2001

Ultra Electronics Holdings plc

Interim Report and Accounts **2001**

Ultra ELECTRONICS

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

The group, which employs 2,500 people in the UK and North America, focuses on high integrity sensing, control, communication and display systems with an increasing emphasis on integrated Information Technology solutions.

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

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 2001 was another period of growth for Ultra, with record levels of sales and profits being achieved.

Sales increased 7.3% to £114.9m from £107.1m in the comparable period last year. This reflected a strong performance in North America and a full six-months' contribution from Ferranti Air Systems Limited (FASL) and Datel Defence Limited (Datel) which are now fully integrated into the Group. Organic sales growth was 3.3% (2000: 2.2%).

Operating profit before amortisation increased by 10.4% to £14.9m (2000: £13.5m). The operating margin improved from 12.6% to 12.9% and this was achieved mainly as a result of improved profitability in Ultra's North American anti-submarine warfare businesses. Included in these results is a contribution from new naval contracts initially at a lower margin, reflecting Ultra's normal prudent approach to profit recognition in the early stages of long-term programmes such as these. With interest charges £0.7m higher during the period, growth in profit before tax and amortisation was 6.5%.

The Group tax rate increased from 26.4% to 27.0% before goodwill amortisation, consistent with the expected outturn for the year. This is due to higher tax liabilities in North America where prevailing tax rates are higher than in the UK. An interim dividend of 3.4p (2000: 3.2p) will be paid on 28 September 2001 to those shareholders on the register at the close of business on 31 August 2001.

Cash inflow from operations was £6.5m (2000: Nil). After interest payments, taxation and dividends etc. of £9.6m (2000: £7.6m), net debt was £59.0m (2000: £64.3m).

Markets

Defence expenditure, especially that on electronic equipment for new and upgraded platforms, continues to rise in the main markets in which Ultra operates. The emphasis is on equipping forces to be able to deploy rapidly, to be highly mobile and to be inter-operable with NATO and coalition forces. In addition, the effective management of mission-critical information flows will be enhanced through the use of battlespace IT solutions. Systems that improve the situational awareness of the tactical commander will receive special focus.

Anti-submarine warfare remains a buoyant niche market and the proliferation of quiet submarines operating in shallow coastal waters around the world will continue to drive demand.

Expenditure on specific equipment programmes is set to grow as projects, such as Eurofighter and Astute in Europe and Virginia class submarines in the US, enter full scale production.

Ultra's exposure to the civil aerospace market is mainly through Airbus, which continues to increase its order book. This should provide Ultra with a degree of insulation from the effects of softening economies, especially in the US.

Chairman’s Statement

Demand for Airport IT systems was depressed in the period, but we are now seeing signs of an increase in activity. Planning is underway for improving the IT infrastructure at medium and large airports worldwide and Ultra’s newly integrated Airport IT business is well positioned to benefit.

Operational Review

Air & Land Systems Total sales increased by £6.8m to £81.2m (2000: £74.4m). Over half of the growth was organic, with the balance reflecting a full six-months’ contribution from Datel.

The operating margin improved to 14.8% (2000: 13.7%). This improvement, coupled with the sales growth, resulted in operating profit before amortisation of £12.0m, compared with £10.2m last year.

The major part of the sales increase came from anti-submarine warfare products, especially from the North American businesses. Export successes, of both sonobuoys and associated aircraft equipment, have bolstered the strong UK, US and Canadian domestic demand. New designs of highly capable sonobuoys have successfully entered production in the US.

During the period, Ultra received a HiPPAG contract for missile cooling on the first batch of Eurofighter. This brings the average value of Ultra’s equipment on each aircraft to more than £200,000. The performance of HiPPAG on the F/A 18 E/F aircraft has been exceptional and has recently drawn special commendation from the US Navy.

Datel has developed the mission system software for the new Pilatus PC21 trainer aircraft. The system achieved a highly successful first flight in the period. Ultra also successfully completed the development of the enhanced landing gear computer for the Airbus A340-500/600 aircraft.

The level of both development and bid activity for equipment for advanced fighting vehicles has been high. Ultra has developed niche electronic control products for these applications.

Information & Sea Systems Total sales in Information and Sea Systems rose to £33.7m (2000: £32.7m). The order book rose by 8.6% in the period to close at £74m (December 2000: £68m). This increase included a number of strategically important contracts that will provide the platform for the division’s growth in the future.

Operating profit before goodwill amortisation was lower at £2.8m (2000: £3.3m) and the operating margin reduced to 8.4% (2000: 10.0%). This was mainly due to Ultra’s prudent approach to the recognition of profit during the early stages of long-term contracts such as those for the Astute class submarine.

This result was impacted by a slow start to the year at FASL, reflecting market conditions, although the outlook for this business has recently shown a significant improvement. For the first time, Ultra has been selected to supply a fully integrated airport information system for an international US airport. A number of other strategic airport system selections was achieved, including a first flight information display system for Moscow Domodedovo airport.

Ultra has been successful in winning positions on strategic naval programmes. Rolls-Royce has selected Ultra to develop an advanced new suite of control equipment for use in UK submarines. This activity combines the specialist skills of several Ultra businesses. In addition, the Group will supply DCN, the French naval shipyard, with a fully integrated navigation data distribution system for a Far Eastern client. Ultra also received its first contracts from Ericsson for the supply of advanced display consoles. Ericsson has chosen to standardise on Ultra’s ergonomic console design and has subsequently achieved further export success.

The new Rio and Tango range of ID badge printers has been successfully launched, providing improved functionality and value for money.

Among other opportunities, Ultra is continuing to pursue an important export order for its TACISYS battlespace IT equipment. Despite timing uncertainties, the Board currently anticipates concluding an agreement before the end of the current year.

Prospects

The Group’s order book stood at £316m at the end of June, an increase of 15.2% since the year-end. This reflects the Group’s strong position on existing platforms and also substantial new contract awards.

Major programmes for which Ultra has already been selected are now entering the production stage. In Air & Land Systems, Eurofighter, Ultra’s largest programme, will see a full year’s production in 2002, with activity commencing in 2001. Demand for anti-submarine warfare products is continuing at a high level in the second half, with Ultra’s share of the world sonobuoy market well in excess of 50%.

There are many exciting prospects for Information and Sea Systems. While margins on specific naval programmes will remain low until they are more mature, the investments made in new products and in marketing are showing excellent returns. This is evidenced by Ultra’s recent selection to supply equipment on several strategic naval programmes. Further, airport IT will show a significant improvement in the second half with new important contracts coming on stream, and in the area of battlespace IT systems, there are similarly significant prospects.

The Board believes that, with its strong forward order book, Ultra is well placed to achieve continuing growth in the medium term and currently expects its results for the full year to be broadly in line with market expectations.

Peter Macfarlane **Chairman**
6 August 2001

Ultra Electronics Holdings plc

Consolidated Profit & Loss Account

	Note	Six months to 30 June 2001 £000	Six months to 30 June 2000 £000	Year to 30 December 2000 £000
Turnover				
– Existing operations	2	**114,939**	107,091	226,932
Operating profit before goodwill amortisation				
– Existing operations		**14,868**	13,466	30,325
Goodwill amortisation				
– Existing operations		**(1,787)**	(1,164)	(2,973)
Operating profit		**13,081**	12,302	27,352
Net interest payable		**(2,356)**	(1,721)	(4,701)
Profit before taxation		**10,725**	10,581	22,651
Taxation	3	**(3,382)**	(3,104)	(6,650)
Profit after taxation		**7,343**	7,477	16,001
Dividends	4	**(2,229)**	(2,093)	(6,347)
Retained profit		**5,114**	5,384	9,654
Earnings per share (pence)				
After goodwill amortisation				
– Basic	5	**11.2**	11.5	24.5p
– Diluted	5	**11.2**	11.4	24.4p
Before goodwill amortisation				
– Basic	5	**13.9**	13.3	29.0p

There are no recognised gains and losses other than the profit for each period and a foreign exchange loss arising from the retranslation of net assets of £243,000 (losses of £631,000 and £680,000 for the periods to 30 June 2000 and 30 December 2000 respectively).

Consolidated Balance Sheet

	Note	At 30 June 2001 £000	At 30 June 2000 £000	At 30 December 2000 £000
Fixed assets				
Tangible assets		**15,534**	16,772	16,145
Intangible assets – patents and trademarks		**553**	521	507
Intangible assets – goodwill		**65,414**	68,230	67,191
Investments		**1,025**	526	364
		82,526	86,049	84,207
Current assets				
Stocks		**25,647**	22,021	19,235
Debtors		**56,298**	48,785	51,340
Cash at bank and in hand		**9,606**	9,193	12,823
		91,551	79,999	83,398
Creditors: Amounts falling due within one year		**(96,103)**	(89,848)	(90,168)
Net current liabilities		**(4,552)**	(9,849)	(6,770)
Total assets less current liabilities		**77,974**	76,200	77,437
Creditors: Amounts falling due after more than one year		**(37,156)**	(43,349)	(41,804)
Provisions for liabilities and charges		**(2,686)**	(4,403)	(2,646)
Net assets		**38,132**	28,448	32,987
Capital and reserves				
Called-up share capital		**3,278**	3,271	3,274
Share premium account		**24,997**	24,567	24,727
Profit and loss account	6	**9,857**	610	4,986
Shareholders' funds		**38,132**	28,448	32,987

Ultra Electronics Holdings plc

Consolidated Cash Flow Statement

	Note	**Six months to 30 June 2001**	Six months to 30 June 2000	Year to 30 December 2000
		£000	£000	£000
Net cash inflow from operating activities	7	**8,555**	1,848	19,790
Returns on investments and servicing of finance		**(2,422)**	(1,530)	(3,923)
Taxation – UK		**(2,161)**	(1,218)	(4,450)
– Overseas		**(212)**	(63)	(608)
Capital expenditure and financial investment		**(2,027)**	(1,864)	(3,312)
Acquisitions		**(60)**	(44,962)	(44,721)
Equity dividends paid		**(4,256)**	(3,920)	(6,011)
Cash outflow before use of liquid resources and financing		**(2,583)**	(51,709)	(43,235)
Financing		**(858)**	47,671	42,785
Decrease in cash in the period		**(3,441)**	(4,038)	(450)
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT				
Decrease in cash in the period		**(3,441)**	(4,038)	(450)
Cash outflow/(inflow) from increase in debt and lease financing		**1,132**	(47,417)	(42,368)
Change in net debt resulting from cash flows		**(2,309)**	**(51,455)**	(42,818)
Amortisation of finance costs of debt		**(28)**	–	(38)
Finance leases acquired with subsidiary undertakings		**–**	(41)	(41)
New finance leases		**–**	(167)	(177)
Translation difference		**(717)**	(897)	(1,116)
Movement in net funds in the period		**(3,054)**	(52,560)	(44,190)
Net debt at start of period		**(55,896)**	(11,706)	(11,706)
Net debt at end of period		**(58,950)**	(64,266)	(55,896)
ANALYSIS OF NET FUNDS				
Cash at bank and in hand		**9,606**	9,193	12,823
Debt due within one year		**(32,510)**	(31,614)	(27,127)
Debt due after one year		**(35,839)**	(41,500)	(41,322)
Finance leases		**(207)**	(345)	(270)
		(58,950)	(64,266)	(55,896)

Notes to the Interim Statement

1. Divisional analysis

	Six months to 30 June 2001	Six months to 30 June 2000	Year to 30 December 2000
	£000	£000	£000
Turnover			
Air & Land Systems	**81,210**	74,439	158,315
Information & Sea Systems	**33,729**	32,652	68,617
	114,939	107,091	226,932
Profit			
Air & Land Systems	**12,039**	10,214	22,104
Information & Sea Systems	**2,829**	3,252	8,221
	14,868	13,466	30,325
Goodwill amortisation	**(1,787)**	(1,164)	(2,973)
Operating profit	**13,081**	12,302	27,352

2. Turnover by geographical destination

	Six months to 30 June 2001	Six months to 30 June 2000	Year to 30 December 2000
	£000	£000	£000
United Kingdom	**55,011**	54,275	113,190
Continental Europe	**13,706**	10,142	23,486
North America	**41,466**	36,778	79,719
Rest of World	**4,756**	5,896	10,537
	114,939	107,091	226,932

3. Taxation

	Six months to 30 June 2001	Six months to 30 June 2000	Year to 30 December 2000
	£000	£000	£000
United Kingdom	**2,648**	2,590	5,966
Overseas	**734**	514	684
	3,382	3,104	6,650

The tax charge for the six months to 30 June 2001 has been based on an estimated effective rate, before amortisation of goodwill, for the year to 30 December 2001 of 27% (30 June 2000: 26.4%).

4. The proposed interim dividend of 3.4p per ordinary share (30 June 2000: 3.2p) will be paid on 28 September 2001 to shareholders on the register on 31 August 2001.

5. Earnings per share

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

	Six months to 30 June 2001	Six months to 30 June 2000	Year to 30 December 2000
	No. of shares	No. of shares	No. of shares
Number of shares used for basic EPS	**65,475,129**	65,210,994	65,406,291
Number of shares deemed to be issued at nil consideration following exercise of share options	**272,758**	209,299	221,037
Number of shares used for fully diluted EPS	**65,747,887**	65,420,293	65,627,328

Earnings attributable to ordinary shareholders:

	Six months to 30 June 2001	Six months to 30 June 2000	Year to 30 December 2000
	£000	£000	£000
After goodwill amortisation	**7,343**	7,477	16,001
Before goodwill amortisation	**9,130**	8,641	18,974

6. 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, reflecting the Directors' assessment of its likely future value to the Group. This reserve, amounting to £33,294,000 at both 30 June 2001 and 30 December 2000 and £33,476,000 at 30 June 2000, has since been offset against the profit and loss account.

7. Cash flow information

Reconciliation of operating profit to operating cash flow

	Six months to 30 June 2001	Six months to 30 June 2000	Year to 30 December 2000
	£000	£000	£000
Operating profit	**13,081**	12,302	27,352
Depreciation and amounts written off tangible fixed assets	**2,027**	2,133	4,329
Amortisation of goodwill	**1,787**	1,164	2,973
Amortisation of patents and trademarks	**14**	8	23
Provision against Long Term Incentive Plan	**141**	121	280
Loss on disposal of tangible fixed assets	**31**	–	10
(Increase)/decrease in stocks	**(6,072)**	(860)	2,192
Increase in debtors	**(4,503)**	(5,203)	(7,822)
Increase/(decrease) in creditors	**1,984**	(7,640)	(7,758)
Increase/(decrease) in provisions	**34**	(222)	(1,982)
Other	**31**	45	193
Net cash inflow from operating activities	**8,555**	1,848	19,790

8. 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 2000 statutory accounts. The 2000 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.

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