



Ultra Electronics Holdings plc
INTERIM REPORT & ACCOUNTS **2000**

Ultra
ELECTRONICS

Ultra Electronics is a group of specialist businesses designing, manufacturing and supporting electronic and electromechanical products and sub-systems for the international defence and aerospace markets.

The Group, which employs over 2,500 people in the UK and North America, has over 45 years' experience in the design and manufacture of technically advanced products for aircraft, ships, submarines and fighting vehicles.

The Group concentrates on obtaining a technological edge in niche markets, with several of its products and technologies being market leaders in their field.



THE QUEEN'S AWARD
FOR TECHNOLOGICAL
ACHIEVEMENT
FOR NOISE AND
VIBRATION SYSTEMS



HIPSS
IN THE HUB,
POWER GENERATION
FOR PROPELLER
DE-ICING



ULTRAQUIET
CABIN
AIRCRAFT CABIN
NOISE REDUCTION
SYSTEM



THE QUEEN'S AWARD
FOR ENTERPRISE 2000
FOR THE
MAGICARD PRINTER
AT OCEAN SYSTEMS

CHAIRMAN'S STATEMENT

FINANCIAL RESULTS

The first half of 2000 was another strong period of growth for Ultra, with a record performance in terms of both sales and profits.

Reflecting strong demand for sonobuoys and good contributions from recent acquisitions, sales increased by 12.1% to £107.1m for the six months ended 30 June 2000, compared to the equivalent period last year.

A strong operating performance saw profits before interest, tax and amortisation increase by 17.1% to £13.5m (1999: £11.5m). Restructuring of the cost base, undertaken in 1999, produced growth in operating margins from 12.0% to 12.6%.

During April the Group completed the acquisition of DF Group Ltd, which comprises two operating divisions – Ferranti Air Systems Ltd and Datel Defence Ltd. Reflecting additional debt drawdown to finance this acquisition, interest charges in the period were £1.7m. Goodwill on acquisition has been assessed provisionally at £42.0m.

The effective rate of taxation for the first six months of 2000 was 29%, consistent with full year 1999 and with the outturn expected for 2000. An interim dividend of 3.2p (1999: 3.0p) will be paid on 29 September 2000 to those shareholders on the register at the close of business on 4 September 2000.

Group net debt rose to £64.3m at 30 June 2000 from £11.7m at the start of the period. Most of the increase reflects the acquisition of the DF Group, but investments were also made in working capital to service higher turnover.

Ultra maintained its policy of hedging foreign exchange transaction risk and of hedging US\$ denominated assets with borrowing in the same currency. Interest rate exposure on the latest borrowings is hedged by means of a swap to fixed rates.

In recent times Ultra's business focus has broadened to the point where divisional titles no longer represent all markets addressed. Reflecting this, Air Systems has been renamed Air and Land Systems as Ultra's involvement in the electronic content of military vehicles takes on a growing importance for the Division's activities, opportunities and acquisitions. Air and Land Systems' products targeted at the military vehicle market include data buses, displays, power control equipment, and control handles.

The Sea Systems' Division has been renamed Information and Sea Systems to include an increasingly important aspect of the Division's focus. Information systems provided by this Division include data links, the air defence systems integrator, airport information and management systems and tactical mapping systems.

No businesses or activities have transferred between divisions.

MARKETS

The recent conflict in Kosovo highlighted the growing demands on today's armed forces. Increasingly, greater military inter-operability between nations' armed forces engaged in joint operations is a critical factor, while the mobility of modern equipment for rapid response scenarios is essential.

Military budgets are responding to these demands with particular emphasis on battlefield digitisation, fast sea lift and strategic airlift capability.

Forecasts for expenditure are set to grow as several major military platforms transition from development to production. In Europe the largest defence programme is Eurofighter, with delivery of 620 aircraft for the four consortium nations due to start in 2002.

CHAIRMAN'S STATEMENT

In the naval market the first three submarines of the Astute Class are in development. In the US, the equivalent programme is the Virginia Class where a total of 30 submarines may be ordered. Major US military aircraft programmes include F/A-18E/F, F-22 and the Joint Strike Fighter.

Ultra's exposure to the large passenger jet market is through Airbus which continued its success in the marketplace in the first six months of 2000. Its range of aircraft is expanding with the recently launched A318 and A340 500/600. There are indications that the range of aircraft supplied by Airbus could be extended further by A3XX, the 550 to 600 seat jet and the A400M military transport.

OPERATIONAL REVIEW

Air & Land Systems Total sales increased by £9.8m to £74.4m (1999: £64.6m). Approximately half the growth was organic, with the balance provided by Datel Defence Ltd (DDL) which was acquired as part of the DF Group in April 2000.

Operating margins improved to 13.7% (1999: 12.9%). This improvement, together with sales growth, resulted in profit before interest, tax and amortisation of £10.2m compared with £8.4m for the equivalent period in 1999.

The large sonobuoy order book built up in 1999 is making a major contribution to sales growth in 2000 as new sonobuoys entered production in the UK and US. In the related area of sonobuoy receivers, deliveries started to Boeing of equipment for the RAF's new maritime patrol aircraft, Nimrod MRA4, from Ultra's Flightline Division.

DDL, acquired in April, employs 174 people and is based in Preston, UK. It specialises in software development and management for military products, system integration and internet based shared data environments. Trading to 30 June 2000 was in line with expectations at the time of the acquisition and other Ultra businesses are already benefiting from the specialised skills that DDL brings to the Group.

Civil sales benefited from increasing production rates of Airbus aircraft, flowing through to higher sales of Ultra's landing gear computers and wiring harnesses. The entry into production of de Havilland's largest turboprop, the Dash-8 400, during the period was significant for two Ultra products, Active Noise Control and Propeller Electronic Controller. Both equipments are examples of Ultra's leading edge technology and are standard fit on this exciting new aircraft.

Information & Sea Systems Total sales in Information and Sea Systems grew by 5.8% to £32.7m (1999: £30.9m) with the Division benefiting from the contribution of two acquisitions. Traditional areas of the business suffered some delay in order placement but contracts have now been secured and provide growth opportunities for the future. Operating margins of 10% were consistent with those achieved in the first six months of 1999, resulting in profits before interest, tax and amortisation of £3.3m.

During the period several important orders were secured to supply equipment for the Royal Navy's new attack submarine, Astute. The Division is now under contract to supply combat management equipment, weapons interfacing system, power conversion and degaussing equipment. These involve key technologies from several businesses.

Ferranti Air Systems Ltd (FASL), acquired as part of the DF Group Ltd in April 2000, employs 100 people in Manchester, UK. It supplies advanced IT systems to the world's airports and airline operations. The systems provide flight information, operations databases and management information which improve efficiency so helping airports cope with ever increasing passenger numbers. This activity complements TagTrak, Ultra's

CHAIRMAN'S STATEMENT

existing airport IT system for baggage reconciliation, and the Division is now able to offer airport system integrators a comprehensive range of advanced management systems.

MANAGEMENT TEAM

During the first half of the year it was announced that Ian Yeoman, Finance Director and Company Secretary, would be retiring at the end of July 2000. Having spent almost ten years with Ultra and its predecessors, Ian has decided to spend more time pursuing his other interests.

Ian is being replaced by David Jeffcoat, who joins Ultra from Smiths Industries, where he was Group Financial Controller. David brings to the Group a combination of corporate and operating business experience which he has gained through his involvement in a number of business sectors in the UK and overseas.

In addition, Richard Lane, Marketing Director is retiring this summer after fifteen years with the Group. Richard will be replaced by Andy Hamment, who is currently Managing Director of the Controls Division.

The Board wishes both Ian and Richard all future success.

PROSPECTS

The Group's order book stood at £301.6m at the end of June, an increase of 14.2% over the period.

Ultra's businesses have secured participation on many of the significant military programmes of the next decade. In Air and Land Systems the value of Ultra equipment supplied to Eurofighter has risen to an average of £180,000 per aircraft. Several key programmes moved into delivery phase during the first half of 2000 including HIDAR, the new digital sonobuoy to the Royal Air Force; sonobuoy receivers and processors to Boeing for Nimrod MRA4; and HiPPAG, the missile cooling compressor for the F/A-18E/F.

In Information and Sea Systems contracts worth over £37m in total have been secured by businesses across the Division on the Astute programme. Development activity on this programme should accelerate in the second half of the year.

Short term prospects in the civil markets centre around airport information systems. In addition to growth by acquisition of Ferranti Air Systems Ltd, a significant milestone was achieved in April 2000 when TagTrak, the baggage reconciliation system was selected to equip San Francisco airport. This is the first major airport to use TagTrak in conjunction with radio frequency tags and gives Information and Sea Systems a strong market position in the use of this emerging technology.

These contracts provide Ultra with excellent order cover for the second half of the year and will contribute to continuing growth in the medium term.

PETER MACFARLANE Chairman

17 July 2000

Ultra Electronics Holdings plc

CONSOLIDATED PROFIT & LOSS ACCOUNT

		Six months to 30 June 2000	Six months to 30 June 1999	Year to 30 December 1999	
	Note	£000	£000	£000	
Turnover					
– Existing operations		100,879	95,500	192,981	
– Acquisitions		6,212	–	–	
	1	107,091	95,500	192,981	
Operating profit before goodwill amortisation					
– Existing operations		12,377	11,509	24,545	
– Acquisitions		1,089	–	–	
		13,466	11,509	24,545	
Goodwill amortisation					
– Existing operations		(715)	(493)	(1,311)	
– Acquisitions		(449)	–	–	
		12,302	11,016	23,234	
Operating profit		12,302	11,016	23,234	
Net interest payable		(1,721)	(507)	(1,303)	
		10,581	10,509	21,931	
Profit before taxation		10,581	10,509	21,931	
Taxation	2	(3,104)	(3,258)	(6,372)	
		7,477	7,251	15,559	
Profit after taxation		7,477	7,251	15,559	
Dividends	3	(2,093)	(1,951)	(5,871)	
		5,384	5,300	9,688	
Retained profits		5,384	5,300	9,688	
Earnings per share (pence)					
After goodwill amortisation					
	Basic	4	11.5	11.2	23.9p
	Diluted	4	11.4	11.1	23.8p
Before goodwill amortisation					
	Basic	4	13.3	11.9	25.9p

There are no recognised gains and losses other than the profit for each period and a foreign exchange loss of £631,000 (loss of £3,000 for the period to 30 June 1999 and a gain of £27,000 for the year ended 30 December 1999).

Ultra Electronics Holdings plc
CONSOLIDATED BALANCE SHEET

	At 30 June 2000	At 30 June 1999	At 30 December 1999
<i>Note</i>	£000	£000	£000
Fixed assets			
Tangible assets	16,772	13,840	14,874
Intangible assets – patents and trademarks	521	–	291
Intangible assets – goodwill	68,230	19,156	27,374
Investments	526	463	342
	86,049	33,459	42,881
Current assets			
Stocks	22,021	23,476	20,885
Debtors	48,785	37,071	38,274
Cash at bank and in hand	9,193	7,532	12,976
	79,999	68,079	72,135
Creditors: Amounts falling due within one year	(89,848)	(76,957)	(86,489)
Net current liabilities	(9,849)	(8,878)	(14,354)
Total assets less current liabilities	76,200	24,581	28,527
Creditors: Amounts falling due after more than one year	(43,349)	(1,065)	(500)
Provisions for liabilities and charges	(4,403)	(5,180)	(4,613)
Net assets	28,448	18,336	23,414
Capital and reserves			
Called-up share capital	3,271	3,251	3,266
Share premium account	24,567	23,090	24,291
Profit and loss account	5 610	(8,005)	(4,143)
Shareholders' funds	28,448	18,336	23,414

Ultra Electronics Holdings plc

CONSOLIDATED CASH FLOW STATEMENT

		Six months to 30 June 2000	Six months to 30 June 1999	Year to 30 December 1999
	Note	£000	£000	£000
Net cash inflow/(outflow) from				
operating activities	6	1,848	(5,181)	12,564
Returns on investments and servicing of finance		(1,530)	(472)	(1,267)
Taxation – UK		(1,218)	(909)	(7,461)
– Overseas		(63)	(452)	(300)
Capital expenditure and financial investment		(1,864)	(1,948)	(4,355)
Acquisitions		(44,962)	–	(5,846)
Equity dividends paid		(3,920)	(3,510)	(5,461)
Cash outflow before use of liquid resources and financing				
Financing		47,671	5,048	10,316
Decrease in cash in the period		(4,038)	(7,424)	(1,810)

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

Decrease in cash in the period	(4,038)	(7,424)	(1,810)
Cash outflow from increase in debt and lease financing	(47,417)	(5,007)	(9,678)
Change in net debt resulting from cash flows	(51,455)	(12,431)	(11,488)
Finance leases acquired with subsidiary undertakings	(41)	–	–
New finance leases	(167)	–	–
Translation difference	(897)	(246)	(106)
Movement in net funds in the period	(52,560)	(12,677)	(11,594)
Net debt at start of period	(11,706)	(112)	(112)
Net debt at end of period	(64,266)	(12,789)	(11,706)

ANALYSIS OF NET FUNDS

Cash at bank and in hand	9,193	7,532	12,976
Debt due within one year	(31,614)	(20,142)	(24,502)
Debt due after one year	(41,500)	–	–
Finance leases	(345)	(179)	(180)
	(64,266)	(12,789)	(11,706)

Ultra Electronics Holdings plc

NOTES TO THE INTERIM STATEMENT

1. Turnover by geographical destination

	Six months to 30 June 2000	Six months to 30 June 1999	Year to 30 December 1999
	£000	£000	£000
United Kingdom	54,275	53,148	104,840
Continental Europe	10,142	11,924	23,024
North America	36,778	27,485	57,664
Rest of World	5,896	2,943	7,453
	107,091	95,500	192,981

2. Taxation

	Six months to 30 June 2000	Six months to 30 June 1999	Year to 30 December 1999
	£000	£000	£000
United Kingdom	2,590	3,088	5,785
Overseas	514	170	587
	3,104	3,258	6,372

The tax charge for the six months to 30 June 2000 has been based on an estimated effective rate for the year to 30 December 2000 of 29%.

3. The proposed interim dividend of 3.2p per ordinary share (1999: 3.0p) is expected to be paid on 29 September 2000 to shareholders on the register on 4 September 2000.

4. Earnings per share

The number of shares and earnings used to calculate earnings per share (EPS) is given below:

	Six months to 30 June 2000	Six months to 30 June 1999	Year to 30 December 1999
	No. of shares	No. of shares	No. of shares
Number of shares used for basic EPS	65,210,994	65,009,014	65,055,293
Number of shares deemed to be issued at nil consideration following exercise of share options	209,299	323,346	371,693
Number of shares used for fully diluted EPS	65,420,293	65,332,360	65,426,986

Earnings attributable to ordinary shareholders:

	Six months to 30 June 2000	Six months to 30 June 1999	Year to 30 December 1999
	£000	£000	£000
After goodwill amortisation	7,477	7,251	15,559
Before goodwill amortisation	8,641	7,744	16,870

NOTES TO THE INTERIM STATEMENT (CONTINUED)

5. Profit and loss account

Goodwill, representing the excess of the fair value of consideration given over the fair value of separable net assets acquired, is capitalised as an intangible asset and is amortised over a period of 20 years, being the Directors' assessment of its likely future value. Provision is made for any impairment. For acquisitions made prior to 31 December 1997 goodwill was considered separately for each acquisition and was written off immediately to the goodwill reserve, depending on the Directors' assessment of its likely future value to the Group. That reserve, amounting to £33,476,000 at 30 June 2000, 30 December 1999 and 30 June 1999 has since been offset against the profit and loss account.

6. Cash flow information**Reconciliation of operating profit to operating cash flow**

	Six months to 30 June 2000	Six months to 30 June 1999	Year to 30 December 1999
	£000	£000	£000
Operating profit	12,302	11,016	23,234
Depreciation and amounts written off tangible fixed assets	2,133	1,591	3,253
Amortisation of goodwill	1,164	493	1,311
Amortisation of patents and trademarks	8	–	7
Provision against Long Term Incentive Plan	121	160	344
Profit on disposal of tangible fixed assets	–	(8)	(8)
(Increase)/decrease in stocks	(860)	111	262
Increase in debtors	(5,203)	(12,459)	(13,309)
Decrease in creditors	(7,640)	(7,070)	(2,899)
(Decrease)/increase in provisions	(222)	940	375
Other	45	45	(6)
Net cash inflow/(outflow) from operating activities	1,848	(5,181)	12,564

7. The interim statement is unaudited and does not constitute full accounts within the meaning of the Companies Act 1985. It has been prepared on a basis consistent with the 1999 statutory accounts. The 1999 full year figures have been extracted from those accounts which include an unqualified audit report and have been filed with the Registrar of Companies. A copy of this interim statement is being sent to all shareholders. Further copies may be obtained from Ultra's registered office, Bridport Road, Greenford, Middlesex, UB6 8UA.

NICHE POSITIONS

Air & Land Systems

Aircraft landing gear control computers



Sonobuoys and sonobuoy receivers for submarine detection



HiPPAG 320 on-board compressor for missile cooling



HiPPAG 540 on-board compressor for pneumatic release of munitions



Information & Sea Systems

Data distribution systems for a wide variety of naval vessels



Power rectifier systems for railways



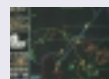
Degaussing systems for naval vessels



Command and control systems – operator’s multifunction console



Air Defense Systems Integrator – ADSI





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