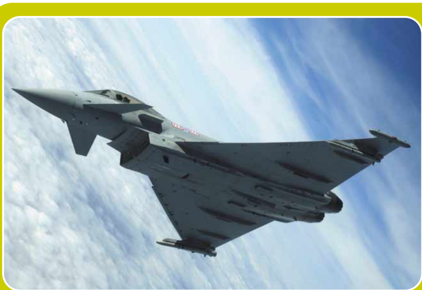
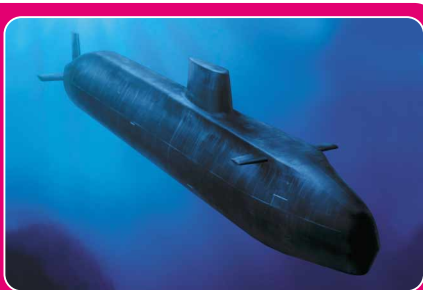
Ultra Electronics Holdings plc Interim Report and Accounts 2007

innovative
solutions



winning
performance

consistent
delivery



Ultra
ELECTRONICS

Ultra at a Glance

Ultra Electronics is a defence and aerospace company specialising in the design, manufacture and support of electronic and electro-mechanical systems, sub-systems, products and services for aircraft, ships, submarines, armoured vehicles, surveillance and communication systems, airports and transport systems.

It is organised into three divisions:

Aircraft & Vehicle Systems

Major activities
Airframe ice protection systems; Active noise and vibration control; Airframe system electronics; High-integrity data bus network nodes; Armoured vehicle electronic systems; Collaborative working environment solutions; 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; Combat mission control equipment; Rugged aircraft harness systems

Businesses
Controls■
Datel■
Electrics■
Measurement Systems Inc.▲
Precision Air Systems■

Number of employees
670

Major customers
BAE Systems
Boeing
Bombardier
Cobham
EADS
Finmeccanica
General Dynamics
UK MoD
United Technologies
US DoD

Information & Power Systems

Major activities
Airport information management systems; Airport-wide systems integration; Combat systems; Land mine countermeasure 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

Businesses
Advanced Tactical Systems▲
Airport Systems■
Command & Control Systems■
EMS▲
Manufacturing & Card Systems■
PMES■
SML Technologies■

Number of employees
1,110

Major customers
BAA
BAE Systems
British Energy
BP
EADS
General Dynamics
Lockheed Martin
Rolls-Royce
UK MoD
US DoD

Tactical & Sonar Systems

Major activities
Anti-submarine warfare systems and equipment; Communications network interfacing equipment; Cryptographic equipment; Data link communication systems; Secure and non-secure video conferencing solutions; Airborne targeting pods; Loitering munition systems; Radio communication systems; Submarine tactical communication systems; Voice and data communication systems; Airborne anti-submarine warfare systems; Autonomous underwater surveillance systems; Sea mine disposal systems; Sonar systems; Torpedo defence systems; Underwater acoustic countermeasures

Businesses
Audiopack▲
Criticom▲
DNE Technologies▲
Flightline Systems▲
Maritime Systems▲
Ocean Systems▲
Sonar & Communication Systems■
Tactical Communication Systems▲
Undersea Sensor Systems Inc▲

Number of employees
1,200

Major customers
Australian DoD
Avon
BAE Systems
Boeing
Canadian DND
Cubic
Korean DoD
Scott
UK MoD
US DoD

▲ Businesses in North America
■ Businesses in the United Kingdom

Financial Results

	Six months ended 30 June 2007	Six months ended 30 June 2006	Growth
	£m	£m	
Order book			
Aircraft & Vehicle Systems	**173.6**	150.6	+15.3%
Information & Power Systems	**108.2**	115.6	-6.4%
Tactical & Sonar Systems	**293.0**	287.4	+1.9%
Total order book	**574.8**	553.6	**+3.8%**
Revenue			
Aircraft & Vehicle Systems	**49.5**	45.6	+8.6%
Information & Power Systems	**61.6**	60.1	+2.5%
Tactical & Sonar Systems	**81.8**	75.0	+9.1%
Total revenue	**192.9**	180.7	**+6.8%**
Organic growth			**+6.2%**
Operating profit*			
Aircraft & Vehicle Systems	**7.7**	6.9	+11.6%
Information & Power Systems	**9.1**	9.1	0%
Tactical & Sonar Systems	**10.2**	9.3	+9.7%
Total operating profit*	**27.0**	25.3	+6.7%
Interest	**(0.8)**	(1.5)	-46.7%
Headline profit before tax*	**26.2**	23.8	+10.1%
Operating margin*			
Aircraft & Vehicle Systems	**15.6%**	15.1%	
Information & Power Systems	**14.8%**	15.1%	
Tactical & Sonar Systems	**12.5%**	12.4%	
Total operating margin*	**14.0%**	14.0%	
Operating cash flow*	**16.5**	18.4	
Cash conversion*	**61%**	73%	
Net debt* at period-end	**5.9**	31.0	
Bank interest cover	**34.4x**	17.1x	
Earnings per share*	**28.2p**	25.5p	+10.6%

*footnote
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.

Chairman's Statement

The Group's broad portfolio and spread of niche market positions underpinned Ultra's performance in the first six months of 2007. In robust market conditions and despite strong currency headwinds, Ultra achieved a solid trading performance. Revenue and profit improved in the period compared with the previous half-year and this growth was largely organic, with a small contribution from Winfrith Safety Systems, acquired in July 2006. Although Ultra continued a high level of investment for future growth, operating margins were maintained, reflecting the Group's continuing focus on achieving operational efficiencies whilst delivering to customers the high quality of goods and services that they demand. At the end of June, the order book had improved 4% over the same time last year to £575m, despite an adverse currency effect of £14m, and it continues to give Ultra good visibility of earnings.

Revenue was 6.8% higher at £192.9m (2006: £180.7m)
- of this revenue growth, 6.2% was organic
- at constant exchange rates, revenue growth was 10.3%

Operating profit* increased 6.7% to £27.0m (2006: £25.3m)
- operating margin* maintained at 14.0%
- at constant exchange rates, operating profit growth was 12.8%

Operating cash conversion* was 61%. This reflected Ultra's very strong cash generation in the final quarter of 2006. The Group continues to invest cash in the Boeing 787 and Airbus A400M aircraft programmes. Whilst these investments to drive future growth will continue, the Group's current expectation is for a stronger cash performance for the full year.

The impact on profit of IAS 39 and the amortisation of intangibles arising on acquisition was a reduction of £0.4m in the half compared to a gain of £2.9m in the same period in 2006. The unpredictable volatility associated with the IAS 39 gain or loss underscores Ultra's choice of 'headline profit before tax' as its preferred measure of the Group's true trading performance.

In the period Ultra incurred the costs of implementing a process of refinancing its UK and North American businesses. One impact of this is a small reduction in the Group's effective tax rate.

Foreign exchange rate movements continued to affect Ultra's financial performance adversely, with currency translation having the most significant impact during the period. About 40% of Ultra's revenues are generated by its businesses in the USA and Canada and both these currencies weakened on average by close to 10% compared to the rates that applied during the first half of 2006. Consequently consolidated revenue would have been 4% higher if translated at constant rates and operating profit* would have been more than 3% higher. With regard to transaction effects, Ultra's policy of hedging forward its foreign currency exposure remains beneficial – a forward cover of 18-24 months is typical for US dollar denominated sales in the UK and Canada. However, the hedged rates also weakened during the period, with an overall adverse impact on operating profit* of £0.7m. Hence operating profit* would have been £1.5m higher in total giving a growth rate of 13% at constant exchange rates.

Net debt* at the end of the period was £5.9m compared to £7.2m at the end of 2006. The Group's balance sheet remains strong, with net interest payable on borrowings covered approximately 34 times by operating profit*.

An interim dividend of 6.7p (2006: 5.9p) will be paid on 28 September 2007 to those shareholders on the register at the close of business on 24 August 2007. This represents a 13.6% increase in the interim dividend, higher than the increase in earnings per share.

Operational Review

Aircraft & Vehicle Systems

Revenue in Aircraft & Vehicle Systems increased by 8.6% to £49.5m compared to £45.6m for the same period last year and operating profit* increased 11.6% to £7.7m (2006: £6.9m). The division's order book at the end of the period was £173.6m (2006: £150.6m).

Revenue growth continued to be driven by the buoyant civil aerospace market and by customer-funded development programmes. In addition to sales of equipment for new aircraft, the division benefited from a continuing strong aftermarket. There was also demand for systems and equipment that help improve the mobility and survivability of armoured vehicles being used in current operations.

*see footnote on page 01

In spite of adverse currency effects and the investments in new aircraft development programmes, operating profit* growth for the division reflected the benefits of cost reduction programmes implemented in 2006 and increased levels of activity.

Highlights in the performance of this division included:

- the successful completion of a challenging set of tests for Ultra's wing ice protection system for the new Boeing 787 aircraft. These tests were carried out in Boeing's specialist wind tunnel and witnessed by the certifying authorities. Their completion is a major early milestone in the qualification process for the system.
- strong customer demand for Ultra's innovative human-machine interface devices for use on weapon stations that are being retrofitted onto existing US Army vehicles to provide an enhanced self-protection capability. Ultra's controllers emulate those used on game stations so their use is highly intuitive for young soldiers.
- continuing deliveries of vision systems for the British Army's new Mastiff armoured vehicle that entered service in Afghanistan and Iraq at the start of the year in response to an urgent operational requirement. Ultra's equipment allows improved usage of the vehicles in day and night operations.

Information & Power Systems

Revenue in Information & Power Systems grew 2.5% to £61.6m compared to £60.1m for the same period last year. Operating profit* was £9.1m (2006: £9.1m). The order book at the end of the period was £108.2m (2006: £115.6m) reflecting the relative growth of those businesses in the division that have shorter order books.

Revenue, which included a contribution from Winfrith Safety Systems, acquired last year, continued to benefit from strong growth in airport IT systems and increased demand for a range of command & control systems. Growth was reduced by the anticipated slowdown of sales of higher margin ADSI systems to a more normal level.

Operating profit* grew in line with the revenues of the division with higher profit growth in most businesses being reduced by the lower level of higher-margin ADSI system sales. The Group's continuing focus on cost control augmented the operational performance of several businesses as did the increased volume of funded development activity across a broad range of programmes.

Highlights of Information & Power Systems performance included:

- increased development activity for Rolls-Royce on a replacement high integrity control system for naval nuclear reactors.
- selection by VT Shipbuilding to supply an integrated combat and surveillance system for three offshore patrol vessels for the Trinidad & Tobago government. This is the first contract for a modular system that has been optimised for patrol vessels used to counter terrorism, smuggling and piracy and to police economic exclusion zones.
- continued growth of airport IT systems, with high levels of activity at London's Heathrow Terminal 5 as it approaches handover to its operators later this year, together with sales of Ultra's new common use passenger check-in systems at a number of UK regional airports.

Tactical & Sonar Systems

Revenue in Tactical & Sonar Systems increased by 9.1% to £81.8m (2006: £75.1m) and operating profit* rose 9.7% to £10.2m (2006: £9.3m). The closing order book of £293.0m (2006: £287.4m) reflected strong demand from the US Army for tactical radio systems.

The acquisition of Criticom for up to $33m was announced in the period and completed in July 2007. Criticom will operate as a business within the Tactical & Sonar Systems division. It designs, supplies and supports custom, secure and non-secure video conferencing solutions. It has strong synergies with Ultra's existing tactical and data link businesses and strengthens the Group's positions in these markets.

Revenue growth was driven by further sales of airborne targeting pods for UK Tornado aircraft and strong demand for battlespace IT products, notably network interfacing equipment for the US Marines. In both instances, the urgency of the customer demand was driven by the need to improve the capability of armed forces in current operations.

Operating profit* growth benefited from an increase in sales of battlespace IT equipment and a strong performance by the business supplying Boeing and other aircraft makers with cockpit instrumentation.

*see footnote on page 01

Highlights of this division's performance included:

- initial sales of mine disposal systems for the Royal Navy's Hunt and Sandown classes of minehunters. These new systems increase the rate at which mines can be cleared and so help enhance the speed of advance of the main naval fleet in mined waters.
- completion and qualification of a new version of Ultra's high capacity line-of-sight tactical radio used widely by the US Army and Marine Corps. The new version provides greater capacity to support the need to transmit ever increasing amounts of data.
- the Group's selection to provide an integrated command and control system for Halifax Port, Canada. The system will provide appropriate levels of information and secure access to users such as port police, port operations staff, first responders, harbour pilots and other approved agencies.

Prospects

Ultra has an exceptionally broad range of activities in international market niches. The Group operates at all levels in the supply chain, selling to governments and to most major defence and aerospace prime contractors. Ultra has positions on a large number of platforms and programmes – no single programme represents more than 5% of the Group's sales in any one year. This multiplicity provides resilience to the Group's performance.

Ultra continues to develop its portfolio of businesses and niche activities to position the Group to meet future customer requirements. Through the constant pursuit of product and process innovation, together with a flexible approach to working with its customers, Ultra constantly expands its range of differentiated products, services and solutions.

In defence markets, budgets continue to be focused on the provision of smart systems that will enhance the rapid identification of targets, precision attack, mobility, communications and the interoperability of forces. There is strong demand for new systems as well as upgrades to existing platforms to provide this smarter capability. Ultra's internal innovation combined with its proven track record of teaming to access technologies enables the Group to deliver best-of-breed system solutions. Ultra's strategies and positioning ensure that the Group will continue to benefit from a broad range of market opportunities.

In the civil aerospace market trading conditions overall remain strong with high demand for new, fuel-efficient aircraft. As the demand for air travel increases globally, so does the need for airport infrastructure investment, both at new and existing airports. Ultra is well positioned to benefit from this demand.

The order book, valued at over £575m, continues to provide Ultra with a high level of earnings visibility and provides the Group with its customary level of firm order cover for the next twelve months. Ultra remains committed to maintaining a high level of investment to drive future growth. This investment is both internal in programmes which have solid prospects, and external in acquisitions which have a proven track record and which can be acquired at value-enhancing prices.

In summary, Ultra's strong positioning, broad spread of activities, investments in growth markets and track record for delivery and service continue to give the Board confidence in the Group's prospects for the second half of 2007.

Dr. Julian Blogh, Chairman
30 July 2007

Consolidated Income Statement

	Note	**Six months to 30 June 2007**	Six months to 30 June 2006	Year to 31 December 2006
	Note	**£000**	£000	£000
Continuing operations				
Revenue	*2*	**192,868**	180,715	377,040
Cost of sales		**(143,853)**	(132,603)	(274,466)
Gross profit		**49,015**	48,112	102,574
Other operating income		**1,694**	761	1,505
Distribution costs		**(345)**	(321)	(810)
Administrative expenses		**(24,676)**	(23,839)	(48,569)
Other operating expenses		**(202)**	(1,132)	(753)
Profit from operations	*2*	**25,486**	23,581	53,947
Headline operating profit	*3*	**26,991**	25,253	57,509
Amortisation of intangibles arising on acquisition		**(1,505)**	(1,672)	(3,562)
Profit from operations		**25,486**	23,581	53,947
Investment revenue	*4*	**1,470**	4,915	4,939
Finance costs	*5*	**(1,146)**	(1,849)	(3,874)
Profit before tax		**25,810**	26,647	55,012
Headline profit before tax	*3*	**26,243**	23,778	54,915
Amortisation of intangibles arising on acquisition		**(1,505)**	(1,672)	(3,562)
Profit on fair value movements on derivatives		**1,072**	4,541	3,659
Profit before tax		**25,810**	26,647	55,012
Tax on profit on ordinary activities	*6*	**(6,969)**	(7,461)	(15,404)
Profit for the period from continuing operations attributable to equity holders of the parent		**18,841**	19,186	39,608
Earnings per share (pence)				
From continuing operations				
– Basic	*8*	**27.8**	28.5	58.8
– Diluted	*8*	**27.6**	28.3	58.3

Consolidated Balance Sheet

	Note	**At 30 June 2007 £000**	At 30 June 2006 £000	At 31 December 2006 £000
Non-current assets				
Intangible assets		**149,458**	150,726	149,758
Property, plant and equipment		**22,138**	21,346	20,814
Deferred tax assets		**10,499**	17,120	11,223
		182,095	189,192	181,795
Current assets				
Inventories		**38,015**	26,800	29,198
Trade and other receivables	*10*	**82,584**	72,682	83,599
Cash and cash equivalents		**33,850**	27,604	25,628
		154,449	127,086	138,425
Total assets	*2*	**336,544**	316,278	320,220
Current liabilities				
Trade and other payables	*11*	**(101,003)**	(88,768)	(110,235)
Tax liabilities		**(7,052)**	(9,854)	(7,387)
Obligations under finance leases		**(23)**	(29)	(22)
Short-term provisions		**(7,540)**	(5,482)	(10,459)
		(115,618)	(104,133)	(128,103)
Non-current liabilities				
Retirement benefit obligations		**(35,837)**	(46,113)	(35,143)
Other payables	*11*	**(9,067)**	(1,765)	(1,158)
Deferred tax liabilities		**(2,680)**	(1,280)	(2,830)
Obligations under finance leases		**(39)**	(57)	(48)
Bank overdrafts and loans		**(39,735)**	(58,517)	(32,722)
Long-term provisions		**(6,013)**	(7,838)	(2,825)
		(93,371)	(115,570)	(74,726)
Total liabilities	*2*	**(208,989)**	(219,703)	(202,829)
Net assets		**127,555**	96,575	117,391
Equity				
Share capital	*9*	**3,386**	3,373	3,378
Share premium account		**34,102**	32,712	33,180
Own shares		**(1,972)**	(2,692)	(2,692)
Hedging and translation reserves		**(6,657)**	(3,487)	(4,837)
Retained earnings		**98,696**	66,669	88,362
Total equity attributable to equity holders of the parent		**127,555**	96,575	117,391

Consolidated Cash Flow Statement

	Note	**Six months to 30 June 2007**	Six months to 30 June 2006	Year to 31 December 2006
		£000	£000	£000
Net cash inflow from operating activities	*12*	**15,687**	15,961	49,550
Investing activities				
Interest received		**361**	523	1,216
Purchase of property, plant and equipment		**(3,924)**	(2,726)	(4,759)
Proceeds on disposal of property, plant and equipment		**4**	13	34
Expenditure on product development and other intangibles		**(3,078)**	(1,684)	(4,676)
Acquisition of subsidiary undertakings (net of cash acquired)		**-**	(4,443)	(7,799)
Net cash used in investing activities		**(6,637)**	(8,317)	(15,984)
Financing activities				
Issue of share capital		**930**	1,045	1,518
Purchase of Long-Term Incentive Plan shares		**-**	(513)	(513)
Dividends paid		**(8,463)**	(7,150)	(11,102)
Increase/(repayments) of borrowings		**6,445**	(13,167)	(36,315)
Repayments of obligations under finance leases		**(8)**	(17)	(33)
Net cash used in financing activities		**(1,096)**	(19,802)	(46,445)
Net increase/(decrease) in cash and cash equivalents		**7,954**	(12,158)	(12,879)
Cash and cash equivalents at beginning of period		**25,628**	40,193	40,193
Effect of foreign exchange rate changes		**268**	(431)	(1,686)
Cash and cash equivalents at end of period		**33,850**	27,604	25,628

Consolidated Statement of Recognised Income & Expense

	Six months to 30 June 2007	Six months to 30 June 2006	Year to 31 December 2006
	£000	£000	£000
Exchange differences on translation of foreign operations	**(1,820)**	(2,497)	(3,847)
Actuarial gains on defined benefit pension schemes	**-**	-	7,827
Tax on items taken directly to equity	**-**	-	(1,923)
Gain on cash flow hedge	**173**	763	226
Net (expense)/income recognised directly in equity	**(1,647)**	(1,734)	2,283
Transfer to profit and loss on cash flow hedge	**(31)**	-	(28)
Profit for the period	**18,841**	19,186	39,608
Total recognised income and expense for the period attributable to equity holders of the parent	**17,163**	17,452	41,863

Notes to the Interim Statement

1. General information

The financial information contained in this statement does not constitute statutory accounts, as defined in section 240 of the Companies Act 1985, and has not been audited or reviewed. The unaudited accounts for the half years ended 30th June 2007 and 30th June 2006 have been prepared using accounting policies that are consistent with those used in the statutory accounts for the year ended 31 December 2006. 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.

2. Segment information

	Six months to 30 June 2007	Six months to 30 June 2006	Year to 31 December 2006
	£000	£000	£000
External revenue			
Aircraft & Vehicle Systems	**49,493**	45,583	93,907
Information & Power Systems	**61,600**	60,067	120,517
Tactical & Sonar Systems	**81,775**	75,065	162,616
	192,868	180,715	377,040
Profit from operations			
Aircraft & Vehicle Systems	**7,682**	6,867	13,190
Information & Power Systems	**9,107**	9,074	19,333
Tactical & Sonar Systems	**10,202**	9,312	24,986
	26,991	25,253	57,509
Amortisation of intangibles arising on acquisition	**(1,505)**	(1,672)	(3,562)
Profit from operations	**25,486**	23,581	53,947
Investment revenue	**1,470**	4,915	4,939
Finance costs	**(1,146)**	(1,849)	(3,874)
Profit before tax	**25,810**	26,647	55,012

	At 30 June 2007	At 30 June 2006	At 31 December 2006
	£000	£000	£000
Total assets by division			
Aircraft & Vehicle Systems	**84,242**	76,750	80,857
Information & Power Systems	**71,139**	62,356	68,656
Tactical & Sonar Systems	**131,161**	128,316	129,684
	286,542	267,422	279,197
Unallocated	**50,002**	48,856	41,023
Total assets	**336,544**	316,278	320,220

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

2. Segment information (continued)

	At 30 June 2007	At 30 June 2006	At 31 December 2006
	£000	£000	£000
Total liabilities by division			
Aircraft & Vehicle Systems	**(34,563)**	(27,645)	(36,032)
Information & Power Systems	**(37,535)**	(38,596)	(40,296)
Tactical & Sonar Systems	**(49,693)**	(37,557)	(46,792)
	(121,791)	(103,798)	(123,120)
Unallocated	**(87,198)**	(115,905)	(79,709)
Total liabilities	**(208,989)**	(219,703)	(202,829)

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

	Six months to 30 June 2007	Six months to 30 June 2006	Year to 31 December 2006
	£000	£000	£000
Revenue by geographical destination			
United Kingdom	**82,537**	70,782	150,645
Mainland Europe	**17,390**	15,405	35,700
North America	**78,360**	79,849	160,528
Rest of World	**14,581**	14,679	30,167
	192,868	180,715	377,040

3. Additional performance measures

To present the underlying profitability of the Group on a consistent basis year on year, additional performance indicators have been used. These are calculated as follows:

	Six months to 30 June 2007	Six months to 30 June 2006	Year to 31 December 2006
	£000	£000	£000
Profit from operations	**25,486**	23,581	53,947
Amortisation of intangibles arising on acquisition	**1,505**	1,672	3,562
Headline operating profit[(a)]	**26,991**	25,253	57,509
Profit before tax	**25,810**	26,647	55,012
Profit on fair value movements on derivatives	**(1,072)**	(4,541)	(3,659)
Amortisation of intangibles arising on acquisition	**1,505**	1,672	3,562
Headline profit before tax[(b)]	**26,243**	23,778	54,915
Cash generated by operations *(see note 12)*	**23,507**	23,328	66,414
Purchase of property, plant and equipment	**(3,924)**	(2,726)	(4,759)
Proceeds on disposal of property, plant and equipment	**4**	13	34
Expenditure on product development and other intangibles	**(3,078)**	(1,684)	(4,676)
Purchase of Long-Term Incentive Plan shares	**-**	(513)	(513)
Headline operating cash flow[(c)]	**16,509**	18,418	56,500

Headline operating profit at [(a)] above has been shown before the amortisation of intangible assets arising on acquisitions, which relates to acquired intellectual property, customer relationships and profit in 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 as shown at [(b)] in the above table and adjusted earnings per share *(see note 8)* are also presented before the amortisation of intangible assets arising on acquisition.

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 ([(b)] in the above table) and adjusted earnings per share *(see note 8)* before changes in the valuation of these instruments so that the underlying operating performance of the Group can be seen more clearly.

The Group is cash generative and reinvests funds to support the continuing growth of the business. It seeks to use an accurate and appropriate measure of the funds generated internally while sustaining this growth. For this, Ultra uses headline operating cash flow [(c)] 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.

4. Investment revenue

	Six months to 30 June 2007	Six months to 30 June 2006	Year to 31 December 2006
	£000	£000	£000
Bank interest	**361**	374	1,216
Fair value movement on derivatives	**1,072**	4,541	3,659
Retirement benefit scheme finance income	**37**	-	64
	1,470	4,915	4,939

5. Finance costs

	Six months to 30 June 2007	Six months to 30 June 2006	Year to 31 December 2006
	£000	£000	£000
Amortisation of finance costs of debt	**42**	31	65
Interest payable on bank loans and overdrafts	**1,134**	1,816	3,835
Interest payable on finance leases	**1**	2	2
Transfers from equity on cash flow hedges	**(31)**	-	(28)
Total borrowing costs	**1,146**	1,849	3,874

6. Tax on profit on ordinary activities

	Six months to 30 June 2007	Six months to 30 June 2006	Year to 31 December 2006
	£000	£000	£000
Current tax			
United Kingdom	**4,098**	4,474	7,812
Overseas	**2,208**	3,239	5,190
	6,306	7,713	13,002
Deferred tax			
United Kingdom	**21**	(378)	1,118
Overseas	**642**	126	1,284
	663	(252)	2,402
Total	**6,969**	7,461	15,404

7. Ordinary dividends

	Six months to 30 June 2007	Six months to 30 June 2006
	£000	£000
Final dividend for the year ended 31 December 2006 of 12.6p (2005: 10.7p) per share	**8,463**	7,150
Proposed interim dividend for the year ended 31 December 2007 of 6.7p (2006: 5.9p) per share	**4,514**	3,980

The proposed interim dividend was approved by the Board after 30 June 2007 and has not been included as a liability as at 30 June 2007.

8. Earnings per share (pence)

	Six months to 30 June 2007	Six months to 30 June 2006	Year to 31 December 2006
From continuing operations			
Basic adjusted *(see below)*	**28.2**	25.5	58.4
Diluted adjusted *(see below)*	**28.0**	25.2	57.9
Basic	**27.8**	28.5	58.8
Diluted	**27.6**	28.3	58.3

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

	Six months to 30 June 2007	Six months to 30 June 2006	Year to 31 December 2006
	£000	£000	£000
Earnings			
Earnings for the purposes of earnings per share being profit for the period from continuing operations	**18,841**	19,186	39,608
Adjusted earnings			
Profit for the period from continuing operations	**18,841**	19,186	39,608
Profit on fair value movements on derivatives (net of tax)	**(750)**	(3,270)	(2,616)
Amortisation of intangibles arising on acquisition (net of tax)	**986**	1,204	2,349
Earnings for the purposes of adjusted earnings per share	**19,077**	17,120	39,341

The weighted average number of shares is given below:

	Six months to 30 June 2007	Six months to 30 June 2006	Year to 31 December 2006
Number of shares used for basic EPS	**67,685,429**	67,246,726	67,421,160
Number of shares deemed to be issued at nil consideration following exercise of share options	**481,058**	567,845	529,555
Number of shares used for fully diluted EPS	**68,166,487**	67,814,571	67,950,715

9. Share capital

171,613 shares, with a nominal value of £8,581, have been allotted in the first six months of 2007 under the terms of the Group's various share option schemes. The aggregate consideration received by the Company was £930,502.

10. Trade and other receivables

	At 30 June 2007	At 30 June 2006	At 31 December 2006
	£000	£000	£000
Trade receivables	**43,586**	45,874	52,783
Provisions against receivables	**(797)**	(686)	(640)
Net trade receivables	**42,789**	45,188	52,143
Amounts due from contract customers	**28,642**	20,367	23,072
Derivatives at fair value	**5,653**	4,132	4,172
Other receivables	**5,500**	2,995	4,212
	82,584	72,682	83,599

11. Trade and other payables

	At 30 June 2007	At 30 June 2006	At 31 December 2006
	£000	£000	£000
Amounts included in current liabilities:			
Trade payables	**44,346**	29,848	37,868
Amounts due to contract customers	**24,596**	28,826	29,176
Derivatives at fair value	**1,894**	141	1,627
Other payables	**30,167**	29,953	41,564
	101,003	88,768	110,235

	At 30 June 2007	At 30 June 2006	At 31 December 2006
	£000	£000	£000
Amounts included in non current liabilities:			
Other payables	**9,067**	1,765	1,158
	9,067	1,765	1,158

12. Cash flow information

	Six months to 30 June 2007	Six months to 30 June 2006	Year to 31 December 2006
	£000	£000	£000
Profit from operations	**25,486**	23,581	53,947
Adjustments for:			
Depreciation of property, plant and equipment	**2,631**	3,249	5,530
Amortisation of intangible assets	**2,338**	1,942	6,258
Cost of equity settled employee share schemes	**537**	685	648
Increase/(decrease) in post-employment benefit obligation	**731**	200	(259)
Loss on disposal of property, plant and equipment	**15**	-	21
Increase/(decrease) in provisions	**161**	(231)	2,553
Operating cash flows before movements in working capital	**31,899**	29,426	68,698
Increase in inventories	**(8,764)**	(1,620)	(3,419)
Decrease/(increase) in receivables	**2,543**	4,435	(6,929)
(Decrease)/increase in payables	**(2,171)**	(8,913)	8,064
Cash generated by operations	**23,507**	23,328	66,414
Income taxes paid	**(6,710)**	(5,540)	(13,032)
Interest paid	**(1,110)**	(1,827)	(3,832)
Net cash inflow from operating activities	**15,687**	15,961	49,550

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

	Six months to 30 June 2007	Six months to 30 June 2006	Year to 31 December 2006
	£000	£000	£000
Net increase/(decrease) in cash and cash equivalents	**7,954**	(12,158)	(12,879)
Cash (inflow)/outflow from (increase)/decrease in debt and finance leasing	**(6,437)**	13,184	36,348
Change in net debt arising from cash flows	**1,517**	1,026	23,469
Amortisation of finance costs of debt	**(36)**	(31)	(65)
Translation differences	**(264)**	2,283	3,709
Movement in net debt in the period	**1,217**	3,278	27,113
Net debt at start of period	**(7,164)**	(34,277)	(34,277)
Net debt at end of period	**(5,947)**	(30,999)	(7,164)

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