Ultra Electronics Holdings plc
Interim Report and Accounts **2011**

specialist solutions…
…maintaining momentum

Ultra enhances shareholder value through the successful execution of its strategies for growth that drive resilient financial performance. Ultra constantly innovates to extend its portfolio of specialist solutions to customer requirements. The Group's growth momentum is underpinned by its broad range of market positions in the defence, security, transport and energy sectors.

Contents

Financial highlights

	Six months to 1 July 2011	Six months to 2 July 2010	**Change**
Revenue	**£343.5m**	£350.9m	**-2%**
Headline operating profit(1)	**£55.8m**	£51.4m	**+9%**
Headline profit before tax(2)	**£52.1m**	£47.6m	**+10%**
IFRS profit before tax	***£43.9m***	*£35.7m*	***+23%***
Headline earnings per share(2)	**54.6p**	50.0p	**+9%**
Dividend per share	**11.7p**	10.6p	**+10%**

- **Resilient performance reflecting the Group's broad portfolio and customer base**
  – organic revenue growth* at constant currencies of 1%
  – organic growth* of headline operating profit(1), at constant currencies, of 11%
- **Continuing reinvestment to drive future growth**
- **Headline operating margin(1) increased to 16.2%**
- **Robust balance sheet**
  – net debt of £10m
  – headroom for further acquisitions
- **Record order book exceeds £1bn**
  – includes the £207m Oman airport systems integration contract
- **Interim dividend per share increased 10%**

(1) before cost of acquisitions and amortisation of intangibles arising on acquisition. IFRS profit from operations £44.0m (2010: £41.0m). *See Note 4 for reconciliation.*

(2) before cost of acquisitions, amortisation of intangibles arising on acquisition and fair value movements on derivatives. Basic EPS 46.4p (2010: 38.0p). *See Note 4 for reconciliation.*

*see footnote on page 07

at a glance

The Group

Why Ultra is different

Ultra Electronics is an internationally successful defence, security, transport and energy company with a long, consistent record of development and growth, **achieving 16% compound annual growth** of total shareholder return since flotation in 1996. The Group maintains a programme of reinvestment of funds to strengthen its positions in its specialist markets.

Ultra businesses constantly innovate to create solutions to customer requirements that are different from and better than those of the Group's competitors. By applying these differentiated solutions to a wide range of international platforms and programmes, Ultra has built an exceptionally broad range of niche market positions. This spread gives resilience to the Group's financial performance.

Ultra offers support to its customers through the design, delivery and support phases of a programme. Ultra businesses have a high degree of operational autonomy so that they may provide exceptionally agile and responsive support to customers and partners.

Markets

Defence

Ultra supplies advanced electronic and electrical systems and equipment to coalition defence forces around the world. The Group innovates to provide specialist capabilities that are superior to those available to the opponents. By focusing on delivering comparative military advantage, Ultra can gain market share and exploit the headroom for growth that is available in defence budgets worldwide.

Transport

Ultra provides specialist software, systems and equipment for use in mass passenger transport systems. This includes high integrity real-time controls for civil aircraft, advanced IT solutions for modern airports and trackside power equipment for transit rail systems. Demand in all areas is driven by rising populations in affluent regions of the world.

Security

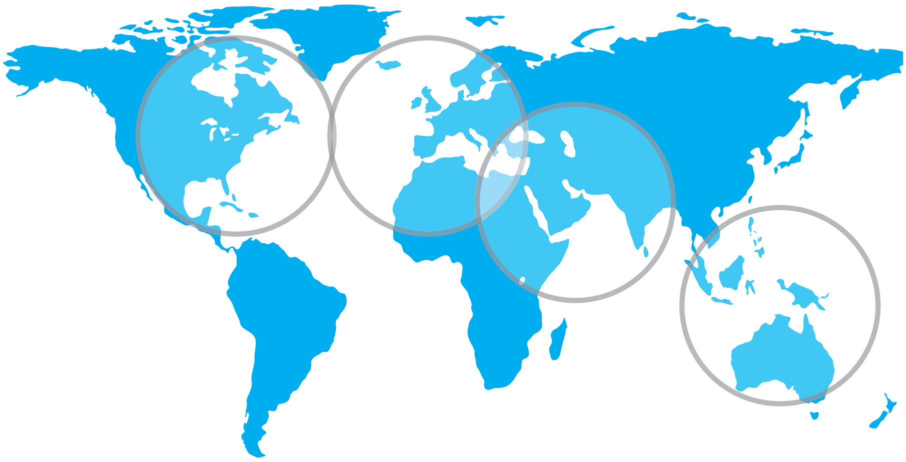
Ultra provides highly differentiated systems and capabilities to the broad security and intelligence market. Driven by the actions of rogue states, terrorist groups, organised crime and state-sponsored cyber activity, governments worldwide are focusing expenditure preferentially on addressing these threats. Ultra has highly specialised capabilities in cryptology for information assurance.

Energy

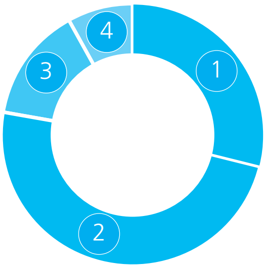
Countries around the world are addressing the strategic need to have secure access to increasing amounts of low carbon energy. Ultra has a range of safety critical sensors and controls that are used in existing and new build nuclear reactors. The Group also has innovative portable energy sources powered by readily available propane gas.

For more information visit: www.ultra-electronics.com

Geographic reach
Ultra has expanded and developed a transatlantic capability and derives about half its revenue from the US and Canada. The Middle East and Asia Pacific regions are capable of similar expansion.

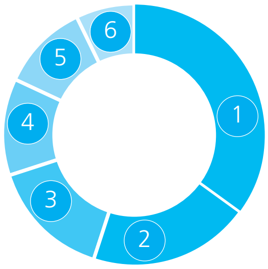


Revenue by region



1	United Kingdom	29%
2	North America	49%
3	Middle East & Asia Pacific	14%
4	Mainland Europe	8%

Revenue by capability



1	Battlespace IT	36%
2	Sonar	20%
3	Civil equipment	15%
4	Specialist defence equipment	12%
5	Military aircraft equipment	11%
6	Civil aircraft equipment	6%

Ultra's capabilities within market sectors

	Defence	Security	Transport	Energy
Battlespace IT systems and equipment	●	●		
Sonar systems	●			
Civil equipment		●	●	●
Specialist equipment for defence and security applications	●	●		
Military aircraft equipment	●		●	
Civil aircraft equipment			●	

at a glance

Ultra's divisions

How the Group operates

Locations in:
United Kingdom and North America

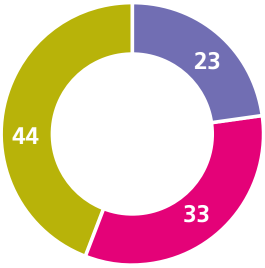
Devolved authority and responsibility
A differentiator for Ultra is the agility that businesses in the Group exhibit in their dealings with customers. This agility is underpinned by Ultra's structure and its management processes.

With over 4,300 employees in its 26 businesses, the number of staff at Ultra's head office is fewer than 20. This gives a clear signal about how it wants the Group to run. As much authority and responsibility as possible is devolved to the Managing Directors, 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.

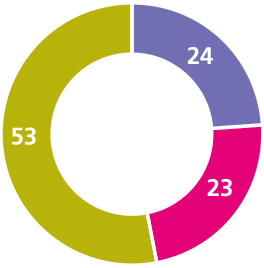
Agile behaviour within Ultra businesses is vital. Flat management structures are therefore encouraged within the 26 businesses to facilitate this. As a result, across the Group, there are normally no more than seven levels of seniority from shop-floor operator or newly qualified engineer up to Chief Executive.

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

Revenue % of Group



Profit* % of Group



Ultra's capabilities across the divisions

Battlespace IT systems and equipment

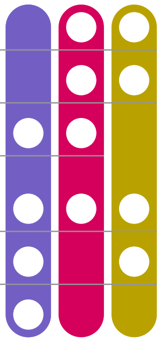
Sonar systems

Civil equipment

Specialist equipment for defence and security applications

Military aircraft equipment

Civil aircraft equipment



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
- US Department of Defense • EADS
- UK Ministry of Defence • ACMA • Kongsberg

Major successes in 2011
- excellent performance of Ultra's ice protection equipment in the flight test programmes of the Boeing 787 and F-35 Joint Strike Fighter aircraft
- initial flights of UAVs powered by AMI's fuel cells. These substantially enhance the endurance of the UAVs compared to battery power and thereby increase their operational effectiveness
- successful completion of the critical design review for Ultra's landing gear, steering and door controls for Mitsubishi's new regional jet aircraft
- trials in Afghanistan of Ultra's enhanced robotic controller used with an unmanned ground vehicle for the elimination of roadside bombs

Revenue H1
£80.6m **-9.7%**
2010 H1 £89.3m

Headline operating profit H1*
£13.4m **+25.2%**
2010 H1 £10.7m

Order book H1
£214.7m **+0.9%**
2010 H1 £212.7m

Number of employees
1,100

*see footnote on page 07

Locations in:
United Kingdom and North America

Information & Power Systems

Capabilities

Ultra supplies advanced command and control systems for battlespace visualisation, 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 supplier of airport and airline management and information systems.

Major customers

• US Department of Defense • Rolls-Royce • BAE Systems
• General Dynamics • UK Ministry of Defence

Major successes in 2011

- selection to be the master systems integrator at two airports in Oman
- receipt of a contract relating to the manufacture of multiple reactor control and instrumentation systems for Royal Navy submarines
- selection to supply a new, enhanced on-board signature management system for the Canadian Navy's upgraded Halifax class frigates
- approval as a vendor to supply EDF with specialist sensors for its nuclear reactors being built around the world

Revenue H1
£114.6m **7.4%**
2010 H1 £106.7m

Headline operating profit H1*
£12.8m **-3.0%**
2010 H1 £13.2m

Order book H1
£449.6m **+124.1%**
2010 H1 £200.6m

Number of employees
1,500

Locations in:
United Kingdom, North America and Australia

Tactical & Sonar Systems

Capabilities

Ultra supplies advanced 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 Department of Defense • UK Ministry of Defence
• Raytheon • Lockheed Martin • BAE Systems

Major successes in 2011

- receipt of a contract to develop an additional advanced special purpose cryptographic unit
- international orders for electronic warfare equipment
- contracts to supply modern cockpit and engine instrumentation equipment for the upgrade of private aircraft
- an initial award for an advanced wireless security and protection system for US Navy shipyards

Revenue H1
£148.3m **-4.3%**
2010 H1 £154.9m

Headline operating profit H1*
£29.6m **+7.6%**
2010 H1 £27.5m

Order book H1
£368.2m **-12.1%**
2010 H1 £418.8

Number of employees
1,700

*see footnote on page 07

Interim Management Report

"The results for the period reflect the success of Ultra's strategies to underpin sustainable, long-term growth of shareholder value. Even in a year of difficult market conditions, Ultra continues to reinvest in its portfolio of differentiated products and services. These are positioned on a large number of international platforms and programmes in the defence, security, transport and energy markets. This broad range of positions maintains the momentum of Ultra's performance, despite market fluctuations.

Ultra has a broad customer base worldwide, with international sales now representing about three quarters of Group revenue. Ultra's activities in civil markets have significant potential for growth, as evidenced by the recent win in Oman for airport systems integration. For different reasons Ultra's main defence markets in the US and UK have experienced spending constraints that have deferred order intake. Despite this the Group has achieved underlying organic revenue growth although this has been at a lower rate than in recent years. In the same period the Group's operating margin has improved. Ultra's strategies for growth provide the Group with a resilient business model that underpins its performance in 2011 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 1 July 2011 £m	Six months ended 2 July 2010 £m	Growth
Order book			
Aircraft & Vehicle Systems	**214.7**	212.7	+0.9%
Information & Power Systems	**449.6**	200.6	+124.1%
Tactical & Sonar Systems	**368.2**	418.8	-12.1%
Total order book	**1,032.5**	832.1	+24.1%
Revenue			
Aircraft & Vehicle Systems	**80.6**(1)	89.3	-9.7%(1)
Information & Power Systems	**114.6**	106.7	+7.4%
Tactical & Sonar Systems	**148.3**	154.9	-4.3%
Total revenue	**343.5**	350.9	-2.1%(1)
Organic constant currency revenue growth			+1.0%
Headline operating profit*			
Aircraft & Vehicle Systems	**13.4**	10.7	+25.2%
Information & Power Systems	**12.8**	13.2	-3.0%
Tactical & Sonar Systems	**29.6**	27.5	+7.6%
Total headline operating profit*	**55.8**	51.4	+8.6%
Organic constant currency headline operating profit* growth			+10.6%
Headline operating margin*			
Aircraft & Vehicle Systems	**16.6%**	12.0%	
Information & Power Systems	**11.2%**	12.4%	
Tactical & Sonar Systems	**20.0%**	17.8%	
Total headline operating margin*	**16.2%**	14.6%	
Finance charges*	**(3.7)**	(3.8)	-2.6%
Headline profit before tax	**52.1**	47.6	+9.5%
Operating cash flow*	**37.6**	40.3	
Cash conversion*	**67%**	78%	
Net debt* at period-end	**10.1**	17.4	
Headline earnings per share	**54.6p**	50.0p	+9.2%

Note

(1) revenue reduced through accounting for the Group's main activities in the UAE as an associated undertaking*

Headline operating profit* and **headline operating margin*** are before the cost of acquisitions and amortisation of intangibles arising on acquisition.

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

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

net debt* comprises bank overdrafts and loans 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 year were only included for the same proportion of the current year.

associated undertaking*. Dascam's major activities became part of Al Shaheen, a joint-venture of which Ultra owns 49%. The enlarged Al Shaheen has been reported as an 'associated undertaking' with effect from 1 August 2010.

Revenue in the period was £343.5m (2010: £350.9m). Revenue was reduced by 3.4% due to exchange rate movements and, as previously advised, by £12.2m, equivalent to 3.5%, through accounting for the Group's main activities in the UAE as an associated undertaking*. Acquisitions added 3.8% to revenue while organic growth at constant currencies was 1.0%.

In the period Ultra maintained its internal reinvestment in the development of new business and products above 5% of revenue at £18.7m (2010: £17.7m).

Headline operating profit* increased 8.6% to £55.8m (2010: £51.4m). Acquisitions contributed 3.1% while exchange rate translation reduced operating profit by 5.1%, resulting in underlying growth of 10.6%. The headline operating margin* increased to 16.2% (2010: 14.6%) and would have been 15.7% were it not for accounting for the activities in the UAE as an associated undertaking*.

Headline profit before tax increased by 9.5% to £52.1m (2010: £47.6m), after net financing charges* of £3.7m (2010: £3.8m).

The Group's headline tax rate in the period was 28.0% (2010: 28.0%) and the increase in headline earnings per share was 9.2% at 54.6p (2010: 50.0p).

Reported profit before tax was £43.9m (2010: £35.7m). Ultra's IFRS profit before tax reflected the combined effects of the elements detailed below:

	2011 £m	2010 £m
Headline profit before tax	**52.1**	47.6
Amortisation of intangibles arising on acquisition	**(10.9)**	(10.4)
Profit/(loss) on fair value movements on derivatives	**3.5**	(1.5)
Acquisition-related costs	**(0.8)**	-
Reported profit before tax	**43.9**	35.7

The Group's balance sheet remains strong, with net debt of just £10.1m and with net interest payable on borrowings covered 21 times by headline operating profit. Operating cash flow in the period was £37.6m (2010: £40.3m), after the increased deficit-reduction payments for the UK pension scheme and reflecting the very strong cash conversion in the second half of 2010. Ultra had net debt* at the end of the period of £10.1m (2010: net debt of £17.4m).

The proposed interim dividend is 11.7p, an increase of 10%, which will be paid on 23 September 2011 to shareholders on the register on 19 August 2011.

The order book at the end of the period increased by 26% to £1,032.5m compared to £817.9m (£815.3m at constant currencies) at the end of 2010. This included the £207m contract for airport systems integration at two airports in Oman that was awarded at the end of the period.

Reinvesting for growth

Ultra continued its programme of reinvestment to drive long-term growth. Investments in the year were in new products and services, in new business development and in acquisitions.

In the period, the Group supported the flight test programmes of the F-35 JSF, Boeing 787, Airbus A400M and Gulfstream G650 aircraft. The production phases of these programmes will contribute to Ultra's growth in the medium and long term. Ultra is also developing and qualifying advanced aircraft cockpit displays and engine instrumentation equipment for smaller aircraft. In the period the Group increased its investment in the development of the next generation of battlespace communications equipment. Examples include new systems and equipment aimed at enhancing the flow of real-time tactical information to the warfighter 'on the move'. Additionally, the Group is developing equipment that enhances the security and performance of modern tactical networks.

Ultra's internal investment in the period totalled £18.7m (2010: £17.7m) and is focused on investments that will generate an attractive return for the Group in the medium and long term.

At the end of December 2010, Ultra acquired Adaptive Materials Inc. ('AMI') in Michigan, USA which is now part of the Aircraft & Vehicle Systems division. AMI has developed fuel cells that provide more electrical power in less space than competing technologies and run on propane, a fuel that is readily available worldwide. AMI has integrated well into the Group and the market-facing synergies that AMI has with other Group businesses are being developed.

In early 2011, the Group acquired 3eTI, a business in Maryland USA that designs, develops, markets and supports military grade wireless local area network access points, mesh networks, security software, and encryption technologies for military, government and commercial markets. It is part of Ultra's Tactical & Sonar Systems division. 3eTI's specialised capabilities are contributing to the Group's advanced communication system solutions that are under development.

*see footnote on page 07

Operational review

Aircraft & Vehicle Systems

Revenue in Aircraft & Vehicle Systems was £80.6m (2010: £89.3m). Revenue was reduced by 3% due to exchange rate movements. There was a further revenue reduction of 14% reflecting the absorption, in order to enhance market access, of Ultra's main activities in the UAE into a local joint venture which is accounted for as an associated undertaking*. Acquisitions added 6% to revenue while organic growth at constant currencies was 1%. Headline operating profit increased by 25% to £13.4m (2010: £10.7m). These results include AMI, acquired in December 2010. The division's order book grew slightly to £214.7m (2010: £212.7m).

There was solid demand in the US for Ultra's HiPPAG airborne compressors used in stores ejection applications, offset by reductions in the period in the rate of production of hand controls for remote weapon systems. International sales of Magicard ID card printers increased as did demand in the UK for specialist high integrity manufacturing services. The operating margin improved to 16.6% (2010: 12.0%) reflecting, as anticipated, the improved US dollar hedged rate and accounting for activities in the UAE as an associated undertaking.

Highlights of activities in the period that will underpin continuing growth included:

- excellent performance of Ultra's ice protection equipment in the flight test programmes of the Boeing 787 and F-35 Joint Strike Fighter aircraft
- initial flights of UAVs powered by AMI's fuel cells. These substantially enhance the endurance of the UAVs compared to battery power and thereby increase their operational effectiveness
- successful completion of the critical design review for Ultra's landing gear, steering and door controls for Mitsubishi's new regional jet aircraft
- trials in Afghanistan of Ultra's enhanced robotic controller used with an unmanned ground vehicle for the elimination of roadside bombs

Information & Power Systems

Revenue in Information & Power Systems grew by 7% to £114.6m (2010: £106.7m). Revenue was reduced by 3% due to exchange rate movements. Acquisitions added 1% to revenue while organic growth at constant currencies was 9%. Headline operating profit reduced by 3% to £12.8m (2010: £13.2m) after increasing the bad debt provision. The division's order book grew substantially to £449.6m (2010: £200.6m), reflecting the recent airport IT contract award in Oman.

There was strong demand in the period for specialist sensors and control systems for military and civil nuclear reactors. In addition, sales increased of the Group's specialist electrical power controls for Royal Navy submarines and for passenger transit systems. These increases were partially offset by reduced demand, both in the US and internationally, for Ultra's traditional ADSI™ command and control systems.

Features of the division's performance in the period that will support continuing growth included:

- selection to be the master systems integrator at two airports in Oman
- receipt of a contract relating to the manufacture of multiple reactor control and instrumentation systems for Royal Navy submarines
- selection to supply a new, enhanced on-board signature management system for the Canadian Navy's upgraded Halifax class frigates
- approval as a vendor to supply EDF with specialist sensors for its nuclear reactors being built around the world

Tactical & Sonar Systems

Revenue in Tactical & Sonar Systems was £148.3m (2010: £154.9m). Revenue was reduced by 4% due to exchange rate movements. Acquisitions added 4% to revenue and there was an organic revenue reduction at constant currencies of 4%. Headline operating profit rose 8% to £29.6m (2010: £27.5m). These results include a contribution from 3eTI, acquired in January. The closing order book was £368.2m (2010: £418.8m), reflecting reduced order cover from the US DoD for tactical radios.

This is the Ultra division that was most affected in the period by defence procurement delays in the US that are explained under the market conditions section below. These impacted sales of tactical radios, network access equipment and sonobuoys leading to lower revenue overall for the division. The reduction was partially offset by higher activity levels on international sonar system developments in Australia and the Netherlands. Operating profit generally tracked sales volume and one-off redundancy costs were recognised in some businesses. The overall increase in operating margin reflected profit recognition at the end of some development contracts. In addition, the Canadian government has committed to making multi-year contributions to the costs of new product development for which there was a 'catch up' in the period relating to earlier activity.

Growth in future years will be underpinned by the following developments in 2011:

- receipt of a contract to develop an additional advanced special purpose cryptographic unit
- international orders for electronic warfare equipment
- contracts to supply modern cockpit and engine instrumentation equipment for the upgrade of private aircraft
- an initial award for an advanced wireless security and protection system for US Navy shipyards

*see footnote on page 07

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 in a range of markets remain sufficiently large to give the Group headroom for further growth.

Defence and security

The level of international tension remains high, driven by the actions of rogue states and terrorist groups, political unrest and regional disputes. As a result, expenditure levels in Ultra's main defence and security market sectors remain high. The focus of a large part of this expenditure is on improving information superiority, command and control, unattended, long-life sensors and systems and secure communications. Ultra has strong and growing market positions in all of these areas, which should remain the focus of customer expenditure even as current military operations are scaled back.

In Ultra's main markets of the US and the UK, it is anticipated that 2011 will turn out to be an unusual year. For various reasons, the procurement process in both countries has been dislocated. In the US, the delay in the appropriation of the FY 2011 budget has meant that the planned level of progress on many programmes will not be made within the fiscal year with a consequential effect on the rate of contract placement. It is possible that this will impact the opening position for the following fiscal year. In the UK, the Ministry of Defence is undertaking a redesign of its entire procurement process, with the aim of achieving better value for money with fewer staff. While Ultra has benefitted from some contracts being let, the rate of defence procurement has not been as high as some may have anticipated.

Overall, it is likely that only a few new platforms will be commissioned in the US and UK in the near term. However this typically drives demand for upgrades in the military capability of existing platforms by way of advanced electronic solutions. Ultra's focus on innovation, agility and speed of response positions the Group well to benefit from new and redefined requirements in these areas.

The broader security and intelligence markets continue to develop as areas of preferential customer spend, driven by an increasing level of terrorist, organised crime and state-sponsored cyber activity globally. The additional funding announced in many countries for addressing the cyber threat emphasises the increasing focus on this element of security concern. Covert surveillance and legal intercept of electronic communications continue to be effective ways of identifying and negating the threat. Ultra has highly specialised capabilities in secure communications, networks and high grade cryptographic equipment and management systems. The Group has won competitive contracts in the UK and US to develop next generation solutions and is well positioned to benefit from demand for enhanced cyber warfare defences around the world.

Transport

Population growth, global trade and the proliferation of low cost airlines worldwide is driving demand for civil aircraft and infrastructure investment in mass passenger transport systems. 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 successfully to win business in this area.

The long-term, worldwide increase in air travel drives investment in infrastructure including airport IT systems where Ultra has a strong capability. An example of such investment is at Muscat and Salalah airports in Oman, where Ultra will act as master systems integrator for the new terminals.

Elsewhere in the aviation sector, increases have been announced in production rates at both Boeing and Airbus reflecting their long order books. Demand for airliners has been particularly strong in the Asia Pacific region of the world. Sales of equipment for the Boeing 787, when it enters airline service, will be additive to the Group's performance.

Ground transport systems also require continuing investment in regions of high population density, a trend from which Ultra, with its specialist trackside power supplies, should benefit.

Energy

Around the world the strategic need to have secure access to an increasing amount of energy with a low carbon foot-print is driving a steady increase in the level of investment in civil nuclear power generation. This investment is in extending the life of existing plant as well as building new reactors. Ultra has niche capabilities in the supply of high integrity nuclear control systems and associated specialist sensors. The Group is therefore well placed to benefit as market opportunities develop globally.

The events at the Fukushima nuclear power station in Japan, following the tsunami in March, have sensibly led national nuclear regulatory bodies to initiate further nuclear safety reviews. While it is likely that this will lead to delays in new build projects, there is little evidence that the global nuclear renaissance will be abandoned.

On a smaller scale, the need for low cost, portable and clean power sources in the commercial trucking, remote industrial and recreational marine and automobile markets is driving interest in fuel cells. Ultra's innovative propane-powered fuel cells are well positioned in this regard.

Risks and uncertainties

A number of potential risks and uncertainties exist which could have a material impact on the Group's performance in 2011 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 2010. 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 31 to 33 of the Annual Report which is available for download at www.ultra-electronics.com/investors.

The defence sector contributes 80% of Ultra's revenue and there is pressure on defence budgets. Current projections are, however, that baseline budgets, excluding supplemental funds for continuing operations, will continue to grow slowly in the US. In the UK, however, it is clear that defence budgets are reducing. Nevertheless, the overall size of defence budgets worldwide, relative to the Group's revenue, provides sufficient headroom to support Ultra's continuing growth. In 2011 the normal defence procurement processes in the US and UK have been disrupted and it is likely that the impact thereof will continue in the short term.

There is a risk of programme delays or cancellations but this has always been a feature of the Group's markets. As no single programme represents more than 5% of Ultra's revenue in any year, 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. There will be a favourable impact on profit in 2011 as the effective hedge rate for US dollars moves from $1.93:£1.00 in 2010 to $1.55:£1.00 in 2011. 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 banking facilities *(see also Note 16)*
- Ultra's positions in growth sectors of its markets
- the long-term nature of Ultra's markets and contracts
- that the Group's order book value exceeds £1bn for the first time
- the risks as discussed above

Prospects

Ultra has for many years pursued strategies to spread risk and provide a solid base on which to grow. The Group has created a broad portfolio of differentiated offerings that are specified on an increasing list of international platforms and programmes. Ultra is positioned at multiple levels in the supply chain and has a broad customer base that includes governments and most of the world's major prime contractors. The Group has maintained its focus on areas of preferential customer spend; 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.

Ultra will maintain its consistent programme of reinvestment to drive further organic and acquisition growth in the medium and long term. Internally, the Group continues to reinvest in highly differentiated products and services that meet the operational needs of customers. This market-led innovation, agility and speed of response to changing market requirements provide a competitive edge that allows Ultra to succeed and to build long-term relationships with customers. The Group is increasing its exposure to specialist security and intelligence markets and has an extensive portfolio of offerings positioned on long-term new build and upgrade programmes. Ultra's strong balance sheet can support the purchase of businesses that would further enhance the Group's portfolio and to which ownership by Ultra would add value.

Ultra's strategy is to have a broad range of positions in many different market sectors. Accordingly, across the Group there is a mix of businesses with firm orders for multi-year programmes as well as annual contracts and other companies that typically only have order coverage for the next few weeks or months trading. Overall, the value of Ultra's order book has grown to more than £1bn for the first time.

Ultra has a broad customer base worldwide, with international sales now representing about three quarters of Group revenue. Ultra's activities in civil markets have significant potential for growth, as evidenced by the recent win in Oman for airport systems integration. Ultra's main defence markets in the US and UK have, for different reasons experienced, spending constraints that have deferred order intake. Despite this the Group has achieved underlying organic revenue growth in the period although this has been at a lower rate than in recent years. In the same period the Group's operating margin has improved. Ultra's strategies for growth provide the Group with a resilient business model that underpins its performance in 2011 and beyond.

Condensed Consolidated Income Statement

For the half-year ended 1 July 2011

	Note	**Six months to 1 July 2011 £'000**	Six months to 2 July 2010 £'000	Year to 31 December 2010 £'000
Continuing operations				
Revenue	*3*	**343,455**	350,946	710,043
Cost of sales		**(239,425)**	(256,327)	(505,425)
Gross profit		**104,030**	94,619	204,618
Other operating income		**9**	1,131	943
Distribution costs		**(340)**	(406)	(1,121)
Administrative expenses		**(59,838)**	(53,745)	(113,781)
Share of profit from associate		**1,629**	-	2,558
Other operating expenses		**(1,472)**	(577)	(3,202)
Profit from operations	*3*	**44,018**	41,022	90,015
Headline operating profit	*4*	**55,760**	51,388	110,346
Amortisation of intangibles arising on acquisition		**(10,942)**	(10,366)	(20,331)
Acquisition-related costs		**(800)**	-	-
Profit from operations		**44,018**	41,022	90,015
Investment revenue	*5*	**3,624**	361	9,587
Finance costs	*6*	**(3,705)**	(5,694)	(8,293)
Profit before tax		**43,937**	35,689	91,309
Headline profit before tax	*4*	**52,144**	47,600	102,688
Amortisation of intangibles arising on acquisition		**(10,942)**	(10,366)	(20,331)
Acquisition-related costs		**(800)**	-	-
Profit/(loss) on fair value movements on derivatives		**3,535**	(1,545)	8,952
Profit before tax		**43,937**	35,689	91,309
Tax	*7*	**(11,995)**	(9,672)	(24,984)
Profit for the period from continuing operations attributable to equity holders of the parent		**31,942**	26,017	66,325
Earnings per ordinary share (pence)				
From continuing operations				
Basic	*9*	**46.4**	38.0	96.8
Diluted	*9*	**46.2**	37.8	96.2

Condensed Consolidated Statement of Compehensive Income

For the half-year ended 1 July 2011

	Six months to 1 July 2011 £'000	Six months to 2 July 2010 £'000	Year to 31 December 2010 £'000
Profit for the period	**31,942**	26,017	66,325
Exchange differences on translation of foreign operations	**(3,468)**	10,198	9,868
Gain/(loss) on net investment hedges	**838**	(3,388)	(2,453)
Actuarial gain on defined benefit pension schemes	**-**	-	4,778
Loss on cash flow hedges	**(73)**	(645)	(1,013)
Transfer from profit and loss on cash flow hedges	**861**	960	2,224
Tax relating to components of other comprehensive income	**-**	-	(2,338)
Other comprehensive income for the period	**(1,842)**	7,125	11,066
Total comprehensive income for the period	**30,100**	33,142	77,391

Condensed Consolidated Balance Sheet

As at 1 July 2011

	Note	**At 1 July 2011 £'000**	At 2 July 2010 £'000	At 31 December 2010 £'000
Non-current assets				
Goodwill		**227,438**	217,349	231,490
Other intangible assets		**83,858**	84,253	75,570
Property, plant and equipment	*10*	**44,720**	37,895	45,354
Interest in associate		**5,219**	1,177	3,668
Deferred tax assets		**17,195**	21,462	15,503
Derivative financial instruments		**4,556**	1,943	3,750
		382,986	364,079	375,335
Current assets				
Inventories		**45,482**	45,327	49,366
Trade and other receivables	*11*	**178,668**	151,731	158,003
Cash and cash equivalents		**38,969**	59,323	68,129
Derivative financial instruments		**4,450**	1,727	2,933
		267,569	258,108	278,431
Total assets	*3*	**650,555**	622,187	653,766
Current liabilities				
Trade and other payables	*12*	**(197,476)**	(171,621)	(206,093)
Tax liabilities		**(14,546)**	(17,058)	(18,847)
Derivative financial instruments		**(1,413)**	(7,839)	(3,411)
Obligations under finance leases		**(98)**	-	(129)
Bank loans		**-**	-	(49,992)
Short-term provisions	*13*	**(16,904)**	(14,428)	(17,086)
		(230,437)	(210,946)	(295,558)
Non-current liabilities				
Retirement benefit obligations		**(77,390)**	(79,013)	(78,464)
Other payables	*12*	**(15,107)**	(20,208)	(20,409)
Deferred tax liabilities		**(11,520)**	(14,181)	(11,217)
Derivative financial instruments		**(440)**	(4,394)	(442)
Obligations under finance leases		**(179)**	-	(183)
Bank loans		**(48,794)**	(76,709)	-
Long-term provisions	*13*	**(8,326)**	(12,711)	(4,358)
		(161,756)	(207,216)	(115,073)
Total liabilities	*3*	**(392,193)**	(418,162)	(410,631)
Net assets		**258,362**	204,025	243,135
Equity				
Share capital	*14*	**3,440**	3,427	3,436
Share premium account		**42,121**	39,587	41,134
Own shares		**(2,581)**	(1,085)	(2,653)
Hedging and translation reserve		**14,237**	16,262	16,867
Retained earnings		**201,145**	145,834	184,351
Total equity attributable to equity holders of the parent		**258,362**	204,025	243,135

Condensed Consolidated Statement of Changes in Equity

For the half-year ended 1 July 2011

Equity attributable to equity holders of the parent

	Share capital £'000	Share premium account £'000	Reserve for own shares £'000	Hedging and translation reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2011	**3,436**	**41,134**	**(2,653)**	**16,867**	**184,351**	**243,135**
Profit for the period	-	-	-	-	31,942	31,942
Other comprehensive income for the period	-	-	-	(2,630)	788	(1,842)
Total comprehensive income for the period	**-**	**-**	**-**	**(2,630)**	**32,730**	**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)**	**14,237**	**201,145**	**258,362**
Balance at 1 January 2010	**3,420**	**38,313**	**(1,450)**	**9,452**	**133,731**	**183,466**
Profit for the period	-	-	-	-	26,017	26,017
Other comprehensive income for the period	-	-	-	6,810	315	7,125
Total comprehensive income for the period	**-**	**-**	**-**	**6,810**	**26,332**	**33,142**
Disposal of own shares	-	-	365	-	(365)	-
Equity-settled employee share schemes	7	1,274	-	-	891	2,172
Dividend to shareholders	-	-	-	-	(14,755)	(14,755)
Balance at 2 July 2010	**3,427**	**39,587**	**(1,085)**	**16,262**	**145,834**	**204,025**
Balance at 1 January 2010	**3,420**	**38,313**	**(1,450)**	**9,452**	**133,731**	**183,466**
Profit for the year	-	-	-	-	66,325	66,325
Other comprehensive income for the year	-	-	-	7,415	3,651	11,066
Total comprehensive income for the year	**-**	**-**	**-**	**7,415**	**69,976**	**77,391**
Own shares acquired	-	-	(1,569)	-	-	(1,569)
Disposal of own shares	-	-	366	-	(366)	-
Equity-settled employee share schemes	16	2,821	-	-	1,850	4,687
Dividend to shareholders	-	-	-	-	(22,006)	(22,006)
Tax on share-based payment transactions	-	-	-	-	1,166	1,166
Balance at 31 December 2010	**3,436**	**41,134**	**(2,653)**	**16,867**	**184,351**	**243,135**

Condensed Consolidated Cash Flow Statement

For the half-year ended 1 July 2011

	Note	**Six months to 1 July 2011 £'000**	Six months to 2 July 2010 £'000	Year to 31 December 2010 £'000
Net cash flow from operating activities	*15*	**24,497**	33,792	99,281
Investing activities				
Interest received		**89**	361	635
Purchase of property, plant and equipment		**(4,366)**	(4,745)	(15,526)
Proceeds from disposal of property, plant and equipment		**20**	2,846	3,813
Expenditure on product development and other intangibles		**(1,596)**	(770)	(3,214)
Acquisition of subsidiary undertakings (including acquisition costs)		**(32,149)**	(3,661)	(13,459)
Net cash acquired with subsidiary undertakings		**-**	-	385
Net cash used in investing activities		**(38,002)**	(5,969)	(27,366)
Financing activities				
Issue of share capital		**991**	1,281	2,837
Purchase of Long-Term Incentive Plan shares		**(422)**	-	(1,569)
Dividends paid		**(16,446)**	(14,755)	(22,006)
Increase/(decrease) in borrowings		**-**	4,000	(22,068)
Loan syndication costs		**(755)**	(1,388)	(1,388)
Decrease/(increase) in loan to associate		**1,681**	-	(3,267)
Repayment of obligations under finance leases		**(35)**	(5)	(54)
New finance leases		**-**	-	361
Net cash used in financing activities		**(14,986)**	(10,867)	(47,154)
Net (decrease)/increase in cash and cash equivalents		**(28,491)**	16,956	24,761
Cash and cash equivalents at beginning of period		**68,129**	41,809	41,809
Effect of foreign exchange rate changes		**(669)**	558	1,559
Cash and cash equivalents at end of period		**38,969**	59,323	68,129

Notes to the Condensed Consolidated Interim Financial Statements

For the half-year ended 1 July 2011

1 General information

The information for the year ended 31 December 2010 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 auditors 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 29 July 2011, have not been audited or reviewed by the Auditors.

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 2011:

- IAS 24 (revised) "Related Party Disclosure"
- IFRIC 14 (amended) "Prepayments of a Minimum Funding Requirement"
- IFRIC 19 "Extinguished Financial Liabilities with Equity Instruments"

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

3 Segment information

	Six months to 1 July 2011			Six months to 2 July 2010		
	External revenue £'000	**Internal revenue £'000**	**Total £'000**	External revenue £'000	Internal revenue £'000	Total £'000
Revenue						
Aircraft & Vehicle Systems	**80,623**	**8,599**	**89,222**	89,372	1,855	91,227
Information & Power Systems	**114,612**	**3,355**	**117,967**	106,667	2,230	108,897
Tactical & Sonar Systems	**148,220**	**10,830**	**159,050**	154,907	9,782	164,689
Eliminations	**-**	**(22,784)**	**(22,784)**	-	(13,867)	(13,867)
Consolidated revenue	**343,455**	**-**	**343,455**	350,946	-	350,946

	Six months to 1 July 2011			
	Aircraft & Vehicle Systems £'000	**Information & Power Systems £'000**	**Tactical & Sonar Systems £'000**	**Total £'000**
Headline operating profit	13,350	12,845	29,565	55,760
Amortisation of intangibles arising on acquisition	(2,156)	(3,906)	(4,880)	(10,942)
Acquisition-related 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

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3 Segment information (continued)

	Aircraft & Vehicle Systems	Information & Power Systems	Tactical & Sonar Systems	Total
			Six months to 2 July 2010*	
	£'000	**£'000**	**£'000**	**£'000**
Headline operating profit	10,605	13,244	27,539	51,388
Amortisation of intangibles arising on acquisition	(1,330)	(4,506)	(4,530)	(10,366)
Profit from operations	9,275	8,738	23,009	41,022
Investment revenue				361
Finance costs				(5,694)
Profit before tax				35,689
Tax				(9,672)
Profit after tax				26,017

	Aircraft & Vehicle Systems	Information & Power Systems	Tactical & Sonar Systems	Total
			Year to 31 December 2010	
	£'000	**£'000**	**£'000**	**£'000**
Headline operating profit	23,420	27,533	59,393	110,346
Amortisation of intangibles arising on acquisition	(2,491)	(8,858)	(8,982)	(20,331)
Profit from operations	20,929	18,675	50,411	90,015
Investment revenue				9,587
Finance costs				(8,293)
Profit before tax				91,309
Tax				(24,984)
Profit after tax				66,325

	At 1 July 2011	At 2 July 2010*	At 31 December 2010
	£'000	£'000	£'000
Total assets by segment			
Aircraft & Vehicle Systems	**142,124**	153,056	152,083
Information & Power Systems	**216,110**	139,911	202,170
Tactical & Sonar Systems	**227,151**	244,765	209,198
	585,385	537,732	563,451
Unallocated	**65,170**	84,455	90,315
Total assets	**650,555**	622,187	653,766

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

3 Segment information (continued)

	At 1 July 2011	At 2 July 2010*	At 31 December 2010
	£'000	£'000	£'000
Total liabilities by segment			
Aircraft & Vehicle Systems	**54,386**	58,323	68,225
Information & Power Systems	**71,864**	59,223	70,890
Tactical & Sonar Systems	**111,840**	101,422	109,143
	238,090	218,968	248,258
Unallocated	**154,103**	199,194	162,373
Total liabilities	**392,193**	418,162	410,631

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

	Six months to 1 July 2011	Six months to 2 July 2010	Year to 31 December 2010
	£'000	£'000	£'000
Revenue by geographical destination			
United Kingdom	**98,632**	86,306	192,140
Continental Europe	**26,678**	30,653	67,093
Canada	**13,259**	9,383	19,429
USA	**156,759**	177,502	354,920
Rest of World	**48,127**	47,102	76,461
	343,455	350,946	710,043

During the period to 1 July 2011 there was one direct customer (2010: one) that individually accounted for greater than 10% of the Group's turnover. Sales to this customer during the period were £88m (2010: £106m).

* In 2010, the Manufacturing & Card Systems business was moved from the Group's Information & Power Systems division into the Group's Aircraft & Vehicle Systems division. The prior period segmental analysis has therefore been restated to reflect this change to ensure that the presentation is on a consistent basis.

4 Additional performance measures

To present the headline 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 1 July 2011	Six months to 2 July 2010	Year to 31 December 2010
	£'000	£'000	£'000
Profit from operations	**44,018**	41,022	90,015
Amortisation of intangibles arising on acquisition	**10,942**	10,366	20,331
Acquisition-related costs	**800**	-	-
Headline operating profit	**55,760**	51,388	110,346
Profit before tax	**43,937**	35,689	91,309
(Profit)/loss on fair value movements on derivatives	**(3,535)**	1,545	(8,952)
Amortisation of intangibles arising on acquisition	**10,942**	10,366	20,331
Acquisition-related costs	**800**	-	-
Headline profit before tax	**52,144**	47,600	102,688
Cash generated by operations *(see note 15)*	**43,924**	42,980	122,847
Purchase of property, plant and equipment	**(4,366)**	(4,745)	(15,526)
Proceeds on disposal of property, plant and equipment	**20**	2,846	3,813
Expenditure on product development and other intangibles	**(1,596)**	(770)	(3,214)
Purchase of Long-Term Incentive Plan shares	**(422)**	-	(1,569)
Operating cash flow	**37,560**	40,311	106,351

Headline 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 headline operating profit. Headline profit before tax and headline 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. Headline profit before tax and headline earnings per share (see note 9) are stated before changes in the valuation of foreign currency derivative instruments so that the headline 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 understatement of the true cash cost of sustaining a growing business.

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5 Investment revenue

	Six months to 1 July 2011	Six months to 2 July 2010	Year to 31 December 2010
	£'000	£'000	£'000
Interest income	**89**	361	635
Fair value movement on derivatives	**3,535**	-	8,952
	3,624	361	9,587

6 Finance costs

	Six months to 1 July 2011	Six months to 2 July 2010	Year to 31 December 2010
	£'000	£'000	£'000
Amortisation of finance costs of debt	**408**	220	507
Interest payable on bank loans and overdrafts	**1,425**	1,518	2,655
Interest payable on finance leases	**10**	-	5
Transfers to equity on cash flow hedges	**861**	960	2,224
Total borrowing costs	**2,704**	2,698	5,391
Retirement benefit scheme finance cost	**1,001**	1,451	2,902
Fair value movement on derivatives	**-**	1,545	-
	3,705	5,694	8,293

7 Tax

	Six months to 1 July 2011	Six months to 2 July 2010	Year to 31 December 2010
	£'000	£'000	£'000
Current tax			
United Kingdom	**7,317**	4,933	9,030
Overseas	**7,779**	9,086	20,153
	15,096	14,019	29,183
Deferred tax			
United Kingdom	**(1,319)**	(1,934)	683
Overseas	**(1,782)**	(2,413)	(4,882)
	(3,101)	(4,347)	(4,199)
Total tax charge	**11,995**	9,672	24,984

From 1 April 2011 the standard rate of UK corporation tax reduced from 28% to 26% and UK deferred tax balances have been re-measured at this rate as the decrease was substantively enacted on 29 March 2011. The UK government has also announced its intention to reduce the main rate of corporation tax by 1% per annum to 23% 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 1 July 2011	Six months to 2 July 2010
	£'000	£'000
Final dividend for the year ended 31 December 2010 of 24.0p (2009: 21.6p) per share	**16,446**	14,755
Proposed interim dividend for the year ended 31 December 2011 of 11.7p (2010: 10.6p) per share	**8,022**	7,251

The interim 2011 dividend of 11.7 pence per share will be paid on 23 September 2011 to shareholders on the register at 19 August 2011. It was approved by the Board after 1 July 2011 and has not been included as a liability at 1 July 2011.

9 Earnings per share

	Six months to 1 July 2011	Six months to 2 July 2010	Year to 31 December 2010
	pence	pence	pence
From continuing operations			
Basic headline *(see below)*	**54.6**	50.0	107.9
Diluted headline *(see below)*	**54.3**	49.7	107.3
Basic	**46.4**	38.0	96.8
Diluted	**46.2**	37.8	96.2

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

	Six months to 1 July 2011	Six months to 2 July 2010	Year to 31 December 2010
	£'000	£'000	£'000
Earnings			
Earnings for the purposes of earnings per share being profit for the period from continuing operations	**31,942**	26,017	66,325
Headline earnings			
Profit for the period from continuing operations	**31,942**	26,017	66,325
(Profit)/loss on fair value movements on derivatives (net of tax)	**(2,581)**	1,097	(6,403)
Amortisation of intangibles arising on acquisition (net of tax)	**7,605**	7,153	14,035
Acquisition related costs (net of tax)	**582**	-	-
Earnings for the purposes of headline earnings per share	**37,548**	34,267	73,957

The weighted average number of shares is given below:

	Six months to 1 July 2011	Six months to 2 July 2010	Year to 31 December 2010
Number of shares used for basic earnings per share	**68,777,674**	68,501,769	68,535,805
Number of shares deemed to be issued at nil consideration following exercise of share options	**388,101**	401,036	379,546
Number of shares used for fully diluted earnings per share	**69,165,775**	68,902,805	68,915,351

	Six months to 1 July 2011	Six months to 2 July 2010	Year to 31 December 2010
	£'000	£'000	£'000
Headline profit before tax	**52,144**	47,600	102,688
Tax rate applied for the purposes of headline earnings per share	**28.0%**	28.0%	28.0%

10 Property, plant and equipment

During the period, the Group spent £4.4m 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 1 July 2011	At 2 July 2010	At 31 December 2010
	£'000	£'000	£'000
Trade receivables	**88,740**	89,273	93,758
Provisions against receivables	**(2,270)**	(948)	(961)
Net trade receivables	**86,470**	88,325	92,797
Amounts due from contract customers	**62,548**	37,854	44,093
Prepayments and other receivables	**29,650**	25,552	21,113
	178,668	151,731	158,003

12 Trade and other payables

	At 1 July 2011	At 30 June 2010	At 31 December 2010
	£'000	£'000	£'000
Amounts included in current liabilities:			
Trade payables	**60,151**	61,664	70,566
Amounts due to contract customers	**62,589**	35,723	50,065
Other payables	**74,736**	74,234	85,462
	197,476	171,621	206,093
Amounts included in non-current liabilities:			
Amounts due to contract customers	**4,889**	2,378	2,947
Other payables	**10,218**	17,830	17,462
	15,107	20,208	20,409

13 Provisions

	Warranty	Contract related	Total
	£'000	£'000	£'000
At 2 July 2010	8,167	18,972	27,139
At 31 December 2010	7,903	13,541	21,444
At 1 July 2011	**8,274**	**16,956**	**25,230**
Included in current liabilities	7,281	9,623	16,904
Included in non-current liabilities	993	7,333	8,326
	8,274	**16,956**	**25,230**

14 Share capital

89,224 shares, with a nominal value of £4,461 have been allotted in the first six months of 2011 under the terms of the Group's various share option schemes. The aggregate consideration received by the Company was £991,343.

15 Cash flow information

	Six months to 1 July 2011	Six months to 2 July 2010	Year to 31 December 2010
	£'000	£'000	£'000
Profit from operations	**44,018**	41,022	90,015
Depreciation of property, plant and equipment	**4,711**	4,076	8,385
Amortisation of intangible assets	**12,155**	11,553	23,088
Acquisition costs	**800**	-	-
Cost of equity-settled employee share schemes	**1,004**	891	1,850
Increase in post employment benefit obligation	**325**	65	2,843
Profit on disposal of property, plant and equipment	**(5)**	-	(38)
Share of profit of associate	**(1,629)**	-	(2,558)
Pension deficit payments	**(2,400)**	-	-
Increase/(decrease) in provisions	**3,858**	4,054	(1,728)
Operating cash flow before movements in working capital	**62,837**	61,661	121,857
Decrease in inventories	**4,505**	6,714	4,232
Increase in receivables	**(21,388)**	(29,308)	(28,828)
(Decrease)/increase in payables	**(2,030)**	3,913	25,586
Cash generated by operations	**43,924**	42,980	122,847
Income taxes paid	**(17,190)**	(6,780)	(18,823)
Interest paid	**(2,237)**	(2,408)	(4,743)
Net cash inflow from operating activities	**24,497**	33,792	99,281

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

	Six months to 1 July 2011	Six months to 2 July 2010	Year to 31 December 2010
	£'000	£'000	£'000
Net (decrease)/increase in cash and cash equivalents	**(28,491)**	16,956	24,761
Cash outflow/(inflow) from decrease/(increase) in debt and finance leasing	**35**	(3,995)	21,761
Change in net debt arising from cash flows	**(28,456)**	12,961	46,522
Amortisation of finance costs of debt	**(408)**	(220)	(507)
Loan syndication costs	**755**	1,388	1,388
Translation differences	**182**	(2,830)	(893)
Movement in net debt in the period	**(27,927)**	11,299	46,510
Net cash/(debt) at start of period	**17,825**	(28,685)	(28,685)
Net (debt)/cash at end of period	**(10,102)**	(17,386)	17,825

Net (debt)/cash comprised the following:

	At 1 July 2011	At 2 July 2010	At 31 December 2010
	£'000	£'000	£'000
Cash and cash equivalents	**38,969**	59,323	68,129
Bank loans	**(48,794)**	(76,709)	(49,992)
Finance leases	**(277)**	-	(312)
	(10,102)	(17,386)	17,825

16 Going concern

On 28 January 2011 the Group entered into a new £90m banking facility which is provided by a small group of banks led by the Royal Bank of Scotland. This facility provides revolving credit over a five year period and is denominated in Sterling, Australian dollars, Canadian dollars, Euros or US dollars. This facility is in addition to the Group's existing £120m Revolving Credit Facility and a £15m overdraft facility.

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

3e Technologies International

On 1 February 2011, the Group acquired the entire share capital of 3e Technologies International (3eTI) for cash consideration of £19.3m. A further £0.6m is payable if certain key employees remain with the business for an agreed period. This additional consideration will be expensed to the income statement over the retention period in line with the requirements of IFRS 3.

3eTI designs, develops, markets and supports military grade wireless local area network access points, mesh networks, security software and encryption technologies. Its range of products adds to Ultra's portfolio of specialist capabilities related to secure networking, communication and cyber security.

The fair values of the net assets acquired have been revised since the provisional figures stated in the post balance sheet events note of the 31 December 2010 year end accounts and are stated as follows:

	Book value	Revaluations	Provisional fair value
	£'000	£'000	£'000
Intangible assets	79	9,928	10,007
Property, plant and equipment	232	-	232
Inventories	957	-	957
Receivables	2,352	-	2,352
Payables	(2,086)	(3,502)	(5,588)
Net assets acquired	1,534	6,426	7,960
Goodwill arising on acquisition			11,382
Purchase consideration			19,342

The revenue and profit contributions from 3eTI were approximately £6.7m and £0.8m respectively in the period from the date of acquisition to 1 July 2011.

The goodwill arising on the acquisition is attributable to the value of synergies arising from the acquisition, the acquiree's assembled workforce and future profits arising from access to new markets.

Acquisition costs of £0.2m were charged to the income statement during the half year. If the above acquisition had been completed on the first day of the financial year the Group revenues for the period would have been £344.3m and the Group would have reported a profit of £55.6m.

17 Acquisitions (continued)

Fair value adjustments to prior year acquisitions – Adaptive Materials Inc.
On 31 December 2010, the Group acquired the entire share capital of Adaptive Materials Inc. (AMI) for cash consideration of £18.0m. AMI designs and manufactures portable power solutions in the 50W to 300W range. Its products can be used in the defence market in a number of different applications adding a further niche capability to the Group.

The fair values of the net assets acquired have been revised since the provisional figures stated in the 31 December 2010 year end accounts and are stated as follows:

	Book value	Revaluations	Provisional fair value
	£'000	£'000	£'000
Intangible assets	-	9,962	9,962
Property, plant and equipment	1,075	-	1,075
Inventories	58	-	58
Receivables	631	-	631
Payables	(911)	-	(911)
Net assets acquired	853	9,962	10,815
Goodwill arising on acquisition			7,170
Purchase consideration			17,985

The goodwill arising on the acquisition is attributable to the value of synergies arising from the acquisition, the acquiree's assembled workforce and future profits arising from access to new markets and technologies.

18 Other matters

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

Related party transactions
At 1 July 2011, a loan of £1,496,000 (2 July 2010: £nil) was due from Al Shaheen Adventure LLC (ASA), the Group's 49% equity accounted investment. During the period repayments of £1,681,000 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 arms length basis. Balances are settled on normal trade terms and the amounts outstanding at 1 July 2011 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

29 July 2011

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