	490,886

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

	Six months to 30 June 2012	Six months to 1 July 2011	Year to 31 December 2011
	£'000	£'000	£'000
Revenue by geographical destination			
United Kingdom	**107,795**	98,632	215,227
Continental Europe	**26,214**	26,678	67,882
Canada	**11,472**	13,259	22,123
USA	**164,673**	156,759	333,266
Rest of World	**60,010**	48,127	93,235
	370,164	343,455	731,733

During the period to 30 June 2012 there was one direct customer (2011: one) that individually accounted for greater than 10% of the Group's turnover. Sales to this customer during the period were £73m (2011: £88m).

4 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 2012	Six months to 1 July 2011	Year to 31 December 2011
	£'000	£'000	£'000
Operating profit	**41,520**	44,018	99,215
Amortisation of intangibles arising on acquisition	**15,129**	10,942	23,133
Adjustments to contingent consideration net of acquisition costs	**874**	800	(232)
Underlying operating profit	**57,523**	55,760	122,116
Profit before tax	**39,057**	43,937	91,179
Amortisation of intangibles arising on acquisition	**15,129**	10,942	23,133
Adjustments to contingent consideration net of acquisition costs	**874**	800	(232)
(Profit)/loss on fair value movements on derivatives	**(535)**	(3,535)	821
Underlying profit before tax	**54,525**	52,144	114,901
Cash generated by operations *(see note 15)*	**44,973**	43,924	149,318
Purchase of property, plant and equipment	**(8,327)**	(4,366)	(12,099)
Proceeds on disposal of property, plant and equipment	**15**	20	-
Expenditure on product development and other intangibles	**(1,287)**	(1,596)	(3,055)
Purchase of Long-Term Incentive Plan shares	**-**	(422)	(422)
Operating cash flow	**35,374**	37,560	133,742

4 Additional performance measures (continued)

Underlying operating profit has been shown before acquisition-related costs and the amortisation of intangible assets arising on acquisitions, which relates to acquired intellectual property, customer relationships and profit in acquired order book. To maintain a consistent presentation of financial performance over the longer term, these charges have been excluded from underlying operating profit. Underlying profit before tax and underlying earnings per share *(see note 9)* have also been presented before these adjustments.

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. Underlying profit before tax and underlying earnings per share (see note 9) are stated before changes in the valuation of foreign currency derivative 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, 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 on property, plant and equipment and outflows for capitalised product development and other intangibles, would result in an under-reporting of the true cash cost of sustaining a growing business.

5 Investment revenue

	Six months to 30 June 2012	Six months to 1 July 2011	Year to 31 December 2011
	£'000	£'000	£'000
Interest income	**176**	89	296
Fair value movement on derivatives	**535**	3,535	-
	711	3,624	296

6 Finance costs

	Six months to 30 June 2012	Six months to 1 July 2011	Year to 31 December 2011
	£'000	£'000	£'000
Amortisation of finance costs of debt	**275**	408	670
Interest payable on bank loans and overdrafts	**2,227**	1,425	3,137
Interest payable on finance leases	**4**	10	1
Transfers to equity on cash flow hedges	**-**	861	1,702
Total borrowing costs	**2,506**	2,704	5,510
Retirement benefit scheme finance cost	**668**	1,001	2,001
Fair value movement on derivatives	**-**	-	821
	3,174	3,705	8,332

7 Tax

	Six months to 30 June 2012	Six months to 1 July 2011	Year to 31 December 2011
	£'000	£'000	£'000
Current tax			
United Kingdom	**7,138**	7,317	13,724
Overseas	**6,106**	7,779	16,590
	13,244	15,096	30,314
Deferred tax			
United Kingdom	**(793)**	(1,319)	(1,469)
Overseas	**(2,536)**	(1,782)	(3,830)
	(3,329)	(3,101)	(5,299)
Total tax charge	**9,915**	11,995	25,015

7 Tax (continued)

From 1 April 2012 the standard rate of UK corporation tax reduced from 26% to 24% and UK deferred tax balances have been re-measured at this rate as the decrease was substantively enacted on 26 March 2012. The UK government has also announced its intention to reduce the main rate of corporation tax by 1% per annum to 22% by 1 April 2014. These further proposed rate reductions had not been substantively enacted at the balance sheet date and are therefore not reflected in these interim financial statements. The proposed reductions in the rate are expected to be enacted separately each year.

8 Ordinary dividends

	Six months to 30 June 2012	Six months to 1 July 2011
	£'000	£'000
Final dividend for the year ended 31 December 2011 of 26.8p (2010: 24.0p) per share	**18,466**	16,446
Proposed interim dividend for the year ended 31 December 2012 of 12.2p (2011: 11.7p) per share	**8,411**	8,022

The interim 2012 dividend of 12.2 pence per share will be paid on 21 September 2012 to shareholders on the register at 17 August 2012. It was approved by the Board after 30 June 2012 and has not been included as a liability at 30 June 2012.

9 Earnings per share

	Six months to 30 June 2012	Six months to 1 July 2011	Year to 31 December 2011
	pence	pence	pence
From continuing operations			
Basic underlying *(see below)*	**58.1**	54.6	120.2
Diluted underlying *(see below)*	**57.9**	54.3	119.8
Basic	**41.9**	46.4	96.2
Diluted	**41.8**	46.2	95.8

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

	Six months to 30 June 2012	Six months to 1 July 2011	Year to 31 December 2011
	£'000	£'000	£'000
Earnings			
Earnings for the purposes of earnings per share being profit for the period from continuing operations	**28,975**	31,942	66,164
Underlying earnings			
Profit for the period from continuing operations	**28,975**	31,942	66,164
(Profit)/loss on fair value movements on derivatives (net of tax)	**(407)**	(2,581)	524
Amortisation of intangibles arising on acquisition (net of tax)	**10,948**	7,605	15,896
Acquisition related costs net of contingent consideration (net of tax)	**663**	582	129
Earnings for the purposes of underlying earnings per share	**40,179**	37,548	82,713

9 Earnings per share (continued)

The weighted average number of shares is given below:

	Six months to 30 June 2012	Six months to 1 July 2011	Year to 31 December 2011
Number of shares used for basic earnings per share	**69,131,515**	68,777,674	68,809, 084
Number of shares deemed to be issued at nil consideration following exercise of share options	**254,225**	388,101	261,857
Number of shares used for fully diluted earnings per share	**69,385,740**	69,165,775	69,070,941

	Six months to 30 June 2012	Six months to 1 July 2011	Year to 31 December 2011
	£'000	£'000	£'000
Underlying profit before tax	**54,525**	52,144	114,901
Taxation charge on underlying profit	**(14,179)**	(14,596)	(32,188)
Non-controlling interest	**(167)**	-	-
Underlying profit after tax attributable to equity shareholders	**40,179**	37,548	82,713
Tax rate applied for the purposes of underlying earnings per share	**26.0%**	28.0%	28.0%

10 Property, plant and equipment

During the period, the Group spent £8.3m on the acquisition of property, plant and equipment. The Group did not make any significant disposals during the period.

11 Trade and other receivables

	At 30 June 2012	At 1 July 2011	At 31 December 2011
	£'000	£'000	£'000
Trade receivables	**97,109**	88,740	124,654
Provisions against receivables	**(1,935)**	(2,270)	(1,743)
Net trade receivables	**95,174**	86,470	122,911
Amounts due from contract customers	**63,819**	62,548	53,027
Prepayments and other receivables	**28,905**	29,650	21,133
	187,898	178,668	197,071

12 Trade and other payables

	At 30 June 2012	At 1 July 2011	At 31 December 2011
	£'000	£'000	£'000
Amounts included in current liabilities:			
Trade payables	**63,427**	60,151	76,565
Amounts due to contract customers	**85,270**	62,589	82,656
Other payables	**73,293**	74,736	76,488
	221,990	197,476	235,709
Amounts included in non-current liabilities:			
Amounts due to contract customers	**15,450**	4,889	19,414
Other payables	**4,633**	10,218	8,447
	20,083	15,107	27,861

13 Provisions

	Warranty	Contractual	Total
	£'000	£'000	£'000
At 1 July 2011	8,274	16,956	25,230
At 31 December 2011	8,650	15,866	24,516
At 30 June 2012	**6,770**	**34,384**	**41,154**
Included in current liabilities	4,224	22,007	26,231
Included in non-current liabilities	2,546	12,377	14,923
	6,770	**34,384**	**41,154**

Provisions for warranty costs are based on an assessment of future claims with reference to past experience; such costs are generally incurred within two years after delivery. Contractual provisions for dilapidations will be payable at the end of the contracted life which is up to fifteen years, and contractual provisions relating to contingent consideration will be payable in up to two years *(see note 17)*.

14 Share capital

199,767 shares, with a nominal value of £9,988 have been allotted in the first six months of 2012 under the terms of the Group's various share option schemes. The aggregate consideration received by the Company was £2,328,000.

15 Cash flow information

	Six months to 30 June 2012	Six months to 1 July 2011	Year to 31 December 2011
	£'000	£'000	£'000
Operating profit	**41,520**	44,018	99,215
Adjustements for:			
Depreciation of property, plant and equipment	**5,548**	4,711	9,140
Amortisation of intangible assets	**15,767**	12,155	29,431
Acquisition costs and adjustments	**874**	800	(232)
Cost of equity-settled employee share schemes	**973**	1,004	1,974
Adjustment for pension funding	**(3,332)**	(2,075)	(5,968)
(Profit)/loss on disposal of property, plant and equipment	**(5)**	(5)	61
Share of profit of associate	**(1,375)**	(1,629)	(2,793)
Increase in provisions	**1,685**	3,858	2,701
Operating cash flow before movements in working capital	**61,655**	62,837	133,529
(Increase)/decrease in inventories	**(503)**	4,505	5,382
Decrease/(increase) in receivables	**13,109**	(21,388)	(26,488)
(Decrease)/increase in payables	**(29,288)**	(2,030)	36,895
Cash generated by operations	**44,973**	43,924	149,318
Income taxes paid	**(15,566)**	(17,190)	(29,134)
Interest paid	**(1,678)**	(2,237)	(4,771)
Net cash inflow from operating activities	**27,729**	24,497	115,413

15 Cash flow information (continued)

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

	Six months to 30 June 2012	Six months to 1 July 2011	Year to 31 December 2011
	£'000	£'000	£'000
Net increase/(decrease) in cash and cash equivalents	**24,683**	(28,491)	(25,207)
Cash (inflow)/outflow from (increase)/decrease in debt and finance leasing	**(47,271)**	35	(37,224)
Change in net debt arising from cash flows	**(22,588)**	(28,456)	(62,431)
Loan syndication costs	**-**	755	771
Amortisation of finance costs of debt	**(275)**	(408)	(670)
Translation differences	**1,381**	182	(1,643)
Movement in net debt in the period	**(21,482)**	(27,927)	(63,973)
Net (debt)/cash at start of period	**(46,148)**	17,825	17,825
Net debt at end of period	**(67,630)**	(10,102)	(46,148)

Net debt comprised the following:

	At 30 June 2012	At 1 July 2011	At 31 December 2011
	£'000	£'000	£'000
Cash and cash equivalents	**65,628**	38,969	41,051
Borrowings	**(133,164)**	(48,794)	(87,060)
Obligations under finance leases	**(94)**	(277)	(139)
	(67,630)	(10,102)	(46,148)

16 Going concern

On 25 January 2012 the Group issued a further $60 million of fixed interest loan notes with a maturity date of January 2019. The proceeds were used to reduce the borrowings under the Group's revolving credit facilities by $60 million. After making due enquiries, and in accordance with the FRC's "Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009", the Directors view is that the Group has adequate resources to continue in operational existence for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing these condensed consolidated half year financial statements.

17 Acquisitions

GigaSat

On 30 May 2012, the Group acquired the entire share capital of certain Giga Group companies (GigaSat) for initial cash consideration of £12.4m. A purchase price adjustment of £1.2m was paid in July 2012. A further sum, estimated at the time of acquisition as £15.2m (discounted), is payable if certain earnings targets are met for the years ending 30 June 2013 and 30 June 2014. This contingent consideration has been recorded against goodwill in accordance with IFRS 3.

GigaSat develops, manufactures, sells and supports fixed, mobile and transportable satellite earth stations, or satcom terminals, offered in several forms that operate in the most commonly used frequency bands for satellite communications. Its range of products adds to Ultra's strategy of being able to offer both terrestrial and satellite communication links.

The provisional fair values of the net assets acquired are stated below:

	Book value	Revaluations	Provisional fair value
	£'000	£'000	£'000
Intangible assets	250	22,257	22,507
Property, plant and equipment	556	-	556
Cash and cash equivalents	1,176	-	1,176
Inventories	1,652	-	1,652
Receivables	3,679	-	3,679
Payables	(4,386)	(5,402)	(9,788)
Net assets acquired	2,927	16,855	19,782
Goodwill arising on acquisition			8,991
Purchase consideration			28,773

17 Acquisitions (continued)

GigaSat (continued)

The revenue and profit contributions from GigaSat were approximately £1.2m and £0.3m respectively in the period from the date of acquisition to 30 June 2012.

The goodwill arising on the acquisition is attributable to the assembled workforce of GigaSat, the strategic premium to gain access to GigaSat's market niche relative to an organic entry and opportunities to develop new technologies and acquire new customers in the market.

Acquisition costs of £0.5m were charged to the income statement during the half year.

The total goodwill on this acquisition expected to be deductible for tax is £nil.

Barron McCann Technology & Payments

On 26 June 2012, the Group acquired the entire share capital of Barron McCann Technology Limited and Barron McCann Payments Limited (BeMac) for initial cash consideration of £14.9m. A further £1.4m purchase price adjustment is payable in 2012. BeMac provides baseline grade crypto and key management services to the UK government, military, law enforcement agencies and the finance sector. BeMac will broaden Ultra's crypto portfolio beyond the high-grade domain and also provide access to the lucrative financial services market.

The fair values of the net assets acquired are currently being calculated and have not been finalised due to the proximity of the acquisition to the period end. A provisional assessment of the opening balance sheet is as follows:

	Provisional fair value £'000
Intangible assets	-
Property, plant and equipment	387
Cash and cash equivalents	4,261
Inventories	662
Receivables	1,642
Payables	(3,146)
Net assets acquired	3,806
Goodwill and other intangible assets arising on acquisition	12,489
Purchase consideration	16,295

The accounting exercise for calculating the fair value of acquired intangibles and deferred tax has not yet been completed. Acquisition costs of £0.2m were charged to the income statement during the half year.

The total goodwill on this acquisition expected to be deductible for tax is £nil.

If the BeMac and GigaSat acquisitions had been completed on the first day of the financial year the Group revenues for the period would have been £380.8m and the Group would have reported a profit of £41.5m.

RFI Corporation

On 7 June 2012, the Group agreed to acquire the power conversion business operated by RFI Corporation ("RFI"), a wholly-owned subsidiary of DGT Holdings Corp ("DGT") for a cash consideration of $12.5m (subject to a potential working capital adjustment).

The transaction is subject to the approval of at least two-thirds of the outstanding shares of common stock of DGT. Assuming satisfaction of all closing conditions and approval by DGT's shareholders, the transaction is expected to close in the third quarter of 2012.

RFI is an established manufacturer of proprietary, high-voltage, power conversion subsystems including electronic filters, high voltage capacitors, pulse modulators, transformers and reactors, and a variety of other products designed for industrial, medical, military and other commercial applications. It is located on Long Island, New York, USA, close to Ultra's EMS Development Corp., part of the Group's Airport & Power Systems division, and will be integrated into the EMS business in 2012.

18 Other matters

Seasonality

The Group's financial results have not historically been subject to significant seasonal trends.

Related party transactions

At 30 June 2012, a loan of £1,271,000 (1 July 2011: £1,496,000) was due from Al Shaheen Adventure LLC (ASA), the Group's 49% equity accounted investment. During the period repayments of £nil were received in respect of this loan. A small amount of trading also occurs with ASA, in the normal course of business and on an arm's length basis. Balances are settled on normal trade terms and the amounts outstanding at 30 June 2012 were insignificant.

There were no other significant related party transactions, other than the remuneration of key management personnel during the period.

Responsibility statement

We confirm that to the best of our knowledge:

(a) these condensed financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting";

(b) this half year report includes a fair review of the information required by Disclosure and Transparency Rule (DTR) 4.2.7R (indication of important events during the period and description of principal risks and uncertainties for the remainder of the financial year); and

(c) this half year report includes a fair review of the information required by DTR 4.2.8R (disclosure of related party transactions and changes therein).

By order of the Board

Rakesh Sharma
Chief Executive

Paul Dean
Group Finance Director

27 July 2012

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