For Immediate Release 10 March 2020

Ultra Electronics Holdings plc
("Ultra" or "the Group")
Preliminary Results for the year to 31 December 2019

Building momentum

£m	**Year to 31 Dec 19**	Year to 31 Dec 18	Change % Reported	Change % Organic[2]
Order book	**1,022.9**	983.9	+4.0	+10.7
Revenue	**825.4**	766.7	+7.7	+6.8
Underlying[1]				
Operating profit	**118.2**	112.7	+4.9	+2.9
Profit before tax	**105.3**	101.4	+3.8	
EPS (p)	**119.5**	109.5	+9.1	
Statutory				
Operating profit	**94.2**	65.3	+44.3	
Profit before tax	**91.0**	42.6	+113.6	
EPS (p)	**105.1**	43.6	+141.1	
Total dividend per share (p)	**54.2**	51.6	+5.0	
Net debt to EBITDA[3]	**1.58x**	2.00x		
ROIC[7]	**17.8%**	16.2%		

- **Return to growth**
  - Robust revenue growth
  - Profit, earnings and ROIC progression
  - Average working capital turn[9] improved by 12%, despite working capital normalisation
- **Transformation underway**
  - ONE Ultra strategy clarified, cultural change started
  - Good Focus; Fix; Grow transformation progress
  - Technology and infrastructure investment accelerating
- **Positive medium-term outlook**
  - Good momentum
  - Healthy order book, up 10.7% organically[2], strong order cover of 71% (2019: 66%)
  - Significant opportunities to drive enhanced growth and improve efficiency over time

Simon Pryce, Chief Executive, commented:
"2019 was a busy year for Ultra, and one in which we made great progress. We defined our ONE Ultra strategy and started our Focus; Fix; Grow transformation journey, made good progress on a number of our change initiatives and continued to identify longer term opportunities for enhanced growth and improved efficiency. At the same time, we delivered a good set of outcomes for our stakeholders.

We enter 2020 with an enhanced, engaged and motivated team and a strong order book. In addition to focussing on improved delivery, we will be accelerating investment in internal R&D and underlying IT infrastructure as well as process standardisation and excellence.

We remain excited about the significant opportunity within Ultra to accelerate growth, improve delivery and generate exceptional value for all our stakeholders over time. We are increasingly confident in our ability to deliver it. "

Webcast
Ultra will host a presentation to analysts on 10 March 2020 at 9.30am at Investec, 30 Gresham Street, EC2V 7QP.

An audio webcast will be broadcast live via the following link http://bit.ly/ULEfy19 A listen-only conference call will also be available on +44 20 3713 5011; access code 668-085-669.

If you would like to ask a question but cannot attend in person please email your question to investor.relations@ultra-electronics.com before 9.30am and it will be read out on your behalf. An archive version of the presentation will be accessible on Ultra's website later today.

Notes:

(1) Underlying profit, cash flow and earnings per share (EPS) are used to measure the trading performance of the Group as set out in notes 2 and 8. Underlying operating margin is the underlying operating profit as a percentage of revenue. Operating cash conversion is underlying operating cash flow as a percentage of underlying operating profit.

(2) Organic movements are the change in revenue, profit and order book at constant currencies when compared to the prior year results as adjusted for any acquisitions or disposals to reflect the comparable period of ownership, and as if IFRS 16 had applied in the prior period. See note 2.

(3) Net debt to EBITDA: EBITDA is the underlying operating profit for the year, before depreciation charges and before amortisation arising on non-acquired intangible assets, and adjusted to remove the EBITDA generated by businesses up to the date of their disposal in the period. Net debt in this metric comprises borrowings including pension liabilities and IFRS 16 lease liabilities, less cash and cash equivalents. On a covenant basis, net debt to EBITDA, when excluding pension liabilities and IFRS 16 lease liabilities, is 0.85x.

(4) Underlying tax is the tax charge on underlying profit before tax. The underlying tax rate is underlying tax expressed as a percentage of underlying profit before tax.

(5) Net finance charges exclude fair value movements on derivatives and, prior to 31 December 2018, excluded defined benefit pension finance charges.

(6) Bank interest cover is the ratio of underlying operating profit to finance charges associated with borrowings (excluding IFRS 16 liabilities).

(7) ROIC is calculated as underlying operating profit expressed as a percentage of invested capital (average of opening and closing balance sheets). Invested capital is defined as net assets of the Group, excluding net debt and lease liability, pension obligations, tax and derivatives. See note 2.

(8) 'Five-Eyes' nations include Australia, Canada, New Zealand, UK & USA

(9) Average Working Capital Turn is the ratio of the 12 month average month-end working capital (defined as the total of inventory, receivables and payables excluding IFRS 16 lease liabilities) to gross revenue, calculated at constant FX rates.

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About Ultra:
Ultra specialises in providing application-engineered tailored solutions. We focus on our customers' mission critical and intelligent systems in the defence, security, critical detection & control markets.
www.ultra.group

STRATEGIC REVIEW

Financial summary

2019 was a successful year with a significant number of new contract wins and opportunities including, as previously announced; a $1bn sonobuoy IDIQ for ERAPSCO (our 50:50 joint venture), a $500m IDIQ for our ORION Radios, a leading role in the Canadian Surface Combatant worth potentially in excess of $500m for Ultra and the US Next Generation Surface Search Radar development programme.

Our order book grew by 10.7% organically, building on the 5.2% growth we saw in 2018. This reflects continued strong markets, particularly in North America, and continued customer demand for our technologies and capabilities that are core to addressing areas of perceived threat. We entered 2020 with a very high level of order cover at 71% (2019: 66%), which provides us with good visibility for the coming year.

We delivered our second consecutive year of organic revenue growth. Overall Group revenue was up 6.8% on an organic basis, with all three of our business units showing good progress. Aerospace & Infrastructure had a particularly strong year, driven by sales in our high pressure pure air generating (HiPPAG) units for the F-35.

2019 also marked our return to organic profit growth, which was up 2.9% organically and up 44.3% on a statutory basis. The statutory operating profit growth reflected reducing amortisation costs, the completion of the S3 programme in 2018 and the non-recurrence of 2018 impairment charges. As expected, our underlying operating margin[(1)] was lower than last year at 14.3% (2018: 14.7%). This was predominantly due to investment in our transformation programmes (including IT and R&D), increased long term incentive accrual and the lack of the £2.9m gain on forex exposure recognised in 2018, which (as previously announced) is now hedged. Operating margins were also negatively impacted in our Maritime business unit where, following enhanced operational oversight and a more rigorous programme review process we have recognised contract losses of £8.8m during the year.

Underlying earnings per share increased 9.1% to 119.5p, reflecting the increase in profit and reduced number of shares in issue compared to the prior year as a result of the share buyback completed in February 2019. Statutory earnings per share increased 141.1% to 105.1p, reflecting the above and increase in statutory profit before tax as shown in note 2.

Underlying operating cash conversion in the year was better than originally expected at 73% (2018: 79%) despite the working capital normalisation flagged this time last year and increased capital expenditure of £21.8m (2018: £18.3m) with three more ERP implementations going live during 2019. Average working capital turn[(9)] over the last 12 months, compared to revenue, improved to 7.30x (December 2018: 6.52x).

A revised and simplified Return on Invested Capital (ROIC)[(7)] measure, with fewer adjustments, was established in 2019. ROIC increased to 17.8% (2018: 16.2%). This ROIC measure is consistent with the measure used for LTIPs going forwards.

Operational Summary

In addition to delivering a good financial performance, we also spent 2019 developing a more focussed ONE Ultra strategy and defining an ambitious Focus; Fix; Grow transformation programme to deliver the exciting medium-term value creation potential we believe exists for all Ultra’s stakeholders. We were objective in defining what we are really good at, what technology, skills and capabilities set us apart from our competitors and where and how we can create value. We reviewed our portfolio against that value creation potential to determine areas of strategic focus and we have made good progress in many areas:

Focus:

We developed a vision, mission and set of values for ONE Ultra and a clear strategy for the future. We have set objectives for all our stakeholder groups, supported by internal short and long term goals and key performance measures to monitor delivery and progress. Our vision, mission, values and ONE Ultra strategy was launched internally across the organisation and externally in January 2020.

Fix:

We made good progress in most, but not all, of our Fix initiatives in 2019. To improve oversight and accelerate delivery of our Focus; Fix; Grow transformation, (which is made up of a number of change programmes, many with interdependencies and conflicting resource requirements) we appointed a senior operational leader to the full-time role of Transformation Director in Q4. We are already seeing the benefits of more coordinated programme oversight which, together with more robust investment cases and project management discipline, is leading to improved prioritisation and better delivery.

We have however delivered on our most important initiatives. We have defined the culture we want to create and the nature of transformation we are undertaking. We strengthened and enhanced the Executive Leadership and are building a senior team with the capability, energy and passion to drive transformation and change. We have also made great strides in our People agenda, aligning, improving and standardising our people development and reward processes and investing in infrastructure and tools that enable them. We are approaching completion of our organisational design process to support strategic delivery and are developing revised ways of working to allow implementation from the beginning of 2021.

Whilst resource constraints meant we got off to a slower start than anticipated, we began implementing our IT strategy in 2019, with the appointment of a CIO in H2 to lead the function. We made great strides in standardising infrastructure, increasing connectivity and launching an effective internal collaboration and communications platform. Our IT strategy, which is a multi-year investment programme, has started 2020 with good momentum.

We commenced an ERP standardisation programme in 2016 and completed three further ERP implementations in 2019. However, our strategic review has highlighted a greater than anticipated opportunity for process standardisation and improvement. This will be an area of significant focus in 2020 and we will slow the ERP programme until this work is complete. Despite this, investment in infrastructure and applications will accelerate in 2020 as we roll-out our HR Information Systems and also commence a data harmonisation and standardisation initiative.

Grow:

The increased focus on capital allocation and return on investment discipline is already driving improved prioritisation and performance. Combined with greater strategic clarity there has been a significant improvement in internal R&D discipline. Whilst this, together with engineering resource constraints led to a slower than anticipated start in our internal R&D investment we made good progress in H2 in areas such as artificial intelligence, machine learning and unmanned surface vehicles as well as continuing to develop our existing capabilities. The increased investment in internal R&D in H2 will continue on an annualised basis in 2020.

In summary, we are very pleased with the progress we have made against our transformation agenda and overall we are ahead of where we anticipated we would be at the beginning of the year, with accelerating momentum into 2020.

FINANCIAL REVIEW

Order book

The order book grew by 4.0% to £1,022.9m (2018: £983.9m); this represents organic growth of 10.7% reflecting improving defence budgets, notably in the US, and key wins on new and existing programmes.

Revenue

	£m	% impact
2018	766.7	
Currency translation	22.2	+2.9
Disposals	(16.0)	-2.1
2018 (for organic measure)	772.9	
Organic growth(2)	**52.5**	**+6.8**
2019	**825.4**	**+7.7**

Revenue grew by 7.7% to £825.4m (2018: £766.7m). This represents organic growth of 6.8%, reflecting improved conditions in our US market and growth on specific contracts and programmes. These include the Next Generation Surface Search Radar development contract, sales of tactical command and control systems and product deliveries on military aircraft platforms. Sterling weakened during the year, increasing reported revenue by 2.9%; the average US dollar rate was $1.28 compared to $1.34 in 2018. The disposal of the Airport Systems and Corvid Paygate businesses in 2019 reduced revenue by 2.1%.

Statutory operating profit

£m	**2019**	2018
Statutory operating profit	**94.2**	65.3
Amortisation of intangibles arising on acquisition	21.7	28.3
Significant legal charges and expenses	1.4	2.3
Acquisition and disposal related costs	0.9	2.7
S3 programme	-	6.5
Impairment charges	-	7.6
Underlying operating profit	**118.2**	112.7

Statutory operating profit increased by 44.3% to £94.2m (2018: £65.3m). This reflects reducing amortisation costs as assets created by historical acquisitions become fully amortised, the completion of the S3 programme in 2018 and the non-recurrence of impairment charges booked in 2018 in relation to Airport Systems. Costs on the Focus; Fix; Grow transformation programme are being taken through underlying operating profit but will be identified separately where material.

Underlying operating profit and margins(1)

Underlying operating profit	**£m**	% impact
2018	112.7	
Currency translation	3.0	+2.7
Impact of IFRS 16 adoption	1.1	+1.0
Disposals	(1.9)	-1.7
2018 (for organic measure)	114.9	
Organic growth(2)	**3.3**	**+2.9**
2019	**118.2**	**+4.9**

Underlying operating profit was £118.2m (2018: £112.7m), an increase of 4.9% on the prior year. The weakening of sterling increased profit by 2.7%. The new lease accounting standard (IFRS 16) was adopted from 1 January 2019; there was a 1.0% increase in 2019 operating profit relative to previous accounting standards. Business disposals resulted in a 1.7% reduction. The organic profit growth was 2.9%.

The underlying operating margin[1] as expected was lower than 2018 and declined to 14.3% (2018: 14.7%), due to:

- "Fix" related transformation investment, including redundancy and restructuring costs of £3m;
- £8.8m of legacy contract losses in our Maritime division following enhanced operational and programme oversight and a more rigorous cost to complete process;
- delayed contract timing in the Energy sector;
- mix of sonobuoy sales;
- increased incentive costs; and
- lack of the one-off £2.9m forex gain obtained in 2018, which is now hedged.

Research and development

Ultra continued its programme of R&D, with total spend in the year of £155.0m (2018: £145.8m). Company funded investment increased to £31.2m (2018: £28.1m) which represents 3.8% of revenue (2018: 3.7%), while customer funding increased to £123.8m (2018: £117.7m). The overall level of R&D investment in the year was 18.8% of revenue (2018: 19.0%). The increase in company funded spend was more modest than originally envisaged due to engineering resource constraints at the beginning of the year, a more rigorous assessment of investment and return discipline being applied, and increased focus on strategic rationale for investment.

Finance charges

Net financing charges[5] increased by £1.6m to £12.9m (2018: £11.3m). There was a £1.5m increase due to the adoption of IFRS 16 from 1 January 2019 and a £1.9m increase due to the previously announced change to the Group's allocation of pension finance charges; these were previously classified as non-underlying items and from 1 January 2019 are included within our underlying finance charges. These increases were partially offset by a £1.8m decrease arising from lower US interest rates and lower average net debt compared to 2018. The interest payable on borrowings was covered 12 times (2018: 10 times) by underlying operating profit.

Profit before tax

Statutory profit before tax increased 113.6% to £91.0m (2018: £42.6m). Underlying profit before tax[1] was £105.3m (2018: £101.4m), as set out below:

£m	2019	2018
Statutory profit before tax	**91.0**	42.6
Amortisation of intangibles arising on acquisition	21.7	28.3
Acquisition and disposal related costs	0.9	2.7
Loss on disposals and held for sale	0.9	0.7
(Gain)/loss on derivatives	(10.6)	5.6
Significant legal charges and expenses	1.4	2.3
Impairment charges	-	7.6
Net finance charge on defined benefit pensions*	-	1.9
S3 programme	-	6.5
Guaranteed Minimum Pensions (GMP) equalisation	-	3.2
Underlying profit before tax[1]	**105.3**	101.4

* as set out in the Finance charges section above, the pension finance charge is included within underlying finance costs from 1 January 2019.

Acquisition and disposal related costs in the year were £0.9m (2018: £2.7m). A £0.9m loss arose upon sale of our Airport Systems business from the Aerospace & Land division in February 2019, sale of our Corvid Paygate business from the Communications & Security division in June 2019 and an impairment in relation to the disposal of the Communications & Security division's small Ottawa based electronic intelligence business, which completed on 31 January 2020. The net gain on forward foreign exchange contracts and interest rate swap was £10.6m (2018: £5.6m loss). The significant legal charges and expenses includes £1.2m (2018: £2.3m) of conduct of business investigation costs. Net financing charge on defined benefit pensions and, as noted above, transformation costs are now included in underlying profit.

The net impact to statutory profit before tax from the adoption of IFRS 16 was a £0.3m increase relative to previous accounting standards. The balance sheet impact of IFRS 16 adoption is set out in note 19.

Tax, EPS and dividends
The Group's underlying tax rate[4] in the year decreased slightly to 19.4% (2018: 19.7%). The statutory tax rate on statutory profit before tax is 19.0% (2018: 19.0%).

Underlying earnings per share[1] increased 9.1% to 119.5p (2018: 109.5p), reflecting the increase in profit and reduced number of shares in issue compared to the prior year. The weighted average number of shares in issue was 70.9m (2018: 74.4m). Basic earnings per share increased to 105.1p (2018: 43.6p). The Group spent £8.6m to re-purchase 0.6m ordinary shares at an average of £13.41 per share. The re-purchase programme was completed in Q1 2019. At 31 December 2019, the number of shares in issue was 70,964,527.

The 2019 proposed final dividend of 39.2p (2018: 37.0p) per share is proposed to be paid on 18 May 2020 to shareholders on the register at 24 April 2020 subject to approval at the Annual General Meeting. This will result in a final full year dividend of 54.2p (2018: 51.6p), which will be covered 2.2 times by underlying earnings per share.

Operating cash flow and working capital
Cash generated by operations was £114.9m (2018: £102.4m). Underlying operating cash flow[1] was £86.8m (2018: £89.3m) resulting in underlying operating cash conversion of 73% (2018: 79%). Working capital and provisions increased by £17.0m. The working capital increase was principally due to the normalisation flagged last year. However, the normalisation impact was not as high as anticipated due to a significant increase in contract specific advance payments and customers paying faster than expected around the year-end. Our focus on improving working capital turn has been successful with the average working capital turn[9] for the Group improving to 7.30x (December 2018: 6.52x). Capital expenditure, including continuing Enterprise Resource Planning ('ERP') systems implementation, increased to £21.8m (2018: £18.3m) with three more ERP implementations going live during 2019. Inventory increased during the year, reflecting revenue growth.

Net debt
Ultra's net debt at the end of the year was £154.8m (2018: £157.5m), this includes £41.2m of lease liability following the adoption of IFRS 16 from 1 January 2019. Net debt/EBITDA[3] when including pension liabilities and IFRS 16 lease liabilities was 1.58 times (2018: 2.00 times). On a covenant basis, which excludes pension liabilities and IFRS 16 lease liabilities, the figure is 0.86 times (2018: 1.25 times). The pension tri-annual valuation in April 2019 resulted in Ultra's funding deficit reducing to £77.2m (April 2016 £114.4m).

£8.6m was spent in the year to re-purchase 0.6m ordinary shares. In total, Ultra has bought back and cancelled c.£100m of Ultra shares at an average cost of £14.42, and (as previously announced) the buy-back has now ceased. Proceeds of £22.0m were received in the year from the disposals of the Airport Systems and Corvid Paygate businesses. In addition, £0.4m was received in 2019 in relation to the final payment from the 2018 sale of the Fuel Cell business.

New unsecured loan notes of US$70m were issued by Prudential Investment Management Inc ("Pricoa") in January 2019; these expire in January 2026 and January 2029. On the same date, $60m of expiring Pricoa debt was repaid. The remaining £129m of our Term Loan was fully repaid during the year. The Group's committed facilities now comprise a £300m revolving credit facility, of which £250m has a maturity to November 2024 and £50m has a maturity to November 2023, as well as Pricoa loan notes: £50m with an expiry date of October 2025 and $70m with expiry dates as noted above.

Conduct of business investigations update

As previously announced, the SFO is continuing to investigate a conduct of business issue in Algeria by Ultra, its subsidiaries, employees and associated persons. The investigation commenced in April 2018 following a voluntary self-report made by Ultra to the SFO. In addition, as previously disclosed, Ultra is investigating another conduct of business issue associated with the Philippines and is keeping the relevant authorities informed.

Capital allocation

We have implemented a more disciplined approach to capital allocation, which will support our future strategic delivery. We aim to have an asset light, high capital return model which will, in turn, drive strong free cash flow. Our priorities for capital discipline are listed in order below:

1. organic investment to fix and deliver operational improvement and growth;
2. inorganic M&A investment to accelerate strategy delivery, if it generates additional value;
3. sustainable through-cycle dividend. As announced in 2019, our policy remains around 2x through-cycle cash / earnings cover ratio; and
4. any excess, through-cycle capital to be returned to shareholders, but only if it can't be deployed within Ultra to generate strong returns.

Our net debt target remains between 1.5 and 2.5x net debt (including pension liability and IFRS 16) to EBITDA. At 31 December 2019 this ratio was 1.58 times.

OPERATIONAL REVIEW

Maritime & Land (43% of Group revenue)

A partner in the maritime defence domain, focusing on mission-centric equipment and systems primarily across the 'five-eyes'[8] nations. We specialise in maritime sonar, radar, acoustic expendables, signature management and power systems.

£m	**2019** as stated	**2018** as stated	**2018** for organic measure	Growth %	Organic[2] growth %
Order book	481.5	420.0	411.8	+14.6	+16.9
Revenue	353.0	317.9	327.4	+11.0	+7.8
Underlying operating profit[1]	52.5	52.8	55.5	-0.6	-5.4
Underlying operating margin[1]	14.9%	16.6%	17.0%		
Statutory operating profit	43.9	33.0		+33.0	

The Maritime market remains robust with ongoing geopolitical disputes and naval threats continuing to drive the growth of investment in naval platforms and underwater warfare systems. Ultra is well positioned in many of the key markets in Maritime, such as underwater expendables, sonar sensors & systems.

During the year the ERAPSCO JV was awarded a five year $1bn IDIQ with total Ultra orders worth $87m for sonobuoys from the US Navy. This programme supported organic order book growth of nearly 17%. Notable wins also included the Next Generation Surface Search Radar, MK54 lightweight torpedo array kits for the US Navy and Surface Ship Torpedo Defence (SSTD) system for the UK MoD, all of which helped Maritime deliver strong organic revenue growth of 7.8% in the year.

Operating profit decreased 5.4% organically, primarily as a result of contract losses of £8.8m on certain legacy contracts following enhanced operational oversight and a more rigorous programme review process through 2019. In addition, there was an adverse sonobuoy sales mix compared to prior year, which also impacted operating margins in this business unit.

Communications & Security (32% of Group revenue)

A defence supplier engineering world-class, mission-critical, multi-domain intelligence, communications, command & control, cyber security and electronic warfare solutions.

From 1 January 2020, as part of our ONE Ultra strategy, Forensic Technology will be reported as part of "other critical detection and control businesses". Forensic Technology is a world-leader in ballistic identification and forensic analysis solutions.

£m	**2019** as stated	**2018** as stated	**2018** for organic measure	Growth %	Organic[2] growth %
Order book	238.6	230.2	222.9	+3.6	+7.0
Revenue	267.9	252.6	259.2	+6.1	+3.4
Underlying operating profit[1]	38.6	29.9	31.4	+29.1	+22.9
Underlying operating margin[1]	14.4%	11.8%	12.1%		
Statutory operating profit	26.2	13.6		+92.6	

In the defence market there continues to be an increased demand for greater bandwidth and broader connectivity, coupled with a need for multi-platform and multi-user interoperability. Ultra is well positioned to benefit from this with its focus on specialist Radio Frequency, Communications, Control & Intelligence, tactical communications and cybersecurity.

The division won a number of contracts during the year and the order book grew organically by 7.0%. This was driven by the $500m Orion radio IDIQ contract with $46m received in 2019, a $12m contract for flight instrumentation equipment for Lockheed Martin's Trident missile and a five-year contract from the US Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF), valued at over $85m for the Forensic Technology business.

Revenue grew organically by 3.4%, benefitting from strong sales of ADSI (Air Defence Systems Integrator) tactical command and control systems, and greater demand for electronic warfare and microwave products.

Underlying operating profit grew organically by 22.9% in the year, up £7.2m. This was helped by the non-repeat of development cost overruns in Herley. When these cost overrun impacts in 2018 are excluded, the organic profit growth relative to 2018 was 1.6% and operating margins are broadly consistent year on year. Margins were, however, held back by later than anticipated phasing of new orders to replace completed programmes in CIS, and the timing of the ORION radio order within the year.

Aerospace & Infrastructure (25% of Group revenue)

In Precision Control Systems (PCS), we design and supply market-leading safety and mission-critical solutions to the military and commercial aerospace markets.

In Energy, we focus on the design and supply of safety critical sensors and systems and selected products for industrial applications, focusing on the UK, North American and Chinese markets.

From 1 January 2020 Forensic Technology, previously reported under our Communications & Security Division, will be reported under this division. The division will be renamed "other critical detection and control businesses" and will be formed of our Precision Control Systems, Forensic Technology and Energy businesses.

£m	2019 as stated	2018 as stated	2018 for organic measure	Growth %	Organic[2] growth %
Order book	302.8	333.7	289.4	-9.3	+4.6
Revenue	204.5	196.2	186.3	+4.2	+9.8
Underlying operating profit[1]	27.1	30.0	28.0	-9.7	-3.2
Underlying operating margin[1]	13.3%	15.3%	15.0%		
Statutory operating profit	25.3	21.0		+20.5	

The defence aerospace market has grown steadily with many countries acquiring new aircraft, upgrading ageing fleets or developing indigenous platforms. The fighter jet market has grown robustly, and we are well positioned on major platforms globally such as the Joint Strike Fighter F-35, Eurofighter Typhoon and Gripen programmes. The civil aerospace sector experienced a decline in deliveries in 2019.

Within the Energy market around 30 countries are considering, planning or starting nuclear power programmes. Ultra is well positioned on innovative new technologies being developed for increased efficiency and decreased cost of nuclear power generation, such as NuScale Small Modular Reactors (SMR).

This division's order book grew organically by 4.6%. Within PCS we were awarded a follow-on contract worth £17m for the provision of our Engine Ice Protection and Harness sets on the F-35 aircraft, further positioning us on this long-term fighter aircraft platform. In Energy we received a five-year extension contract, worth £30m, to supply and sustain EDF Generation's Neutron Flux Detector.

Organic revenue growth in the year was 9.8%. This growth was primarily due to increased activity on military aircraft platforms, including the build rate of our HiPPAG units for the F-35. The Airport Systems business was disposed of early in the year.

Operating profit declined 3.2% due to:

- fix related costs and higher spend on R&D, as we invest in programmes to support future growth;
- product mix in our Energy business and delayed orders from key primes; and
- in 2018, this division benefited from £2.9m of foreign exchange gains which were not repeated in 2019 following the previously announced hedging to reduce income statement volatility.

As a result, the underlying operating margin was 13.3% vs 15.3% last year.

2020 FINANCIAL GUIDANCE

Our internal R&D spend is expected to be in the range of 4 – 4.5% of revenue in 2020.

Due to a slower than anticipated start, our transformation costs in 2019 were £3m, some £2m lower than anticipated at the beginning of the year. We expect some catch up in 2020, with transformation costs in the £8-12m range. Capital expenditure will also increase by £3-8m, from £21.8m in 2019 to £25m-£30m in 2020. As previously flagged, we expect underlying operating margin to remain stable in the mid-teens range during this period of investment.

Operating cash conversion is expected to be in the 60-75% range for 2020, as we increase capital expenditure to support our Focus; Fix; Grow initiatives.

The duration of the Covid-19 virus and its impact is uncertain at this stage, however it is not impacting current trading and our preliminary assessment is that we don't currently believe it will have any material long term impact. We are continuing to monitor the situation closely.

SUMMARY & OUTLOOK

2019 was a busy year for Ultra, and one in which we made great progress. We defined and started our transformation journey, made good progress on a number of our change initiatives and continued to identify longer term opportunities for enhanced growth and improved efficiency. At the same time, we delivered a good set of outcomes for our stakeholders.

We enter 2020 with an enhanced, engaged and motivated team and a strong order book. In addition to focussing on improved delivery, as part of our Focus; Fix; Grow change agenda we will be accelerating investment in internal R&D and underlying IT infrastructure as well as increasing our focus on process standardisation and excellence. As a result we continue to expect broadly stable margins in 2020.

We remain excited about the significant opportunity within Ultra to accelerate growth, improve delivery and generate exceptional value for all our stakeholders over time and we are increasingly confident in our ability to deliver it.

Simon Pryce
Chief Executive

Jos Sclater
Chief Financial Officer

10 March 2020

RISKS AND UNCERTAINTIES

The Group faces a number potential risks and uncertainties that may have a material impact on performance in 2020 (and beyond). As a consequence, actual results may differ materially from expected and/or historical results. The Group's principal risks are listed below. These risks are managed by the Executive Team and are key matters for the Board. An explanation of these risks, and the business strategies that Ultra uses to manage and mitigate such risks, can be found in the annual report which will be available for download at https://www.ultra.group/investors/results-centre/

Risks are identified, collated, assessed and managed at the most appropriate level of the business (Board, Executive or Business level). Risks are also reviewed to ensure judgements and assumptions are unchanged, that appropriate mitigations are in place and that emerging risks are captured.

Ultra places a high priority on compliance with all legislative and regulatory requirements and the maintenance of high ethical standards across the Group. Key changes in our presentation of principal risks over the 2018 Annual Report reflect a focus on change management and transition risk in the light of the new ONE Ultra Strategy. These are not the only risks that may impact the Group but are the ones that we believe are the most significant at this time:

- Geopolitical Risk
- Defence Sector Cycle Risk
- Bid and Contract Risks
- Programme Risk
- Delivering Change
- Talent Retention and Recruitment
- Security and Cyber Risks
- Business Interruption
- Governance, Compliance and Internal Controls
- Pensions
- Health Safety and Environment

Specific factors or current events within the defined principal risks above include:

- Covid-19 (Business Interruption). The emergence of the new coronavirus and governmental responses to it, bring the potential for business interruption. Impacts could include our wider supply chain, or restrictions on operational capacity from the potential absence of significant numbers of employees at a site should the virus become pandemic. Proactive management and communication with our suppliers have so far identified areas where supplies might experience some delivery delay. Business continuity planning arrangements are in place should the virus spread to any of our site locations.
- Brexit (Geopolitical Risk). While the United Kingdom left the European Union with a transition agreement in place in January 2020, the possibility remains that the two sides might fail to agree a comprehensive long term trade deal by the end of 2020. From our experience of preparing for hard Brexit scenarios in 2019, we have developed relationships and plans with our supply chain partners to proactively manage Brexit interruption risk. These relationships and plans will be maintained and adapted as we monitor the risk through 2020.
- Climate Change (Health, Safety and Environment). Direct risks to Ultra from climate change are limited, given the low intensity nature of our operations, the locations of our sites and markets in which we operate. In line with our values, we see climate change as an area of focus rather than just a compliance risk. Ultra is establishing new strategies and programmes to minimize our contribution to climate change under a new Corporate Social Responsibility Committee.
- Regulatory Incidents (Governance, Compliance and Internal Controls). As previously reported, Ultra is cooperating with authorities in relation to two conduct of business issues in Algeria and the Philippines.

CONFIRMATION OF GOING CONCERN

The Directors have considered the guidance issued by the Financial Reporting Council and hereby confirm that the Group continues to adopt the 'going concern' basis in preparing its accounts.

The Board has made appropriate enquiries to support this view, looking forward for a period of at least twelve months. Salient points taken into consideration were:

- the Group's long-term record of delivering profits;
- the adequacy of Ultra's financing facilities;
- Ultra's positions in growth sectors of its markets;
- the long-term nature of Ultra's markets and contracts; and
- the risks as discussed above.

NATURE OF ANNOUNCEMENT

This announcement 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 announcement 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 announcement 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.

Ultra Electronics Holdings plc

Results for the Year Ended 31 December 2019

Consolidated Income Statement

	Note	**2019 £m**	2018 £m
Revenue	3	**825.4**	766.7
Cost of sales		**(586.3)**	(544.6)
Gross profit		**239.1**	222.1
Other operating income		**1.0**	3.2
Administrative expenses		**(135.6)**	(140.3)
Other operating expenses		**(8.9)**	(3.3)
Significant legal charges and expenses	2	**(1.4)**	(2.3)
S3 programme		**-**	(6.5)
Impairment charges		**-**	(7.6)
Operating profit	1	**94.2**	65.3
Loss on disposals and held for sale	18	**(0.9)**	(0.7)
Retirement benefit scheme GMP equalisation	16	**-**	(3.2)
Investment revenue	4	**11.3**	6.2
Finance costs	5	**(13.6)**	(25.0)
Profit before tax	1	**91.0**	42.6
Tax	6	**(16.4)**	(10.2)
Profit for the year		**74.6**	32.4
Attributable to:			
Owners of the Company		**74.5**	32.4
Non-controlling interests		**0.1**	-
Earnings per ordinary share (pence)			
- basic	8	**105.1**	43.6
- diluted	8	**104.9**	43.6

All results are derived from continuing operations.

Ultra Electronics Holdings plc

Results for the Year Ended 31 December 2019

Consolidated Statement of Comprehensive Income

	2019	2018
	£m	£m
Profit for the year	**74.6**	32.4
Items that will not be reclassified to profit or loss:		
Actuarial (loss)/profit on defined benefit pension schemes	**(9.3)**	4.6
Tax relating to items that will not be reclassified	**1.6**	(0.8)
Total items that will not be reclassified to profit or loss	**(7.7)**	3.8
Items that are or may be reclassified to profit or loss:		
Exchange differences on translation of foreign operations	**(17.5)**	21.1
Transfer from profit and loss on cash flow hedge	**(0.3)**	0.4
Profit/(loss) on loans used in net investment hedges	**3.1**	(11.5)
Loss on cash flow hedge	**-**	(0.6)
Tax relating to items that are or may be reclassified	**0.1**	0.1
Total Items that are or may be reclassified to profit or loss	**(14.6)**	9.5
Other comprehensive (expense)/income for the year	**(22.3)**	13.3
Total comprehensive income for the year	**52.3**	45.7
Attributable to:		
Owners of the Company	**52.2**	45.7
Non-controlling interests	**0.1**	-

Ultra Electronics Holdings plc

Results for the Year Ended 31 December 2019

Consolidated Balance Sheet

	Note	2019 £m	2018 £m
Non-current assets			
Goodwill	9	**365.9**	377.8
Other intangible assets		**92.7**	113.9
Property, plant and equipment	10	**64.2**	62.6
Leased assets	11	**36.1**	-
Deferred tax assets		**10.0**	18.7
Derivative financial instruments		**1.7**	0.1
Trade and other receivables	13	**13.7**	22.6
		584.3	595.7
Current assets			
Inventories	12	**90.7**	88.6
Trade and other receivables	13	**205.4**	205.2
Tax assets		**19.5**	8.1
Cash and cash equivalents		**82.2**	96.3
Derivative financial instruments		**3.2**	0.3
Assets classified as held for sale		**11.5**	30.6
		412.5	429.1
Total assets		**996.8**	1,024.8
Current liabilities			
Trade and other payables	14	**(192.3)**	(212.2)
Tax liabilities		**(4.7)**	(5.0)
Derivative financial instruments		**(0.5)**	(5.5)
Borrowings		**(8.2)**	(175.8)
Liabilities classified as held for sale		**(5.3)**	(8.6)
Short-term provisions	15	**(16.6)**	(13.3)
		(227.6)	(420.4)
Non-current liabilities			
Retirement benefit obligations	16	**(73.3)**	(73.0)
Other payables	14	**(11.8)**	(14.9)
Deferred tax liabilities		**(16.3)**	(10.5)
Derivative financial instruments		**(0.2)**	(1.0)
Borrowings		**(228.8)**	(78.0)
Long-term provisions	15	**(8.2)**	(6.2)
		(338.6)	(183.6)
Total liabilities		**(566.2)**	(604.0)
Net assets		**430.6**	420.8
Equity			
Share capital		**3.5**	3.6
Share premium account		**203.2**	201.0
Capital redemption reserve		**0.4**	0.3
Reserve for own shares		**(1.4)**	(2.6)
Hedging reserve		**(56.8)**	(59.7)
Translation reserve		**99.0**	116.5
Retained earnings		**182.6**	161.7
Equity attributable to owners of the Company		**430.5**	420.8
Non-controlling interests		**0.1**	-
Total equity		**430.6**	420.8

Ultra Electronics Holdings plc
Results for the Year Ended 31 December 2019
Consolidated Cash Flow Statement

	Note	**2019**	2018
		£m	£m
Net cash flow from operating activities	17	**94.6**	86.7
Investing activities			
Interest received		**0.7**	0.7
Purchase of property, plant and equipment		**(14.9)**	(13.0)
Proceeds from disposal of property, plant and equipment		**0.1**	0.2
Expenditure on product development and other intangibles		**(8.0)**	(7.0)
Disposal of subsidiary undertakings		**22.4**	0.2
Net cash from/(used in) investing activities		**0.3**	(18.9)
Financing activities			
Issue of share capital		**3.3**	0.1
Share buy-back (including transaction costs)		**(8.6)**	(91.9)
Dividends paid		**(36.7)**	(36.9)
Loan syndication costs		**(0.3)**	(0.7)
Repayments of borrowings		**(315.2)**	(181.3)
Proceeds from borrowings		**259.9**	199.0
Principal payment on leases		**(7.8)**	-
Cash out-flow on closing out foreign currency hedging contracts		**-**	(11.1)
Net cash used in financing activities		**(105.4)**	(122.8)
Net decrease in cash and cash equivalents		**(10.5)**	(55.0)
Cash and cash equivalents at beginning of year		**96.3**	149.5
Effect of foreign exchange rate changes		**(3.6)**	1.8
Cash and cash equivalents at end of year		**82.2**	96.3

Ultra Electronics Holdings plc

Results for the Year Ended 31 December 2019

Consolidated Statement of Changes in Equity

Equity attributable to equity holders of the parent

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Reserve for own shares £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Non-controlling interest £m	Total equity £m
Balance at 1 January 2018	**3.9**	**200.9**	**-**	**(2.6)**	**(48.1)**	**95.4**	**262.6**	-	**512.1**
Adoption of IFRS 15	**-**	**-**	-	-	-	-	(12.2)	-	(12.2)
Tax adjustment on adoption of IFRS 15	-	-	-	-	-	-	2.3	-	2.3
Restated total equity at 1 January 2018	**3.9**	**200.9**	**-**	**(2.6)**	**(48.1)**	**95.4**	**252.7**	**-**	**502.2**
Profit for the year	-	-	-	-	-	-	32.4	-	32.4
Other comprehensive income for the year	-	-	-	-	(11.6)	21.1	3.8	-	13.3
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**(11.6)**	**21.1**	**36.2**	**-**	**45.7**
Equity-settled employee share schemes	-	0.1	-	-	-	-	1.6	-	1.7
Shares purchased in buy-back	(0.3)	-	0.3	-	-	-	(91.9)	-	(91.9)
Dividend to shareholders	-	-	-	-	-	-	(36.9)	-	(36.9)
Balance at 31 December 2018	**3.6**	**201.0**	**0.3**	**(2.6)**	**(59.7)**	**116.5**	**161.7**	**-**	**420.8**
Adoption of IFRS 16	-	-	-	-	-	-	(2.0)	-	(2.0)
Restated total equity at 1 January 2019	**3.6**	**201.0**	**0.3**	**(2.6)**	**(59.7)**	**116.5**	**159.7**	-	**418.8**
Profit for the year	**-**	**-**	-	-	-	-	74.5	0.1	74.6
Other comprehensive income for the year	**-**	**-**	-	-	2.9	(17.5)	(7.7)	-	(22.3)
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**2.9**	**(17.5)**	**66.8**	**0.1**	**52.3**
Equity-settled employee share schemes	-	2.2	-	-	-	-	1.9	-	4.1
Transfer from own shares	-	-	-	1.2	-	-	(1.2)	-	-
Tax on share-based payment transactions	-	-	-	-	-	-	0.7	-	0.7
Shares purchased in buy-back	(0.1)	-	0.1	-	-	-	(8.6)	-	(8.6)
Dividend to shareholders	-	**-**	-	-	-	-	(36.7)	-	(36.7)
Balance at 31 December 2019	**3.5**	**203.2**	**0.4**	**(1.4)**	**(56.8)**	**99.0**	**182.6**	**0.1**	**430.6**

1. Segment information

(i) Revenue by segment

	2019			2018		
	External revenue	**Inter-segment**	**Total**	External revenue	Inter-segment	Total
	£m	**£m**	**£m**	£m	£m	£m
Maritime & Land	**353.0**	**14.9**	**367.9**	317.9	13.1	331.0
Communications & Security	**267.9**	**3.5**	**271.4**	252.6	8.9	261.5
Aerospace & Infrastructure	**204.5**	**8.2**	**212.7**	196.2	7.9	204.1
Eliminations	**-**	**(26.6)**	**(26.6)**	-	(29.9)	(29.9)
Consolidated revenue	**825.4**	**-**	**825.4**	766.7	-	766.7

(ii) Profit by segment

	2019				
	Maritime & Land £m	**Communications & Security £m**	**Aerospace & Infrastructure £m**	**Unallocated £m**	**Total £m**
Underlying operating profit	**52.5**	**38.6**	**27.1**	**-**	**118.2**
Amortisation of intangibles arising on acquisition	**(8.2)**	**(12.2)**	**(1.3)**	**-**	**(21.7)**
Significant legal charges and expenses	**-**	**-**	**(0.2)**	**(1.2)**	**(1.4)**
Acquisition and disposal related costs	**(0.4)**	**(0.2)**	**(0.3)**	**-**	**(0.9)**
Operating profit/(loss)	**43.9**	**26.2**	**25.3**	**(1.2)**	**94.2**
Loss on disposals and held for sale					**(0.9)**
Investment revenue					**11.3**
Finance costs					**(13.6)**
Profit before tax					**91.0**
Tax					**(16.4)**
Profit after tax					**74.6**

Unallocated items are specific corporate level costs that cannot be allocated to a specific division.

1. Segment information (continued)

	2018				
	Maritime & Land £m	**Communications & Security £m**	**Aerospace & Infrastructure £m**	**Unallocated £m**	**Total £m**
Underlying operating profit	52.8	29.9	30.0	-	112.7
Amortisation of intangibles arising on acquisition	(12.5)	(14.4)	(1.4)	-	(28.3)
Impairment charge	(1.0)	-	(6.6)	-	(7.6)
Significant legal charges and expenses	-	-	-	(2.3)	(2.3)
Acquisition and disposal related costs	(1.7)	(0.4)	(0.6)	-	(2.7)
S3 programme	(4.6)	(1.5)	(0.4)	-	(6.5)
Operating profit/(loss)	33.0	13.6	21.0	(2.3)	65.3
Disposals					(0.7)
Retirement benefit scheme GMP equalisation					(3.2)
Investment revenue					6.2
Finance costs					(25.0)
Profit before tax					42.6
Tax					(10.2)
Profit after tax					32.4

Unallocated items are specific corporate level costs that cannot be allocated to a specific division. The S3 programme was the Group's Standardisation & Shared Services programme.

(iii) Capital expenditure, additions to intangibles and leased assets, depreciation and amortisation

	Capital expenditure and additions to leased assets and intangibles (excluding goodwill and acquired intangibles)		**Depreciation and amortisation**	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Maritime & Land	**13.9**	6.5	**17.9**	17.0
Communications & Security	**16.5**	9.3	**23.0**	19.5
Aerospace & Infrastructure	**5.4**	4.2	**6.7**	4.8
Total	**35.8**	20.0	**47.6**	41.3

The 2019 depreciation and amortisation expense includes £28.6m of amortisation charges (2018: £32.4m), £9.7m of property, plant and equipment depreciation charges (2018: £8.9m) and £9.3m of leased asset depreciation charges (2018: nil).

1. Segment information (continued)

(iv) Total assets by segment

	2019 £m	2018 £m
Maritime & Land	**262.0**	247.2
Communications & Security	**424.7**	429.5
Aerospace & Infrastructure	**193.5**	224.5
	880.2	901.2
Unallocated	**116.6**	123.6
Consolidated total assets	**996.8**	1,024.8

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

(v) Total liabilities by segment

	2019 £m	2018 £m
Maritime & Land	**122.8**	104.8
Communications & Security	**110.0**	87.5
Aerospace & Infrastructure	**52.1**	51.6
	284.9	243.9
Unallocated	**281.3**	360.1
Consolidated total liabilities	**566.2**	604.0

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

(vi) Revenue by destination

	2019 £m	2018 £m
North America	**502.5**	439.3
United Kingdom	**171.1**	171.5
Rest of World	**95.9**	93.0
Continental Europe	**55.9**	62.9
	825.4	766.7

During the year, there was one direct customer (2018: one) that individually accounted for greater than 10% of the Group's total turnover. Sales to this customer in 2019 were £182.4m (2018: £127.2m) across all segments.

1. Segment information (continued)

(vii) Other information (by geographic location)

	Non-current assets		Total assets		Capital expenditure and additions to leased assets and intangibles (excluding goodwill and acquired intangibles)	
	2019	2018	**2019**	2018	**2019**	2018
	£m	£m	**£m**	£m	**£m**	£m
United Kingdom	**157.8**	163.1	**315.6**	328.3	**11.8**	7.8
USA	**320.9**	322.6	**425.5**	439.8	**16.6**	7.5
Canada	**88.5**	82.5	**129.9**	118.2	**7.1**	4.3
Rest of World	**5.5**	8.7	**9.2**	14.9	**0.3**	0.4
	572.7	576.9	**880.2**	901.2	**35.8**	20.0
Unallocated	**11.6**	18.8	**116.6**	123.6	**-**	-
	584.3	595.7	**996.8**	1,024.8	**35.8**	20.0

2. Additional non-statutory performance measures

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

	2019 £m	2018 £m
Operating profit	**94.2**	65.3
Amortisation of intangibles arising on acquisition	**21.7**	28.3
Significant legal charges and expenses	**1.4**	2.3
Acquisition and disposal related costs	**0.9**	2.7
S3 programme	**-**	6.5
Impairment charges	**-**	7.6
Underlying operating profit	**118.2**	112.7
Depreciation of property, plant and equipment	9.7	8.9
Depreciation of leased assets	9.3	-
Amortisation of internally generated intangible assets	2.9	1.5
Amortisation of software, patents and trademarks	4.0	2.6
EBITDA	**144.1**	125.7
Profit before tax	**91.0**	42.6
Amortisation of intangibles arising on acquisition	**21.7**	28.3
Acquisition and disposal related costs	**0.9**	2.7
Gain on fair value movements of derivatives	**(10.6)**	(5.5)
Loss on disposals and held for sale	**0.9**	0.7
Significant legal charges and expenses*	**1.4**	2.3
Loss on closing out foreign currency derivative contract	**-**	11.1
Net finance charge on defined benefit pensions†	**-**	1.9
S3 programme	**-**	6.5
Retirement benefit scheme GMP equalisation	**-**	3.2
Impairment charges	**-**	7.6
Underlying profit before tax	**105.3**	101.4
Cash generated by operations	**114.9**	102.4
Principal payments on finance leases	**(7.8)**	-
Purchase of property, plant and equipment	**(14.9)**	(13.0)
Proceeds on disposal of property, plant and equipment	**0.1**	0.2
Expenditure on product development and other intangibles	**(8.0)**	(7.0)
Significant legal charges and expenses	**1.9**	1.5
S3 programme	**-**	2.6
Acquisition and disposal related payments	**0.6**	2.6
Underlying operating cash flow	**86.8**	89.3
Underlying operating cash conversion	**73%**	79%
Net cash flow from operating activities	**94.6**	86.7
Interest received	**0.7**	0.7
Purchase of property, plant and equipment	**(14.9)**	(13.0)
Proceeds on disposal of property, plant and equipment	**0.1**	0.2
Expenditure on product development and other intangibles	**(8.0)**	(7.0)
Free cash flow	**72.5**	67.6

* Significant legal charges and expenses are the charges arising from investigations and settlement of litigation that are not in the normal course of business. Significant legal charges and expenses include £1.2m (2018: £2.3m) of anti-bribery and corruption investigation costs and £0.2m (2018: nil) on legal charges relating to the Ithra contract.

†the pension finance charge is included within underlying finance costs from 1 January 2019.

2. Additional non-statutory performance measures (continued)

	2019 £m	2018 £m
Net assets (2018 adjusted for IFRS 16 adoption impact)	**430.6**	418.9
Net debt (2018 adjusted for IFRS 16 liability)	**154.8**	197.0
Retirement benefit obligations	**73.3**	73.0
Net derivative financial instruments	**(4.2)**	6.4
Net tax assets	**(8.5)**	(11.3)
Total invested capital	**646.0**	684.0
Average invested capital	**665.0**	
Underlying operating profit	**118.2**	
ROIC	**17.8%**	

The reconciliation from statutory earnings to underlying earnings, as used for the underlying earnings per share metric, is set out in note 8.

Organic growth for order book, revenue and underlying operating profit is calculated as follows:

	Order book		Revenue		Underlying operating profit	
	£m	% impact	£m	% impact	£m	% impact
2018	983.9		766.7		112.7	
Currency translation	(21.9)	-2.2	22.2	+2.9	3.0	+2.7
Impact of IFRS 16 adoption	-	-	-	-	1.1	+1.0
Disposals	(37.9)	-3.9	(16.0)	-2.1	(1.9)	-1.7
2018 (for organic measure)	924.1		772.9		114.9	
Organic growth	**98.8**	**+10.7**	**52.5**	**+6.8**	**3.3**	**+2.9**
2019	**1,022.9**	+4.0	**825.4**	+7.7	**118.2**	+4.9

The above analysis of the Group's operating results and cash flows is presented to provide readers with additional performance indicators that are prepared on a non-statutory basis and includes the KPIs, underlying operating profit, underlying operating cash conversion and ROIC. This presentation is regularly reviewed by management to identify items that are unusual and other items relevant to an understanding of the Group's performance and long-term trends with reference to their materiality and nature. This additional information is not uniformly defined by all companies and may not be comparable with similarly titled measures and disclosures by other organisations. The non-statutory disclosures should not be viewed in isolation or as an alternative to the equivalent statutory measure. Due to the adoption of IFRS 16, certain metrics, such as free cash flow and EBITDA, are not directly comparable with prior periods. Information for separate presentation is considered below:

- Contract losses arising in the ordinary course of trading are not separately presented; however, losses (and subsequent reversals) are separately disclosed in situations of a material dispute which are expected to lead to arbitration or legal proceedings. Significant legal charges and expenses are also separately disclosed; these are the charges arising from investigations and settlement of litigation that are not in the normal course of business.
- One-off GMP Equalisation charge arising on defined benefit pension scheme in 2018.
- Material costs or reversals arising from a significant restructuring of the Group's operations, such as the S3 programme, and costs of closure of product lines, businesses or facilities, are presented separately.
- Disposals of businesses or investments in associates or joint ventures, or impairments of related assets are presented separately.
- The amortisation of intangible assets arising on acquisitions and impairment of goodwill or intangible assets are presented separately.
- Acquisition and disposal related costs comprise external legal and advisor costs directly related to M&A activity, adjustments to contingent consideration, payment of retention bonuses, and fair value adjustments for acquired inventory calculated in accordance with IFRS 13.

2. Additional non-statutory performance measures (continued)

- IAS 37 requires the Group to discount provisions using a pre-tax discount rate that reflects the current assessment of the time value of money and the risks specific to the liability. This discount unwind is presented separately when the provision relates to acquisition contingent consideration.
- Derivative instruments used to manage the Group's foreign exchange exposures are "fair valued" in accordance with IFRS 9. This creates volatility in the valuation of the outstanding instruments as exchange rates move over time. This has minimal impact on profit over the full term of the instruments, but can cause significant volatility on particular balance sheet dates. Consequently, the gain or loss is presented separately.
- The defined benefit pension net interest charge arising in accordance with IAS 19 was presented separately for periods up until 31 December 2018. From 1 January 2019 this cost is included within underlying finance charges.

The related tax effects of the above items are reflected when determining underlying earnings per share, as set out in note 8.

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, the Group uses underlying 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. Management believes that using cash generated by operations, with the exclusion of net expenditure on property, plant and equipment and outflows for capitalised product development and other intangibles, would result in an under-reporting of the true cash cost of sustaining a growing business.

EBITDA is the underlying operating profit for the year, before depreciation charges and before amortisation arising on non-acquired intangible assets, and adjusted to remove the EBITDA generated by businesses up to the date of their disposal in the period. Net debt used in the net debt/EBITDA metric comprises borrowings, including pension liabilities and IFRS 16 lease liabilities, less cash and cash equivalents. (For covenant purposes, net debt does not include pension liabilities and all impacts of IFRS 16 are removed from EBITDA and net debt.)

A revised and simplified ROIC measure was established in 2019 consistent with the measure used for LTIPs going forwards. This is calculated as underlying operating profit expressed as a percentage of invested capital (average of opening and closing balance sheets). Invested capital is defined as net assets of the Group, excluding net debt and lease liability, pension obligations, tax and derivatives. This allows ROIC to be calculated on the operating assets of the business within the control of management.

3. Revenue

An analysis of the Group's revenue is as follows:

	2019			
	Maritime & Land £m	**Communications & Security £m**	**Aerospace & Infrastructure £m**	**Total £m**
Point in time	**85.6**	**115.1**	**136.2**	**336.9**
Over time	**267.4**	**152.8**	**68.3**	**488.5**
	353.0	**267.9**	**204.5**	**825.4**

	2018			
	Maritime & Land £m	Communications & Security £m	Aerospace & Infrastructure £m	Total £m
Point in time	84.0	114.6	105.4	304.0
Over time	233.9	138.0	90.8	462.7
	317.9	252.6	196.2	766.7

3. Revenue (continued)

The table below notes the revenue expected to be recognised in the future that is related to performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date.

	2020	**2021**	**2022 and beyond**	**Total**
	£m	**£m**	**£m**	**£m**
Point in time revenue	271.3	83.0	61.0	415.3
Over time revenue	323.8	136.4	147.4	607.6

4. Investment revenue

	2019	2018
	£m	£m
Bank interest	**0.7**	0.7
Fair value movement on derivatives	**10.6**	5.5
	11.3	6.2

5. Finance costs

	2019	2018
	£m	£m
Amortisation of finance costs of debt	**0.7**	0.8
Interest payable on bank loans, overdrafts and other loans	**9.5**	11.2
Finance charge on leases	**1.5**	-
Total borrowing costs	**11.7**	12.0
Retirement benefit scheme finance cost	**1.9**	1.9
Loss on closing out foreign currency derivative contract	**-**	11.1
	13.6	25.0

6. Tax

	2019	2018
	£m	£m
Current tax		
United Kingdom	**0.8**	5.1
Overseas	**8.4**	7.1
	9.2	12.2
Deferred tax		
Origination and reversal of temporary differences	**7.0**	(1.6)
Recognition of deferred tax assets	**0.2**	(0.4)
	7.2	(2.0)
Total tax charge	**16.4**	10.2

7. Dividends

	2019	2018
	£m	£m
Final dividend for the year ended 31 December 2018 of 37.0p (2017: 35.0p) per share	**26.1**	26.3
Interim dividend for the year ended 31 December 2019 of 15.0p (2018: 14.6p) per share	**10.6**	10.6
	36.7	36.9
Proposed final dividend for the year ended 31 December 2019 of 39.2p (2018: 37.0p) per share	**27.8**	26.4

The 2019 proposed final dividend of 54.2p per share is proposed to be paid on 18 May 2020 to shareholders on the register at 24 April 2020. It was approved by the Board after 31 December 2019 and has not been included as a liability as at 31 December 2019.

8. Earnings per share

	2019	2018
	Pence	Pence
Basic underlying (see below)	**119.5**	109.5
Diluted underlying (see below)	**119.4**	109.5
Basic	**105.1**	43.6
Diluted	**104.9**	43.6

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

	2019	2018
	£m	£m
Earnings		
Earnings for the purposes of earnings per share being profit for the year	**74.5**	32.4
Underlying earnings		
Profit for the year	**74.5**	32.4
Amortisation of intangibles arising on acquisition (net of tax)	**16.9**	22.0
Acquisition and disposal related costs (net of tax)	**0.1**	2.7
Profit on fair value movements on derivatives (net of tax)	**(8.8)**	(6.4)
Net loss on disposals and held for sale (net of tax)	**0.9**	0.7
Significant legal charges and expenses (net of tax)	**1.1**	2.3
Net finance charge on defined benefit pensions (net of tax)*	**-**	1.9
S3 programme (net of tax)	**-**	5.1
Loss on closing out foreign currency derivative contract (net of tax)	**-**	11.1
Impairment charge (net of tax)	**-**	7.3
Retirement benefit scheme GMP equalisation (net of tax)	**-**	2.3
Earnings for the purposes of underlying earnings per share	**84.7**	81.4

* The pension finance charge is included within underlying finance costs from 1 January 2019.

The adjustments to profit are explained in note 2.

8. Earnings per share (continued)

The weighted average number of shares is given below:	**2019 Number of shares**	2018 Number of shares
Number of shares used for basic earnings per share	**70,893,867**	74,350,521
Effect of dilutive potential ordinary shares – share options	**93,523**	831
Number of shares used for fully diluted earnings per share	**70,987,390**	74,351,352

	2019 £m	2018 £m
Underlying profit before tax (see note 2)	**105.3**	101.4
Tax rate applied for the purposes of underlying earnings per share	**19.4%**	19.7%

During 2019, the company purchased and cancelled 634,996 shares (2018: 6,288,127).

9. Goodwill

	2019 £m	2018 £m
Cost		
At 1 January	**438.5**	451.8
Exchange differences	**(10.6)**	15.0
Disposals	**(0.3)**	-
Reclassified as held for sale	**(3.3)**	(28.3)
At 31 December	**424.3**	438.5
Accumulated impairment losses		
At 1 January	**(60.7)**	(57.3)
Impairment of goodwill	**-**	(6.6)
Reclassified as held for sale	**-**	6.6
Exchange differences	**2.3**	(3.4)
At 31 December	**(58.4)**	(60.7)
Carrying amount at 31 December	**365.9**	377.8

The Group's market-facing segments, which represent Cash Generating Unit (CGU) groupings, are; Aerospace, Energy, Communications, C2ISR, Maritime and Underwater Warfare. These represent the lowest level at which the goodwill is monitored for internal management purposes. Goodwill is allocated to CGU groupings as set out below:

	2019 Pre-tax Discount rate	2018 Pre-tax Discount Rate	**2019 £m**	2018 £m
Aerospace	**10.9 - 12.1%**	9.7%	**32.6**	32.7
Energy	**10.9 - 12.1%**	9.7 - 11.4%	**18.3**	18.9
Aerospace & Infrastructure			**50.9**	51.6
Communications	**10.9 - 12.4%**	9.7 - 11.4%	**87.7**	92.3
C2ISR	**10.9 - 12.4%**	10.7 - 11.4%	**116.5**	120.0
Communications & Security			**204.2**	212.3
Maritime	**10.9 - 12.1%**	9.7 - 11.4%	**34.2**	35.1
Underwater Warfare	**12.1 - 12.9%**	9.7 - 11.4%	**76.6**	78.8
Maritime & Land			**110.8**	113.9
Total – Ultra Electronics			**365.9**	377.8

10. Property, plant and equipment

During 2019, the Group spent £14.9m on the acquisition of property, plant and equipment. The Group did not make any significant disposals during the year.

11. Leased assets

IFRS 16 came into effect on 1 January 2019, resulting in the leased asset recognition of £35.8m (£34.4m for property and £1.4m for non-property). See note 19 for further details. During 2019, the Group recognised an additional £12.9m of leased assets. The Group did not make any significant disposals during the year.

12. Inventories

	2019	2018
	£m	£m
Raw materials and consumables	**51.9**	56.1
Work in progress	**31.4**	23.7
Finished goods and goods for resale	**7.4**	8.8
	90.7	88.6

13. Trade and other receivables

	2019	2018
	£m	£m
Non-current:		
Amounts receivable from over time contract customers	**13.7**	22.6
	13.7	22.6

	2019	2018
	£m	£m
Current:		
Trade receivables	**108.4**	109.2
Provisions against receivables	**(1.8)**	(3.9)
Net trade receivables	**106.6**	105.3
Amounts receivable from over time contract customers	**77.0**	81.0
Other receivables	**7.7**	6.5
Prepayments	**10.1**	9.2
Accrued income	**4.0**	3.2
	205.4	205.2

14. Trade and other payables

	2019	2018
	£m	£m
Current:		
Trade payables	**49.9**	78.7
Amounts due to over time contract customers	**57.5**	52.4
Other payables	**22.2**	20.6
Accruals	**37.8**	42.2
Deferred income	**24.9**	18.3
	192.3	212.2

	2019	2018
	£m	£m
Non-current:		
Amounts due to over time contract customers	**9.8**	11.1
Accruals and other payables	**-**	0.2
Deferred income	**2.0**	3.6
	11.8	14.9

15. Provisions

	Warranties £m	Contract related provisions £m	Other £m	Total £m
At 1 January 2019	6.3	6.5	6.7	19.5
Reclassified from over time contract balances	-	5.9	-	5.9
Adoption of IFRS 16 (see note 19)	-	-	(0.9)	(0.9)
Created	1.7	9.7	2.0	13.4
Reversed	(1.7)	(1.3)	(1.2)	(4.2)
Utilised	(0.9)	(6.5)	(0.4)	(7.8)
Exchange differences	(0.1)	(0.4)	-	(0.5)
Reclassified to held for sale	(0.5)	-	(0.1)	(0.6)
At 31 December 2019	**4.8**	**13.9**	**6.1**	**24.8**
Included in current liabilities	3.3	9.6	3.7	16.6
Included in non-current liabilities	1.5	4.3	2.4	8.2
	4.8	**13.9**	**6.1**	**24.8**

Warranty provisions are based on an assessment of future claims with reference to past experience. Such costs are generally incurred within two years after delivery. Contract related provisions, for example including provisions for agent fees, are utilised over the period as stated in the contract to which the specific provision relates. To provide greater clarity to readers of the financial statements, all provisions relating to contract execution and delivery, which have previously been included within the over time contract balances, have been reclassified into the contract related provisions disclosure; the £5.9m reclassification is reflected above. Other provisions include re-organisation costs, deferred consideration and dilapidation costs. Re-organisation costs will be incurred over the period of the re-organisation, which is typically up to two years. Contingent consideration is payable when earnings targets are met. Dilapidations will be payable at the end of the contracted life, which is up to fifteen years.

16. Retirement benefit schemes

The amount included in the balance sheet arising from the Group's obligation in respect of its defined benefit retirement schemes is as follows:

	2019 £m	2018 £m
Fair value of scheme assets	**329.7**	297.7
Present value of scheme liabilities	**(403.0)**	(370.7)
Scheme deficit	**(73.3)**	(73.0)
Related deferred tax asset	**12.5**	12.6
Net pension liability	**(60.8)**	(60.4)

A full actuarial assessment of the UK defined benefit scheme was carried out as of April 2019. Following the completion of the assessment, Ultra reached an agreement with the pension scheme trustee board to maintain the £11.0m per annum payment to eliminate the deficit over the period to March 2025.

The UK defined benefit pension scheme was closed to new members in 2003 and to future benefit accrual from 5 April 2016.

The discount rate used in the actuarial assessment of the UK defined benefit scheme at 31 December 2019 was 1.95% (2018: 2.80%).

16. Retirement benefit schemes (continued)

Following a High Court judgement on 26 October 2018, it has become apparent across the UK pension industry that equalisation is required with respect to Guaranteed Minimum Pensions ("GMP"). Scheme benefits earned in the period 17 May 1990 to 5 April 1997 may be affected by the requirement to equalise GMPs. It will take a considerable time for trustees and employers to decide on the approach for GMP equalisation, gather data, calculate the new benefits and cost, and ultimately make payments to members. The initial estimate for the Ultra Electronics Limited defined benefit scheme is that the impact was £3.2m; this was recorded as a debit to the income statement in 2018 with a corresponding increase in scheme liabilities. There have been no changes in this estimate in 2019.

17. Cash flow information

	2019	2018
	£m	£m
Operating profit	**94.2**	65.3
Adjustments for:		
Depreciation of property, plant and equipment	**9.7**	8.9
Amortisation of intangible assets	**28.6**	32.4
Amortisation of leased assets	**9.3**	-
Impairment charge	**-**	7.6
Cost of equity-settled employee share schemes	**0.8**	1.5
Adjustment for pension funding	**(10.8)**	(10.3)
Loss on disposal of property, plant and equipment	**0.1**	0.1
Increase in provisions	**5.5**	4.9
Operating cash flow before movements in working capital	**137.4**	110.4
Increase in inventories	**(5.7)**	(10.2)
Increase in receivables	**(2.9)**	(1.8)
(Decrease)/increase in payables	**(13.9)**	4.0
Cash generated by operations	**114.9**	102.4
Income taxes paid	**(9.5)**	(4.6)
Interest paid	**(9.3)**	(11.1)
Finance lease interest paid	**(1.5)**	-
Net cash from operating activities	**94.6**	86.7

The total cash outflow in 2019 relating to leases was £9.2m, of which £0.2m related to low-value or short-term leases not recognised on the balance sheet.

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

	2019	2018
	£m	£m
Net increase in cash and cash equivalents	**(10.5)**	(55.0)
Cash inflow from movement in debt and finance leasing	**55.3**	(17.6)
Change in net debt arising from cash flows	**44.8**	(72.6)
Loan syndication costs	**0.3**	0.7
Lease liability	**(41.2)**	-
Amortisation of finance costs of debt	**(0.7)**	(0.8)
Translation differences	**(0.5)**	(10.3)
Movement in net debt in the year	**2.7**	(83.0)
Net debt at start of year	**(157.5)**	(74.5)
Net debt at end of year	**(154.8)**	(157.5)

17. Cash flow information (continued)

Net debt comprised the following	**2019**	2018
	£m	£m
Cash and cash equivalents	**82.2**	96.3
Borrowings	**(237.0)**	(253.8)
	(154.8)	(157.5)

Cash and cash equivalents comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

Reconciliation of changes in financing liabilities:	**2019**	2018
	£m	£m
Borrowings at start of year	**(253.8)**	(224.0)
Repayments of borrowings	**315.3**	181.3
Proceeds from borrowings	**(259.9)**	(199.0)
Loan syndication costs	**0.3**	0.7
Amortisation of finance costs of debt	**(0.7)**	(0.8)
Lease liability recognition	**(41.2)**	-
Translation differences	**3.0**	(12.0)
Borrowings at end of year	**(237.0)**	(253.8)

18. Disposals

The Aerospace and Infrastructure division disposed of the Airport Systems business on 1 February 2019 to ADB SAFEGATE. The Communications and Security division disposed of Corvid Paygate Limited on 24 June 2019 to Jonas Computing (UK) Limited. The assets and liabilities of Corvid Paygate were not material to the Group. The impact of these disposals is as follows:

	2019
	£m
Goodwill and intangible fixed assets	22.1
Property, plant and equipment	1.5
Leased assets	1.4
Inventories	0.2
Trade and other receivables	7.6
Trade and other payables	(9.9)
Lease liability	(1.5)
Total	**21.4**
Proceeds received	(22.0)
Gain on disposal	**(0.6)**

In addition, £0.4m was received in December 2019 in relation to the final payment from the sale of the Fuel Cell business in December 2018.

In October 2019, agreement was reached to dispose of the Communications & Security division's small Ottawa based electronic intelligence business to private investors; in accordance with IFRS 5 the assets were classified as held for sale and written down to their recoverable amount in 2019. This resulted in a loss of £1.5m recognised in the 2019 income statement, which is calculated as per the table below. The disposal completed in January 2020.

18. Disposals (continued)

	2019 £m
Property, plant and equipment	-
Trade and other receivables	0.7
Trade and other payables	(1.1)
Cash	1.9
Total	**1.5**
Proceeds received	-
Loss arising upon classification of held for sale	**1.5**

The net loss arising from the assets disposed of in the year (£0.6m gain) and the loss arising on classification of held for sale (£1.5m loss) was £0.9m.

As at 31 December 2019, assets and liabilities have been classified as held for sale for net assets planned to be disposed of in the following 12 months, which are shown in the table below at their fair value. All of these assets and liabilities are held within the Communications & Security division. The assets and liabilities of a small electronic intelligence business disposed in January 2020 were not material to the Group and were classified as held for sale in these accounts at the impaired value.

	2019 £m
Goodwill and intangible fixed assets	3.4
Property, plant and equipment	1.1
Leased assets	1.1
Inventories	2.5
Trade and other receivables	3.4
Total assets classified as held for sale	**11.5**
Trade and other payables	(5.3)
Total liabilities classified as held for sale	**(5.3)**
Net assets classified as held for sale	**6.2**

19. IFRS 16 – Leases

IFRS 16 Leases came into effect on 1 January 2019 and replaced IAS 17 and IFRIC 4. The Group has adopted the modified retrospective approach as permitted under IFRS 16 and has recognised the cumulative effect of applying IFRS 16 at the 1 January 2019 transitional date. The prior period has not been restated; the adjustment to opening retained earnings of £2.0m (£2.6m before tax) at 1 January 2019 is reflected in the Consolidated Statement of Changes in Equity.

The Group's impacted leases relate to real estate, vehicles, printers & copiers and other equipment. The Group therefore chose to split the leases between the following categories: Property and Non-property. The table below sets out the 1 January 2019 opening balance sheet impact arising from the adoption of IFRS 16:

19. IFRS 16 – Leases (continued)

	31 December 2018 £m	Property leases adjustment £m	Non-property leases adjustment £m	Tax £m	1 January 2019 £m
Leased assets – Right-of-use asset	-	34.4	1.4	-	35.8
Lease liability	-	(38.1)	(1.4)	-	(39.5)
Lease accruals	(0.2)	0.2	-	-	-
Onerous lease provisions	(0.9)	0.9	-	-	-
Tax liabilities	(15.5)	-	-	0.6	(14.9)
Net assets	420.8	(2.6)	-	0.6	418.8
Retained earnings	**161.7**	**(2.6)**	**-**	**0.6**	**159.7**

The following reconciliation to the opening balance for the lease liabilities as at 1 January 2019 is based upon the operating lease obligations disclosed in the Group annual report as at 31 December 2018:

	Property Leases £m	Non-property leases £m	Total £m
Operating lease commitment at 31 December 2018	35.4	1.5	36.9
Discounted at 1 January 2019	31.7	1.4	33.1
Recognition exemption for:			
Short term leases	(0.1)	-	(0.1)
Leases of low-value assets	-	-	-
Removal of service charges / utilities	(2.8)	-	(2.8)
Reduction for subletting	(0.2)	-	(0.2)
Change in lease length assumption	8.9	-	8.9
Change in lease cost increase assumption	(0.1)	-	(0.1)
Change due to phasing of payments	(0.1)	-	(0.1)
Other adjustments	0.8	-	0.8
Lease liabilities recognised at 1 January 2019	**38.1**	**1.4**	**39.5**

The lease liabilities were discounted as at 1 January 2019; the weighted average discount rate was 3.9% for property leases and 2.4% for non-property leases. The Group's property leases range from one year to 25 years in length and are based primarily in the UK, North America and Canada. The Group's non-property leases range from one year to seven years.

During the year ended 31 December 2019, in relation to leases under IFRS 16, the Group recognised depreciation of £9.3m and a finance charge on leases of £1.5m. The net impact to statutory profit before tax from the adoption of IFRS 16 was a £0.3m increase relative to previous accounting standards.

20. Contingent liabilities

The nature of much of the contracting work performed by the Group means that there are occasional contractual issues, variations and renegotiations that arise. In addition, the Group is, from time to time, party to legal proceedings and claims which arise in the ordinary course of business. The Oman Airport IT contract between the Sultanate of Oman, Ministry of Transport & Communications and Ithra ("Ultra Electronics in collaboration with Oman Investment Corporation LLC", the legal entity established with the sole purpose of delivering that contract and which was placed into voluntary liquidation in March 2015) was terminated in February 2015 and there are various proceedings in relation to that contract and its termination. There remains significant uncertainty regarding the likely outcome of these proceedings and it is not possible to reliably estimate the financial effect that may result from the ultimate outcome. Further, as previously announced, investigations associated with conduct of business issues in Algeria and the Philippines are ongoing, and Ultra continues to cooperate with the relevant authorities. It is not yet possible to estimate the timescale in which these investigations might be resolved, or to reliably predict their outcomes.

The company has benefited in the current year, and previous years, from a certain exemption in the UK 'Controlled foreign company' ("CFC") rules. On 2 April 2019 the European Commission concluded that the exemption, as applicable for years from 2013 through 2018, partly constituted illegal state aid. Ultra, the UK Government, and other effected taxpayers, have separately appealed this decision to the EU General Court. In common with other UK-based international companies whose arrangements were in line with UK CFC legislation which applied up to 2018, HMRC may seek to recover alleged illegal aid from Ultra pending the resolution of EU litigation. HMRC initiated enquiries during 2019 in respect of this issue but to date no substantive progress has been made and the range of potential outcomes remains nil to £21m. No provision for this potential liability is made in these financial statements as it is not clear what, if any, the eventual financial result will be.

21. Five-year review

	2015*† £m	2016*† £m	2017*† £m	2018† £m	**2019 £m**
Revenue					
Maritime & Land	293.8	322.1	329.5	317.9	**353.0**
Communications & Security	239.3	259.0	242.7	252.6	**267.9**
Aerospace & Infrastructure	193.2	204.7	203.2	196.2	**204.5**
Total revenue	726.3	785.8	775.4	766.7	**825.4**
Underlying operating profit[(a)]					
Maritime & Land	50.9	59.0	59.3	52.8	**52.5**
Communications & Security	40.4	39.7	28.2	29.9	**38.6**
Aerospace & Infrastructure	28.7	32.4	32.6	30.0	**27.1**
Total underlying operating profit[(a)]	120.0	131.1	120.1	112.7	**118.2**
Underlying operating margin[(a)]	16.5%	16.7%	15.5%	14.7%	**14.3%**
Profit before tax	34.8	67.6	60.6	42.6	**91.0**
Profit after tax	25.0	58.3	48.9	32.4	**74.6**
Underlying operating cash flow[(b)]	81.3	120.4	116.5	89.3	**86.8**
Free cash flow[(c)]	48.4	86.0	65.3	67.6	**72.5**
Net debt at year-end[(d)]	(295.6)	(256.7)	(74.5)	(157.5)	**(154.8)**
Underlying earnings per share (p)[(e)]	123.9	134.6	116.7	109.5	**119.5**
Dividends per share (p)	46.1	47.8	49.6	51.6	**54.2**
Average employee numbers	4,843	4,466	4,172	4,119	**4,089**

Notes:

a. Underlying operating profit is before amortisation of intangibles arising on acquisition, acquisition and disposal related costs, significant legal charges and expenses and, for 2018 and earlier, the S3 programme and impairments. See note 2. Underlying operating margin is the underlying operating profit as a percentage of revenue.

b. Underlying operating cash flow is cash generated by operations and dividends from associates, less net capital expenditure, R&D, and excluding cash outflows from acquisition and disposal related payments, and significant legal charges and expenses and, for 2018, the S3 programme. See note 2.

c. Free cash flow is before dividends paid, acquisitions, disposals and financing. See note 2.

d. Net debt is loans, overdrafts and finance lease liabilities less cash and cash equivalents. See note 17.

e. Underlying earnings per share is before amortisation of intangibles arising on acquisition, fair value movements on derivatives, acquisition and disposal related costs net of contingent consideration adjustments, gain or loss on disposal, significant legal charges and expenses and, for 2018 and earlier, the S3 programme, impairments, GMP equalisation and defined benefit pension finance charges and in 2018 the loss on closing out a foreign currency derivative contract. See note 8.

* Not prepared under IFRS 15.

† Not prepared under IFRS 16.

22. Financial Information

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2019 or 2018, but is derived from those accounts. Statutory accounts for 2018 have been delivered to the Registrar of Companies and those for 2019 will be delivered following the company's annual general meeting. The auditor has reported on those accounts; their reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain statements under s498(2) or (3) Companies Act 2006.

The following IFRIC interpretations, amendments to existing standards and new standards have been adopted in the current year but have not impacted the reported results or the financial position:

- IFRIC 23 - Uncertainty over Income Tax Treatments

Whilst the financial information included in this announcement has been computed in accordance with International Financial Reporting Standards ("IFRS"), this announcement does not itself contain sufficient information to comply with IFRS.

Copies of the annual report will be sent to shareholders who have elected to receive a copy of the annual report in due course and will also be available from the Company's registered office at 35 Portman Square, London, W1H 6LR. The report will also be available on the Company's website: www.ultra-electronics.com.

23. Organisational Structure

During 2020 the Group will amend its internal organisational structure to better reflect the markets that the Group addresses so that business groupings better reflect its capabilities, evolving product offerings and market facing segments. As a result of this change the Group has re-assessed its reporting segments under IFRS 8. Previously results were reported as Aerospace & Infrastructure, Communications & Security and Maritime & Land; they are now reported as Maritime, Intelligence & Communications and Critical Detection & Control. The table below shows the 2019 results based on this new structure.

		2019	
	Maritime	**Intelligence & communications**	**Critical detection & control businesses**
	£m	**£m**	**£m**
Revenue	353.0	224.8	247.6
Underlying operating Profit[1]	52.5	30.2	35.5
Underlying operating margin[1]	14.9%	13.4%	14.3%