

mission critical...



08



...superior performance

# Ultra at a Glance

## Why Ultra is different

Ultra Electronics is an internationally successful defence and aerospace company with a long, consistent track record of development and growth, achieving 18% compound annual growth of total shareholder return since flotation in 1996.

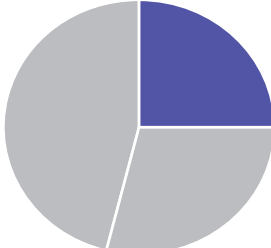
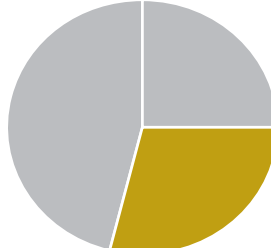
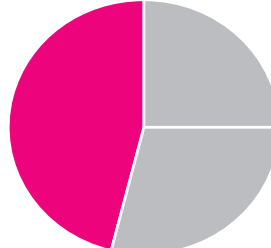
Ultra businesses constantly innovate to create solutions to customer requirements that are different from and better than those of the Group's competitors. By applying these differentiated solutions to a wide range of platforms and programmes, Ultra has built an exceptionally broad range of niche market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

Ultra's independence allows it to work with all the world's major defence, aerospace and civil prime contractors.

The major market sectors in which Ultra operates are:

- battlespace IT systems and equipment
- sonar systems
- equipment for civil and military aircraft
- specialist equipment for defence applications
- specialist civil systems and equipment

Operationally, the Group is organised into three divisions:

	<b>Aircraft &amp; Vehicle Systems</b>	<b>Information &amp; Power Systems</b>	<b>Tactical &amp; Sonar Systems</b>
Major activities	Airframe ice protection systems; Active noise and vibration control; Aircraft system electronics; Aircraft system test equipment; High-integrity data bus network nodes; Armoured vehicle electronic systems; Collaborative working environment solutions; Crisis information management systems; High integrity software and systems; HiPPAG airborne compressors; Specialist pneumatic sub-systems; Human/machine interface equipment; Manned and unmanned vehicle control equipment; Remote weapon station control equipment; Rugged aircraft harness systems	Airport information management systems; Airport-wide systems integration; Land mine countermeasure systems; Combat systems; Command, control and information systems; Nuclear reactor control and instrumentation; Nucleonic sensors; Data fusion systems; Local situational awareness systems; ID card printers; Radar and electro-optic systems; Surveillance and tracking systems; Naval power conversion; Gas turbine electric start and regeneration systems; Signature measurement and control systems for naval vessels; Transit system power conversion and controls	Acoustic countermeasure systems; Airborne anti-submarine warfare systems; Autonomous underwater surveillance systems; Airborne targeting pods; Communications network interfacing equipment; Cryptographic equipment; Data link communication systems; Loitering munition systems; Radio communication systems; Sea mine disposal systems; Secure video conferencing systems; Sonar systems; Sonobuoys; Submarine tactical communication systems; Tactical radio systems; Torpedo defence systems; Underwater acoustic countermeasures; Voice and data communication systems
Businesses	<b>Controls*</b> <b>Datel*</b> <b>Electrics*</b> <b>Measurement Systems Inc.*</b> <b>Precision Air Systems*</b>	<b>Advanced Tactical Systems*</b> <b>Airport Systems*</b> <b>Command &amp; Control Systems*</b> <b>EMS*</b> <b>Manufacturing &amp; Card Systems*</b> <b>PMES*</b> <b>ProLogic*</b> <b>SML Technologies*</b>	<b>Audiopack*</b> <b>Criticom*</b> <b>DNE Technologies*</b> <b>Flightline Systems*</b> <b>Maritime Systems*</b> <b>Ocean Systems*</b> <b>Sonar &amp; Communication Systems*</b> <b>Tactical Communication Systems*</b> <b>UnderSea Sensor Systems Inc.*</b>
Major customers	BAE Systems Boeing Bombardier Cobham EADS Finmeccanica General Dynamics UK MoD United Technologies US DoD	BAA BAE Systems British Energy BP EADS General Dynamics Lockheed Martin Rolls-Royce UK MoD US DoD	Australian DoD Avon BAE Systems Boeing Canadian DND Cubic Korean DoD Scott UK MoD US DoD
Revenue	<b>£58.9m 25%</b>  (2007: £49.5m)	<b>£66.0m 29%</b>  (2007: £61.6m)	<b>£107.0m 46%</b>  (2007: £81.8m)

\*Businesses in North America

■Businesses in the United Kingdom

# Financial Highlights

	Six months to 30 June 2008	Six months to 30 June 2007	Change
Revenue	<b>£231.9m</b>	£192.9m	<b>+20%</b>
Headline operating profit <sup>(1)</sup>	<b>£32.5m</b>	£27.0m	<b>+20%</b>
Headline profit before tax <sup>(2)</sup>	<b>£30.4m</b>	£26.2m	<b>+16%</b>
Headline earnings per share <sup>(2)</sup>	<b>32.6p</b>	28.2p	<b>+16%</b>
Dividend per share	<b>8.0p</b>	6.7p	<b>+19%</b>

- Strong Group performance underpinned by broad portfolio of specialist activities
- Organic revenue growth of 16%
- Operating margin\* maintained
- Operating cash\* conversion of 77%
- Pace of acquisitions increased with four completed in the period for £45m
- Strong balance sheet with headroom for further acquisitions
- Order book of £645m, providing good level of visibility
- Interim dividend per share increased 19%, reflecting the Board's confidence in the Group

"The strong results for the period demonstrate the success of the Group's strategy of offering a broad portfolio of niche products and services to the defence and civil markets. In addition to significant internal investments in programmes to underpin medium and long-term growth, Ultra has increased the pace of its acquisition process with the purchase of four businesses in the period. Ultra businesses have differentiated positions in growing market niches and these acquisitions all have that characteristic. The Group's balance sheet will support further purchases and the pipeline of potential targets is healthy.

The Group is positioned in high growth market sectors worldwide. With Ultra's proven ability to win new business and to execute contracts effectively, the Board has confidence in the continuing progress of the Group".

Douglas Caster, Chief Executive

(1) before amortisation of intangibles arising on acquisition. IFRS profit from operations £28.7m (2007: £25.5m)  
See Note 4 for reconciliation.

(2) before amortisation of intangibles arising on acquisition and fair value movements on derivatives.  
IFRS profit before tax £23.2m (2007: £25.8m). Basic EPS 25.2p (2007: 27.8p).  
See Note 4 for reconciliation.

# Financial Results

	Six months ended 30 June 2008	Six months ended 30 June 2007	Growth
	£m	£m	
<b>Order book</b>			
Aircraft & Vehicle Systems	195.1	173.6	+12.4%
Information & Power Systems	134.5	108.2	+24.3%
Tactical & Sonar Systems	315.6	293.0	+7.7%
<b>Total order book</b>	<b>645.2</b>	<b>574.8</b>	<b>+12.2%</b>
<b>Revenue</b>			
Aircraft & Vehicle Systems	58.9	49.5	+19.0%
Information & Power Systems	66.0	61.6	+7.1%
Tactical & Sonar Systems	107.0	81.8	+30.8%
<b>Total revenue</b>	<b>231.9</b>	<b>192.9</b>	<b>+20.2%</b>
Organic growth			+15.6%
<b>Operating profit*</b>			
Aircraft & Vehicle Systems	9.3	7.7	+20.8%
Information & Power Systems	9.3	9.1	+2.2%
Tactical & Sonar Systems	13.9	10.2	+36.3%
<b>Total operating profit*</b>	<b>32.5</b>	<b>27.0</b>	<b>+20.4%</b>
<b>Operating margin*</b>			
Aircraft & Vehicle Systems	15.8%	15.6%	
Information & Power Systems	14.1%	14.8%	
Tactical & Sonar Systems	13.0%	12.5%	
<b>Total operating profit*</b>	<b>14.0%</b>	<b>14.0%</b>	
Interest	(2.1)	(0.7)	+200.0%
<b>Headline profit before tax*</b>	<b>30.4</b>	<b>26.2</b>	<b>+16.0%</b>
Operating cash flow*	24.9	16.5	
Cash conversion*	77%	61%	
Net debt* at period-end	53.7	5.9	
Bank interest cover	19.5x	34.4x	
<b>Earnings per share*</b>	<b>32.6p</b>	<b>28.2p</b>	<b>+15.6%</b>

## Note

Throughout this document, the terms **headline operating profit**, **headline profit before tax** and **headline earnings per share** have the same meaning as, and are used interchangeably with, **operating profit\***, **profit before tax\*** and **earnings per share\*** respectively.

**headline operating profit\***, **operating profit\*** and **operating margin\*** are before amortisation of intangibles arising on acquisition.

**headline profit before tax** and **earnings per share\*** are before amortisation of intangibles arising on acquisition and fair value movement on derivatives.

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

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

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

# Interim Management Report

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.

## Overview

Ultra's performance in the period demonstrated the benefit of having a broad portfolio of niche activities, many of which have grown rapidly. The Group's strong revenue growth combined with a constant operating margin drove the increase in profit in the period. The rate of acquisition investment has increased with £76m expended in the last 12 months, of which £45m has been invested since the start of the year.

Revenue was 20.2% higher at £231.9m (2007: £192.9m). Organic growth at constant exchange rates was 14.0% and favourable currency effects contributed 1.6%. The remaining growth came from acquisitions.

The exchange rate volatility that has been seen over the past few years reduced in the period. Ultra maintains its policy of hedging forward its foreign currency trading exposure and this has helped reduce uncertainty. Overall, the combined transaction and translation effect in the period was to increase revenue by £3.1m and to reduce operating profit\* by £1.5m.

Operating profit\* increased 20.4% to £32.5m (2007: £27.0m) with the operating margin\* being maintained at 14.0%.

Net interest payable was 200% higher at £2.1m (2007: £0.7m) due mainly to higher borrowings through the period as a result of increased acquisition spending.

Headline profit before tax was £30.4m (2007: £26.2m), an increase of 16.0%.

The profit impact of the fair value movement on derivatives and the amortisation of intangibles arising on acquisition was a charge of £7.2m (2007: £0.4m). Compared to 2007, the amortisation of intangibles arising on acquisition was £2.3m higher in the period, reflecting the eight acquisitions made by the Group since July 2007. The difference in the fair value of derivative instruments compared to June 2007 was £4.5m. Reported profit after tax reduced by 8.5% to £17.2m (2007: £18.8m).

There was a reduction in the Group's effective tax rate from 27.1% to 26.0% in the period, reflecting the tax benefits of acquisitions in the USA and an associated increase in borrowings in that country. Reflecting this reduced tax rate, earnings per share\* increased 15.6% to 32.6p (2007: 28.2p).

Operating cash conversion\* was 77%. The Group's customary focus on cash management has resulted in reduced inventory compared to the start of the period. The Group continues to invest cash in the Boeing 787 and Airbus A400M aircraft programmes which will contribute to growth in the medium and long term. There was a total company-funded cash investment of £15.4m (2007: £14.0m) on new product and business development, of which £1.8m was capitalised (2007: £2.5m) as an intangible asset.

Net debt\* at the end of the period was £53.7m compared to £14.2m at the end of 2007. The Group's balance sheet remains strong, with net interest payable on borrowings covered approximately 20 times by operating profit\*.

The proposed interim dividend is 8.0p, an increase of 19%, higher than the 16% increase in earnings per share\*. The dividend will be paid on 26 September to shareholders on the register on 22 August 2008.

The order book at the end of the period was £645.2m, an increase of 12.2% over the value at the same time last year.

## Acquisitions

Ultra made four acquisitions in the first half of 2008; Magneto Inductive Systems Limited ("MISL"), Harris Acoustics ("Harris"), Graytronics Ltd ("Graytronics") and ProLogic, Incorporated ("ProLogic"). They have enhanced the Group's portfolio of offerings and each one has the strong position in a growing niche market that is typical of Ultra businesses. The total cash consideration in the period for acquisitions was £45.4m including expenses, financed using Ultra's existing facilities. The combined revenue of the four acquisitions on a full-year basis for 2007 would have been about £38m. Their contribution to the Group's performance in the first half of 2008 was not material.

- MISL, based in Nova Scotia, Canada, designs, supplies and supports magneto inductive guidance, signalling and communications equipment. It is part of Maritime Systems in the Group's Tactical & Sonar Systems division.
- Harris, based in Massachusetts, US, specialises in the design, supply and support of submarine acoustic transducers and arrays. It is now part of Ultra's Ocean Systems business, also within the Group's Tactical & Sonar Systems division.
- Graytronics is a small business that specialises in the supply of marine intercom systems for customers that include the UK MoD, US Coastguard, British Petroleum and the Royal National Lifeboat Institution. Graytronics has been relocated to become part of the SML business near Southampton in Ultra's Information & Power Systems division.
- ProLogic, operating in various states in the US, provides specialised products and solutions for mission-critical enterprise IT, tactical data communication systems and intelligence processing infrastructures, as well as independent IT consulting services to US government customers. ProLogic is now part of Ultra's Information & Power Systems division.

## Organisational changes

In the period it was announced that Dr. Frank Hope, Managing Director of Ultra's Information & Power Systems division, would be leaving the Group. When he leaves Ultra, he will not be replaced on the Board, which will then comprise four Non-Executive Directors and three Executive Directors.

## Operational review

### Aircraft & Vehicle Systems

Revenue in Aircraft & Vehicle Systems increased by 19% to £58.9m compared to £49.5m in 2007 and operating profit\* increased 21% to £9.3m (2007: £7.7m). These results include contributions from Atkins and BCF Designs, both acquired late in 2007. The division's order book at the end of the period was £195.1m (2007: £173.6m).

Revenue growth in the period was driven by solid demand across the division's businesses. Profit growth also reflected efficiencies achieved in all areas of activity.

Highlights of the division's performance in the period that will underpin continuing growth included:

- selection by Gulfstream to supply the landing gear extension and retraction control system for its new G650 business jet
- good progress, technically and commercially, on the system development programmes for the Boeing 787, Airbus A400M and F-35 JSF aircraft programmes
- continuing strong demand for Ultra's advanced hand controls for weapon stations on a number of US military vehicles

### Information & Power Systems

Revenue in Information & Power Systems grew by 7% to £66.0m compared to £61.6m in the previous year. Operating profit\* was £9.3m (2007: £9.1m). The order book at the end of the period had increased by 24% to £134.5m (2007: £108.2m).

Revenue and profit growth were suppressed by delays in the placing of some platform-driven orders and by the lead time required to execute such contracts. The division's order book together with the integration of ProLogic should underpin an improved performance in the second half of the year.

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

- an increased level of demand for ADSI®, Ultra's real-time command and control system, including market interest in new derivatives of ADSI®
- the award of further contracts for transit system trackside power equipment supporting the improvement of London's transport infrastructure
- winning contracts to supply advanced airport IT systems at Hongqiao in China, Indianapolis in the US and at various airports in South Africa

### Tactical & Sonar Systems

Revenue in Tactical & Sonar Systems increased by 31% to £107.0m (2007: £81.8m) and operating profit\* rose 36% to £13.9m (2007: £10.2m). These results include the contributions from Criticom and Telemus, both acquired during 2007. The closing order book was £315.6m (2007: £293.0m).

Many of the Group's specialist activities in the battlespace IT sector are in this division and strong demand, especially from US forces for communications equipment and tactical radio systems, drove the revenue and profit performance in the period. Deliveries of Ultra's traditional sonobuoy products to international customers also made a good contribution to growth.

Growth in future years will be underpinned as a result of the following events in 2008:

- excellent order intake for the Group's advanced line-of-sight tactical radios
- the award of contracts for high grade cryptographic equipment on behalf of government agencies in both the US and the UK
- an enhanced level of customer take-up of Ultra's new PacketAssure communications service delivery manager product

## Market conditions

Defence expenditure worldwide is being sustained by the continuing high level of international tension. The global nature of the threats continues to drive expenditure on those capabilities that allow the projection of military effects and the protection of personnel around the world. A key part of modern warfare and counter-terrorism is the maintenance of information superiority. This in turn drives continued strong demand for battlespace IT equipment that can provide enhanced communications bandwidth and capacity. While it is planned that current military operations will be scaled down in the medium term, this is unlikely to be a quick process. It is anticipated that there will then be a period of rebuilding the systems and equipment base that has been eroded by years of high intensity operations. Ultra is well placed to win further work in the medium term to satisfy these operational requirements.

In the civil aerospace sector, both Boeing and Airbus have long order books which continue to grow and their aircraft build rates are planned to increase steadily for the next few years. There is also strong demand for business jets to enhance the speed and convenience of travel for corporate executives and high net worth individuals. Demand for integrated airport IT systems is underpinned by the continuing need to upgrade airports and to increase passenger capacity. Ultra is well positioned to benefit from the demand in these market sectors.

Investment is increasing in the UK rail transit system infrastructure, driven partly by the 2012 London Olympic Games, benefiting Ultra's trackside power equipment business. In the UK and around the world, continuing security concerns are resulting in further expenditure on surveillance solutions. In the UK the strategic need to maintain independent energy supplies is driving increased investment in civil nuclear power generation, a market in which Ultra has niche capabilities in the supply of high integrity control systems and the associated specialist sensors.

## Risks and uncertainties

The risks and uncertainties that may impact Ultra's ability to deliver further growth of shareholder value were discussed in some depth on pages 19 to 21 of the Group's Annual Report and Accounts for 2007, available for download at [www.ultra-electronics.com](http://www.ultra-electronics.com). It is considered that these still remain the most likely areas of potential risk and uncertainty. The robust business strategies that Ultra uses to manage and mitigate those risks and uncertainties were also discussed.

In the first half of 2008 conditions in financial markets have become more difficult with a consequent impact on consumer confidence. Ultra's business is, in the main, driven by long-term programmes which are unaffected by short-term perturbations in credit markets and consumer spending.

## Prospects

Ultra has a broad range of differentiated offerings specified on an increasing list of international platforms and programmes. This spreads risk and gives resilience to the Group's overall performance. Ultra is positioned at all levels in the supply chain, selling to governments and to most of the world's major defence and aerospace prime contractors. The Group's activities are market-led with a flexible and agile response to customer requirements. Ultra businesses constantly seek product and process innovation so as to provide differentiated products, services and solutions to customers.

Within Ultra's overall order book valued at £645m, firm order coverage for the next twelve months' trading for the Group has been maintained at its traditional level of over 60%, thereby giving good visibility of future earnings.

Ultra continues to invest to drive further organic and acquisition growth. Internally, the Group is investing in new products and services that can be positioned on long-term 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. The Group is targeting companies with a proven track record, that have differentiated positions in growing, niche markets and which can be acquired at appropriate prices.

In summary, the Group is positioned in high growth market sectors worldwide. With Ultra's proven ability to win new business and to execute contracts effectively, the Board has confidence in the continuing progress of the Group.

# Condensed Consolidated Income Statement

For the half-year ended 30 June 2008

	Note	Six months to 30 June 2008 £'000	Six months to 30 June 2007 £'000	Year to 31 December 2007 £'000
<b>Continuing operations</b>				
Revenue	3	231,853	192,868	412,890
Cost of sales		(172,629)	(143,853)	(300,380)
<b>Gross profit</b>		<b>59,224</b>	<b>49,015</b>	<b>112,510</b>
Other operating income		2,702	1,694	5,050
Distribution costs		(351)	(345)	(875)
Administrative expenses		(32,447)	(23,807)	(56,687)
Other operating expenses		(471)	(1,071)	(992)
<b>Profit from operations</b>	3	<b>28,657</b>	<b>25,486</b>	<b>59,006</b>
Headline operating profit	4	32,505	26,991	62,921
Amortisation of intangibles arising on acquisition		(3,848)	(1,505)	(3,915)
<b>Profit from operations</b>		<b>28,657</b>	<b>25,486</b>	<b>59,006</b>
Investment revenue	5	410	1,470	1,092
Finance costs	6	(5,883)	(1,146)	(3,500)
<b>Profit before tax</b>		<b>23,184</b>	<b>25,810</b>	<b>56,598</b>
Headline profit before tax	4	30,422	26,243	61,069
Amortisation of intangibles arising on acquisition		(3,848)	(1,505)	(3,915)
(Loss)/profit on fair value movements on derivatives		(3,390)	1,072	(556)
<b>Profit before tax</b>		<b>23,184</b>	<b>25,810</b>	<b>56,598</b>
Tax	7	(6,028)	(6,969)	(15,363)
<b>Profit for the period from continuing operations attributable to equity holders of the parent</b>		<b>17,156</b>	<b>18,841</b>	<b>41,235</b>
<b>Earnings per ordinary share (pence)</b>				
From continuing operations				
Basic	9	25.2	27.8	60.9
Diluted	9	25.1	27.6	60.5



# Condensed Consolidated Balance Sheet

As at 30 June 2008

		At 30 June 2008	At 30 June 2007	At 31 December 2007
	Note	£'000	£'000	£'000
<b>Non-current assets</b>				
Intangible assets		228,509	149,458	179,254
Property, plant and equipment	10	26,092	22,138	24,235
Deferred tax assets		10,302	10,499	10,634
		<b>264,903</b>	<b>182,095</b>	<b>214,123</b>
<b>Current assets</b>				
Inventories		36,062	38,015	42,417
Trade and other receivables	11	99,131	82,584	84,226
Cash and cash equivalents		39,187	33,850	27,419
		<b>174,380</b>	<b>154,449</b>	<b>154,062</b>
<b>Total assets</b>	3	<b>439,283</b>	<b>336,544</b>	<b>368,185</b>
<b>Current liabilities</b>				
Trade and other payables	12	(125,093)	(101,003)	(118,393)
Tax liabilities		(6,106)	(7,052)	(9,123)
Obligations under finance leases		(84)	(23)	(25)
Short-term provisions		(8,946)	(7,540)	(10,644)
		<b>(140,229)</b>	<b>(115,618)</b>	<b>(138,185)</b>
<b>Non-current liabilities</b>				
Retirement benefit obligations		(41,076)	(35,837)	(40,390)
Other payables	12	(5,616)	(9,067)	(830)
Deferred tax liabilities		(4,532)	(2,680)	(2,619)
Obligations under finance leases		(41)	(39)	(29)
Bank overdrafts and loans		(92,768)	(39,735)	(41,608)
Long-term provisions		(4,594)	(6,013)	(2,630)
		<b>(148,627)</b>	<b>(93,371)</b>	<b>(88,106)</b>
<b>Total liabilities</b>	3	<b>(288,856)</b>	<b>(208,989)</b>	<b>(226,291)</b>
<b>Net assets</b>		<b>150,427</b>	<b>127,555</b>	<b>141,894</b>
<b>Equity</b>				
Share capital	13	3,400	3,386	3,394
Share premium account		35,807	34,102	35,061
Own shares		(1,973)	(1,972)	(1,972)
Hedging and translation reserves		(5,807)	(6,657)	(6,282)
Retained earnings		119,000	98,696	111,693
<b>Total equity attributable to equity holders of the parent</b>		<b>150,427</b>	<b>127,555</b>	<b>141,894</b>

## Condensed Consolidated Cash Flow Statement

For the half-year ended 30 June 2008

		Six months to 30 June 2008	Six months to 30 June 2007	Year to 31 December 2007
	Note	£'000	£'000	£'000
<b>Net cash flow from operating activities</b>	14	<b>20,019</b>	15,687	49,558
<b>Investing activities</b>				
Interest received		445	361	791
Purchase of property, plant and equipment		(4,351)	(3,924)	(8,569)
Proceeds from disposal of property, plant and equipment		1,263	4	-
Expenditure on product development and other intangibles		(2,388)	(3,078)	(5,489)
Acquisition of subsidiary undertakings (net of cash acquired)		(45,384)	-	(31,016)
<b>Net cash used in investing activities</b>		<b>(50,415)</b>	(6,637)	(44,283)
<b>Financing activities</b>				
Issue of share capital		752	930	1,897
Purchase of Long-Term Incentive Plan shares		(674)	-	-
Dividends paid		(9,806)	(8,463)	(12,978)
Increase in borrowings		52,028	6,445	6,551
Repayment of obligations under finance leases		(11)	(8)	(16)
<b>Net cash from/(used in) financing activities</b>		<b>42,289</b>	(1,096)	(4,546)
<b>Net increase in cash and cash equivalents</b>		<b>11,893</b>	7,954	729
<b>Cash and cash equivalents at beginning of period</b>		<b>27,419</b>	25,628	25,628
Effect of foreign exchange rate changes		(125)	268	1,062
<b>Cash and cash equivalents at end of period</b>		<b>39,187</b>	33,850	27,419

## Condensed Consolidated Statement of Recognised Income and Expense

For the half-year ended 30 June 2008

		Six months to 30 June 2008	Six months to 30 June 2007	Year to 31 December 2007
		£'000	£'000	£'000
Exchange differences on translation of foreign operations		475	(1,820)	(1,445)
Actuarial losses on defined benefit pension schemes (net of deferred tax)		-	-	(4,250)
Tax on items taken directly to equity		-	-	(602)
(Loss)/profit on cash flow hedge		(188)	173	45
<b>Net income/(expense) recognised directly in equity</b>		<b>287</b>	(1,647)	(6,252)
Transfer to profit and loss on cash flow hedges		81	(31)	(154)
<b>Profit for the period</b>		<b>17,156</b>	18,841	41,235
<b>Total recognised income and expense for the period attributable to equity holders of the parent</b>		<b>17,524</b>	17,163	34,829

**1 General information**

The information for the year ended 31 December 2007 does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on those accounts was not qualified and did not contain statements under section 237(2) or (3) of the Companies Act 1985.

These interim Financial Statements, which were approved by the Board of Directors on 1 August 2008, have not been audited or reviewed by the Auditors.

**2 Accounting policies**

These interim Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and using accounting policies that are consistent with those used in the statutory accounts for the year ended 31 December 2007. The condensed set of financial statements included in this half yearly financial report has been prepared in accordance with International Financial Reporting Standards (IFRS) and in accordance with IAS 34 'Interim Financial Reporting'.

**3 Segment information**

	Six months to 30 June 2008			Six months to 30 June 2007		
	External revenue £'000	Internal revenue £'000	Total £'000	External revenue £'000	Internal revenue £'000	Total £'000
<b>Revenue</b>						
Aircraft & Vehicle Systems	58,899	1,791	60,690	49,493	2,906	52,399
Information & Power Systems	65,999	4,140	70,139	61,600	4,121	65,721
Tactical & Sonar Systems	106,955	3,331	110,286	81,775	3,605	85,380
Eliminations	-	(9,262)	(9,262)	-	(10,632)	(10,632)
Consolidated revenue	231,853	-	231,853	192,868	-	192,868

	Six months to 30 June 2008 £'000	Six months to 30 June 2007 £'000	Year to 31 December 2007 £'000
<b>Profit from operations</b>			
Aircraft & Vehicle Systems	9,266	7,682	16,070
Information & Power Systems	9,306	9,107	19,645
Tactical & Sonar Systems	13,933	10,202	27,206
Headline operating profit	32,505	26,991	62,921
Amortisation of intangibles arising on acquisition	(3,848)	(1,505)	(3,915)
Profit from operations	28,657	25,486	59,006
Investment revenue	410	1,470	1,092
Finance costs	(5,883)	(1,146)	(3,500)
Profit before tax	23,184	25,810	56,598

	At 30 June 2008 £'000	At 30 June 2007 £'000	At 31 December 2007 £'000
<b>Total assets by segment</b>			
Aircraft & Vehicle Systems	106,208	84,242	99,879
Information & Power Systems	111,552	71,139	71,473
Tactical & Sonar Systems	166,831	131,161	153,397
	384,591	286,542	324,749
Unallocated	54,692	50,002	43,436
<b>Total assets</b>	<b>439,283</b>	<b>336,544</b>	<b>368,185</b>

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

### 3 Segment information (continued)

	At 30 June 2008	At 30 June 2007	At 31 December 2007
	£'000	£'000	£'000
<b>Total liabilities by segment</b>			
Aircraft & Vehicle Systems	38,278	34,563	30,362
Information & Power Systems	47,344	37,535	45,682
Tactical & Sonar Systems	51,931	49,693	53,004
	137,553	121,791	129,048
Unallocated	151,303	87,198	97,243
<b>Total liabilities</b>	<b>288,856</b>	<b>208,989</b>	<b>226,291</b>

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

	Six months to 30 June 2008	Six months to 30 June 2007	Year to 31 December 2007
	£'000	£'000	£'000
<b>Revenue by geographical destination</b>			
United Kingdom	86,451	82,537	171,729
Continental Europe	26,332	17,390	43,556
Canada	7,820	8,264	17,788
USA	93,205	70,096	154,032
Rest of World	18,045	14,581	25,785
	231,853	192,868	412,890

### 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 30 June 2008	Six months to 30 June 2007	Year to 31 December 2007
	£'000	£'000	£'000
<b>Profit from operations</b>	<b>28,657</b>	<b>25,486</b>	<b>59,006</b>
Amortisation of intangibles arising on acquisition	3,848	1,505	3,915
<b>Headline operating profit</b>	<b>32,505</b>	<b>26,991</b>	<b>62,921</b>
<b>Profit before tax</b>	<b>23,184</b>	<b>25,810</b>	<b>56,598</b>
Loss/(profit) on fair value movements on derivatives	3,390	(1,072)	556
Amortisation of intangibles arising on acquisition	3,848	1,505	3,915
<b>Headline profit before tax</b>	<b>30,422</b>	<b>26,243</b>	<b>61,069</b>
<b>Cash generated by operations (see note 14)</b>	<b>31,006</b>	<b>23,507</b>	<b>66,249</b>
Purchase of property, plant and equipment	(4,351)	(3,924)	(8,569)
Proceeds on disposal of property, plant and equipment	1,263	4	-
Expenditure on product development and other intangibles	(2,388)	(3,078)	(5,489)
Purchase of Long-Term Incentive Plan shares	(674)	-	-
<b>Operating cash flow</b>	<b>24,856</b>	<b>16,509</b>	<b>52,191</b>

Headline operating profit has been shown before 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, this charge has been excluded from headline operating profit. Headline profit before tax and headline earnings per share (see note 9) are also presented before the amortisation of intangible assets arising on acquisitions.

#### 4 Additional performance measures (continued)

IAS 39 requires the Group to 'fair value' the derivative instruments used to manage Ultra's foreign exchange exposures. This creates volatility in the valuation of the outstanding instruments as exchange rates move over time. This will have minimal impact on profit over the full term of the instruments, but can cause significant volatility on particular balance sheet dates. Ultra is therefore stating headline profit before tax and headline earnings per share (see note 9) before changes in the valuation of these 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 in property, plant and equipment and outflows for capitalised product development and other intangibles, would result in an understatement of the true cash cost of sustaining a growing business.

#### 5 Investment revenue

	Six months to 30 June 2008	Six months to 30 June 2007	Year to 31 December 2007
	£'000	£'000	£'000
Bank interest	410	361	791
Fair value movement on derivatives	-	1,072	-
Retirement benefit scheme finance income	-	37	301
	<b>410</b>	<b>1,470</b>	<b>1,092</b>

#### 6 Finance costs

	Six months to 30 June 2008	Six months to 30 June 2007	Year to 31 December 2007
	£'000	£'000	£'000
Amortisation of finance costs of debt	35	42	71
Interest payable on bank loans and overdrafts	1,957	1,134	3,025
Interest payable on finance leases	1	1	2
Transfers from equity on cash flow hedges	81	(31)	(154)
Total borrowing costs	<b>2,074</b>	<b>1,146</b>	<b>2,944</b>
Retirement benefit scheme finance expense	419	-	-
Fair value movement on derivatives	3,390	-	556
	<b>5,883</b>	<b>1,146</b>	<b>3,500</b>

#### 7 Tax

	Six months to 30 June 2008	Six months to 30 June 2007	Year to 31 December 2007
	£'000	£'000	£'000
<b>Current tax</b>			
United Kingdom	3,815	4,098	7,510
Overseas	3,122	2,208	7,939
	<b>6,937</b>	<b>6,306</b>	<b>15,449</b>
<b>Deferred tax</b>			
United Kingdom	(667)	21	(649)
Overseas	(242)	642	563
	<b>(909)</b>	<b>663</b>	<b>(86)</b>
<b>Total</b>	<b>6,028</b>	<b>6,969</b>	<b>15,363</b>

## 8 Ordinary dividends

	Six months to 30 June 2008	Six months to 30 June 2007
	£'000	£'000
Final dividend for the year ended		
31 December 2007 of 14.5p (2006: 12.6p) per share	9,806	8,463
Proposed interim dividend for the year ended		
31 December 2008 of 8.0p (2007: 6.7p) per share	5,417	4,515

The proposed interim dividend was approved by the Board after 30 June 2008 and has not been included as a liability as at 30 June 2008.

## 9 Earnings per share

	Six months to 30 June 2008	Six months to 30 June 2007	Year to 31 December 2007
	pence	pence	pence
<b>From continuing operations</b>			
Basic headline ( <i>see below</i> )	32.6	28.2	65.4
Diluted headline ( <i>see below</i> )	32.4	28.0	65.0
Basic	25.2	27.8	60.9
Diluted	25.1	27.6	60.5

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

	Six months to 30 June 2008	Six months to 30 June 2007	Year to 31 December 2007
	£'000	£'000	£'000
<b>Earnings</b>			
Earnings for the purposes of earnings per share being profit for the period from continuing operations	17,156	18,841	41,235
<b>Headline earnings</b>			
Profit for the period from continuing operations	17,156	18,841	41,235
Loss/(profit) on fair value movements on derivatives (net of tax)	2,424	(750)	492
Amortisation of intangibles arising on acquisition (net of tax)	2,610	986	2,576
<b>Earnings for the purposes of headline earnings per share</b>	<b>22,190</b>	<b>19,077</b>	<b>44,303</b>

The weighted average number of shares is given below:

	Six months to 30 June 2008	Six months to 30 June 2007	Year to 31 December 2007
Number of shares used for basic EPS	67,983,271	67,685,429	67,714,368
Number of shares deemed to be issued at nil consideration following exercise of share options	433,690	481,058	434,033
<b>Number of shares used for fully diluted EPS</b>	<b>68,416,961</b>	<b>68,166,487</b>	<b>68,148,401</b>

	Six months to 30 June 2008	Six months to 30 June 2007	Year to 31 December 2007
	£'000	£'000	£'000
Headline PBT	30,422	26,243	61,069
Tax rate applied for the purposes of headline earnings per share	27.1%	27.3%	27.5%
Effective tax rate	26.0%	27.0%	27.1%

## 10 Property, plant and equipment

During the period, the Group spent £4.4m on the acquisition of property, plant and equipment.

The Group also disposed of property, plant and equipment with a carrying value of £0.6m for proceeds of £1.3m.

## 11 Trade and other receivables

	At 30 June 2008	At 30 June 2007	At 31 December 2007
	£'000	£'000	£'000
Trade receivables	62,732	43,586	52,059
Provisions against receivables	(550)	(797)	(527)
Net trade receivables	62,182	42,789	51,532
Amounts due from contract customers	23,628	28,642	21,475
Derivatives at fair value	5,203	5,653	5,383
Other receivables	8,118	5,500	5,836
	99,131	82,584	84,226

## 12 Trade and other payables

	At 30 June 2008	At 30 June 2007	At 31 December 2007
	£'000	£'000	£'000
Amounts included in current liabilities:			
Trade payables	44,514	44,346	42,929
Amounts due to contract customers	31,274	24,596	24,552
Derivatives at fair value	6,821	1,894	3,503
Other payables	42,484	30,167	47,409
	125,093	101,003	118,393
Amounts included in non current liabilities:			
Other payables	5,616	9,067	830
	5,616	9,067	830

## 13 Share capital

126,696 shares, with a nominal value of £6,335, have been allotted in the first six months of 2008 under the terms of the Group's various share option schemes. The aggregate consideration received by the Company was £752,359.

## 14 Cash flow information

	Six months to 30 June 2008	Six months to 30 June 2007	Year to 31 December 2007
	£'000	£'000	£'000
<b>Profit from operations</b>	<b>28,657</b>	<b>25,486</b>	<b>59,006</b>
Depreciation of property, plant and equipment	2,874	2,631	5,720
Amortisation of intangible assets	4,379	2,338	5,467
Cost of equity settled employee share schemes	738	537	1,186
Increase in post employment benefit obligation	267	731	797
(Profit)/loss on disposal of property, plant and equipment	(702)	15	31
Increase/(decrease) in provisions	275	161	(312)
<b>Operating cash flow before movements in working capital</b>	<b>36,488</b>	<b>31,899</b>	<b>71,895</b>
Decrease/(increase) in inventories	7,378	(8,764)	(12,055)
(Increase)/decrease in receivables	(9,474)	2,543	6,116
(Decrease)/increase in payables	(3,386)	(2,171)	293
<b>Cash generated by operations</b>	<b>31,006</b>	<b>23,507</b>	<b>66,249</b>
Income taxes paid	(8,926)	(6,710)	(13,723)
Interest paid	(2,061)	(1,110)	(2,968)
<b>Net cash inflow from operating activities</b>	<b>20,019</b>	<b>15,687</b>	<b>49,558</b>

#### 14 Cash flow information (continued)

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

	Six months to 30 June 2008	Six months to 30 June 2007	Year to 31 December 2007
	£'000	£'000	£'000
<b>Net increase in cash and cash equivalents</b>	<b>11,893</b>	<b>7,954</b>	<b>729</b>
Cash inflow from increase in debt and finance leasing	(52,017)	(6,437)	(6,535)
<b>Change in net debt arising from cash flows</b>	<b>(40,124)</b>	<b>1,517</b>	<b>(5,806)</b>
Amortisation of finance costs of debt	(35)	(36)	(71)
Finance leases acquired with subsidiary undertakings	(82)	-	-
Translation differences	778	(264)	(1,202)
<b>Movement in net debt in the period</b>	<b>(39,463)</b>	<b>1,217</b>	<b>(7,079)</b>
Net debt at start of period	(14,243)	(7,164)	(7,164)
<b>Net debt at end of period</b>	<b>(53,706)</b>	<b>(5,947)</b>	<b>(14,243)</b>

Net debt comprised the following:

	At 30 June 2008	At 30 June 2007	At 31 December 2007
	£'000	£'000	£'000
Cash and cash equivalents	39,187	33,850	27,419
Bank loans	(92,768)	(39,735)	(41,608)
Finance leases	(125)	(62)	(54)
	<b>(53,706)</b>	<b>(5,947)</b>	<b>(14,243)</b>

#### 15 Acquisitions

##### Magneto Inductive Systems Ltd

On 22 May 2008, the Group acquired the entire share capital of Magneto Inductive Systems Ltd. (MISL), for an initial cash consideration of £11.9m. Initial provisional fair values for the net assets acquired and details of the purchase consideration are set out below.

	Book value	Revaluations	Fair value
	£'000	£'000	£'000
Intangible assets	53	8,680	8,733
Property, plant and equipment	470	-	470
Net cash	393	-	393
Working capital	161	-	161
<b>Net assets acquired</b>	<b>1,077</b>	<b>8,680</b>	<b>9,757</b>
Goodwill arising on acquisition			7,610
<b>Purchase consideration, including acquisition costs</b>			<b>17,367</b>
Total consideration			17,367
Less deferred consideration			5,475
<b>Net cash outflow arising on acquisition</b>			<b>11,892</b>

The profit contribution from MISL was approximately breakeven in the period. The goodwill arising on the acquisition is attributable to future operating synergies derived from integration with the Group together with expected future profits resulting from the access to new markets for the Group's existing products.



## 15 Acquisitions (continued)

### Harris Acoustic Products

On 23 May 2008, the Group acquired the trade and assets of Harris Acoustic Products Corporation from Channel Technologies Inc. for an initial cash consideration of £3.5m. Initial provisional fair values for the net assets acquired and details of the purchase consideration are set out below.

	Book value	Revaluations	Fair value
	£'000	£'000	£'000
Intangible assets	-	1,691	1,691
Property, plant and equipment	30	-	30
Working capital	1,187	(367)	820
<b>Net assets acquired</b>	<b>1,217</b>	<b>1,324</b>	<b>2,541</b>
Goodwill arising on acquisition			1,042
<b>Purchase consideration, including acquisition costs</b>			<b>3,583</b>
Total consideration			3,583
Less deferred consideration and costs			85
<b>Net cash outflow arising on acquisition</b>			<b>3,498</b>

The profit contribution from Harris was approximately £0.1m in the period. The goodwill arising on the acquisition is attributable to future operating synergies derived from integration with the Group.

### ProLogic Incorporated

On 13 June 2008, the Group acquired the entire share capital of ProLogic Incorporated for a cash consideration of £27.7m. At 4 August 2008, the accounting adjustments in respect of the acquisition of ProLogic were not complete. It is therefore impractical to include in this report the IFRS 3 'Business Combinations' disclosures for this acquisition.

### Graytronics Ltd

On 8 May 2008, the Group acquired the entire share capital of Graytronics Ltd for a cash consideration of £1.6m. Goodwill arising on the acquisition amounted to £0.4m.

If the above acquisitions had been completed on the first day of the financial year, Group revenues for the period would have been approximately £251.1m and Group profit before tax would have been approximately £24.9m.

### Fair value adjustments to prior year acquisitions

Atkins & Partners Limited and BCF Designs Limited were both acquired by the Group in 2007. The fair value of the assets acquired in respect of both of these acquisitions at 31 December was provisional. During 2008 further fair value adjustments have been made for both of these acquisitions reflecting an additional deferred tax liability in respect of Atkins & Partners Limited of £0.5m and an additional deferred tax liability in respect of BCF Designs Limited of £1.7m. Goodwill has been retrospectively increased by £2.2m as a result of these fair value adjustments.

A summary of group cashflows relating to acquisitions in the period was as follows:

	£'000
Cash consideration paid for acquisitions made in the period	44,704
Cash acquired	(645)
Deferred cash consideration paid in the period for acquisitions made in prior years	1,325
<b>Net cash outflow</b>	<b>45,384</b>

## 16 Other matters

### Seasonality

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

### Related party transactions

There were no significant changes in the nature and size of related party transactions for the period to those reported in the 2007 Annual Report.

# 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

**Douglas Caster**

Chief Executive

**David Jeffcoat**

Group Finance Director

4 August 2008

# Business Addresses

## Aircraft & Vehicle Systems

### Controls

417 Bridport Road  
Greenford  
Middlesex UB6 8UE  
England  
Tel: +44 (0) 20 8813 4444  
www.ultra-controls.com

### Datel

Taylor House  
Caxton Road  
Fulwood  
Preston PR2 9ZB  
England  
Tel: +44 (0) 1772 907500  
www.ultra-datel.com

### Electrics

Kingsditch Lane  
Cheltenham  
Gloucestershire GL51 9PG  
England  
Tel: +44 (0) 1242 221166  
www.ultra-electrics.com

### Measurement Systems Inc.

50 Barnes Park North  
Suite 102  
Wallingford  
Connecticut 06492  
USA  
Tel: +1 203 949 3500  
www.ultra-msi.com

### Precision Air Systems

Anson Business Park  
Cheltenham Road East  
Gloucester GL2 9QN  
England  
Tel: +44 (0) 1452 714382  
www.ultra-pas.com

## Information & Power Systems

### Advanced Tactical Systems

3300 Duval Road, Suite 200  
Austin  
Texas 78759  
USA  
Tel: +1 512 327 6795  
www.ultra-ats.com

### Airport Systems

The Oaks  
Crewe Road  
Wythenshawe  
Manchester M23 9SS  
England  
Tel: +44 (0) 161 946 3600  
www.ultra-as.com

### Command & Control Systems

Knaves Beech Business Centre  
Loudwater  
High Wycombe  
Buckinghamshire HP10 9UT  
England  
Tel: +44 (0) 1628 530000  
www.ultra-ccs.com

### EMS

95 Horseblock Road  
PO Box 640  
Yaphank  
New York 11980  
USA  
Tel: +1 631 345 6200  
www.ultra-ems.com

### Manufacturing & Card Systems

Waverley House  
Hampshire Road  
Granby Estate  
Weymouth  
Dorset DT4 9XD  
England  
Tel: +44 (0) 1305 784738  
www.ultra-mcs.com

### PMES

Armitage Road  
Rugeley  
Staffordshire WS15 1DR  
England  
Tel: +44 (0) 1889 503300  
www.ultra-pmes.com

### ProLogic

1000 Technology Drive  
Suite 3140  
Fairmont  
West Virginia 26554  
USA  
Tel: +1 304 363 1157  
www.ultra-prologic.com

### SML Technologies

316 Botley Road  
Burrbridge  
Southampton  
Hampshire SO31 1BQ  
England  
Tel: +44 (0) 1489 557373  
www.ultra-sml.com

## Tactical & Sonar Systems

### Audiopack

4933 Neo Parkway  
Garfield Heights  
Ohio 44128  
USA  
Tel: +1 216 332 7040  
www.ultra-ap.com

### Criticom

4211 Forbes Boulevard  
Lanham  
Maryland 20706  
USA  
Tel: +1 301 306 0600  
www.ultra-criticom.com

### DNE Technologies

50 Barnes Park North  
Wallingford  
Connecticut 06492  
USA  
Tel: +1 203 265 7151  
www.ultra-dne.com

### Flightline Systems

7625 Omnitech Place  
Victor  
New York 14564  
USA  
Tel: +1 585 924 4000  
www.ultra-fei.com

### Maritime Systems

40 Atlantic Street  
Dartmouth  
Nova Scotia B2Y4N2  
Canada  
Tel: +1 902 466 7491  
www.ultra-uems.com

### Ocean Systems

115 Bay State Drive  
Braintree  
Massachusetts 02184  
USA  
Tel: +1 781 848 3400  
www.ultra-os.com

### Sonar & Communication Systems

419 Bridport Road  
Greenford  
Middlesex UB6 8UA  
England  
Tel: +44 (0) 20 8813 4567  
www.ultra-scs.com

### Tactical Communication Systems

5990 Côte de Liesse  
Montreal  
Quebec H4T 1V7  
Canada  
Tel: +1 514 855 6363  
www.ultra-tcs.com

### UnderSea Sensor Systems Inc.

4578 East Park 30 Drive  
Columbia City  
Indiana 46725  
USA  
Tel: +1 260 248 3500  
www.ultra-ussi.com



Registered Office:

**Ultra Electronics Holdings plc**

417 Bridport Road

Greenford

Middlesex UB6 8UA

England

Tel: +44 (0) 20 8813 4321

Fax: +44 (0) 20 8813 4322

[www.ultra-electronics.com](http://www.ultra-electronics.com)

[information@ultra-electronics.com](mailto:information@ultra-electronics.com)