Embargoed until 0700 7 August 2019

Ultra Electronics Holdings plc

("Ultra" or "the Group")

Interim Results for the six months to 30 June 2019

Making progress

£'m	**6 months to 30 June 2019**	6 months to 30 June 2018	Change % Reported	Organic[2]
Order book	**1,014.1**	969.2	+4.6	+6.6
Revenue	**387.1**	350.5	+10.4	+8.3
Underlying[1]				
Operating profit	**52.9**	47.9	+10.4	+7.7
Profit before tax	**46.5**	43.6	+6.7	
EPS (p)	**52.5**	45.1	+16.4	
Statutory				
Operating profit	**41.0**	30.4	+34.9	
Profit before tax	**37.9**	20.0	+89.5	
EPS (p)	**43.3**	20.0	+116.5	
Interim dividend per share (p)	**15.0**	14.6	+2.7	
Net debt to EBITDA[3]	**1.32x**	1.39x		

- **A solid start to the year**
  - Benefitting from strong markets
  - Good order book development
  - Continued organic revenue growth
  - Delivering as anticipated
- **Focus; Fix; Grow**
  - Ongoing strategic evolution and cultural change
  - Increased investment in R&D and IT
  - Progress on 'Fix' improvement initiatives
  - Identifying additional future improvement and growth potential
- **Long term opportunities**
  - Key positions on new programmes

Simon Pryce, Chief Executive Officer, commented:

"It has been a solid start to the year. Ultra is benefitting from strong US defence spend and increased demand on existing programmes. This helped us to deliver good order book and revenue growth and an improved financial performance in the first half. We are also making encouraging progress in changing Ultra's culture and on our strategic journey to become a more collaborative and value focussed application-engineered defence, critical detection and control solutions provider.

We have positive momentum into the second half and remain confident that 2019 will be a year of good progress for Ultra. Importantly, we have won good positions on a number of key new programmes which have significant long term potential. Together with our Focus; Fix; Grow initiatives, which are beginning to have an impact, this gives us confidence in the longer term improvement and growth opportunities for Ultra."

Webcast

Ultra Electronics will host a presentation to analysts on 7 August 2019 at 9.15am (BST) at Investec, 30 Gresham Street, EC2V 7QP. An audio webcast will be broadcast live via the following link http://bit.ly/ULE_H1webinar

Alternatively, a listen-only conference call will also be available on +44(0)330 221 0088; access code 787-558-277. 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 4 and 9. 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 period 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.

(3) Net debt to EBITDA: as IFRS 16 became effective half-way through the rolling 12 month period ended 30 June 2019, net debt and EBITDA for the current period is being calculated on a consistent basis to prior periods i.e. excluding the impact of IFRS 16. EBITDA is the underlying operating profit for the twelve months preceding the period end, before depreciation charges and before amortisation arising on internally generated intangible assets and on other non-acquired intangible assets, and adjusted to eliminate the impact of IFRS 16. The figure is adjusted to remove the EBITDA generated by businesses up to the date of their disposal in the period. Net debt comprises borrowings excluding IFRS 16 finance lease liabilities, less cash and cash equivalents. This treatment is consistent with Ultra's financial covenants which are also calculated excluding the impact of IFRS 16.

(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) 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.

Enquiries:

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About Ultra:

Ultra is a specialist international application-engineered defence solutions provider. The Group operates predominantly in defence and other highly regulated markets with particular expertise in the maritime, and Intelligence & Communication domains. Ultra is a sub-system and systems provider, focused on providing mission specific, bespoke solutions for its customers.

CEO REVIEW

Overview

As anticipated, we have made a solid start to the year. We are benefitting from good growth in our major markets, particularly North American defence spend, and have won positions on a number of important new “programs of record”. The order book grew by another 6.6% organically despite a significant sonobuoy order that would normally have been received in H1 not being placed until after the period end. We entered H2 with 93% order cover for the remainder of the year.

We achieved organic revenue growth in all three of our divisions and gross and net profit were both well ahead of H1 2018. As anticipated, gross margin was weaker than H1 2018 (when excluding the H1 2018 impact of cost over-runs at Herley), mainly due to mix issues. However, this was marginally worse than anticipated in our Aerospace & Infrastructure division (due to challenges in our Energy business from delayed customer orders and the impact of trade disputes impacting sales to China) and our Maritime & Land division (due to additional lower margin development work) but partially offset by mix benefits in Communications & Security.

Underlying operating margin was lower than the prior period (when excluding the H1 2018 impact of over-run costs at Herley), which mainly reflected the planned increases in investment in R&D, IT and “Fix” related projects (which will accelerate in H2), long term incentive accrual and the lack of the one-off gain on forex exposure recognised in 2018, which (as previously announced) is now hedged.

Although revenue growth in 2019 is first half weighted, we expect underlying operating margins to recover to more normal levels in H2.

Focus; Fix; Grow

We have made good progress on our Focus; Fix; Grow change agenda. We have appointed a Transformation Director to help to oversee and coordinate the Group wide business transformation initiatives to ensure programme management discipline, effective oversight and interdependency management. Our key priorities are:

Focus

Strategically, we intend to migrate, over time, from an aggregation of broadly autonomous site based businesses to a focused, application-engineered defence solutions provider, specialising in Maritime, Intelligence and Communication.

We will also continue to own and invest in our other critical detection and control businesses (specialist nuclear, forensics and aerospace) where we can see good opportunities for value creation.

We will pursue economies of scale and scope and deliver above market growth in our defence businesses through:

- closer collaboration and coordination in technology and know-how;
- more efficient utilisation of core competences and physical capabilities;
- sharing and standardising best process and practice in key areas such as programme management, systems engineering, and commercial;
- closer customer intimacy; and
- more effective strategic relationship building, marketing and cross-selling.

We will also pursue economies of scale from more effective use of shared services. This includes further standardisation and centralisation of administrative processes and taking better advantage of shared support functions, such as IT, procurement, management and human resources.

We are in the process of developing detailed plans to support execution of this strategy and to identify the growth opportunity and performance improvement potential it will deliver.

We have also continued to align our portfolio to support this strategy and divested both our Airport Systems and Corvid Paygate businesses in the first half for a combined total consideration of £22.8m.

Fix

In parallel with the strategy development work, we have made good progress in the first half in four key areas in on our broader change agenda:

1) Culture and Talent - we have continued to strengthen our business and functional leadership and the governance and oversight environment. We have made good progress in developing the Group's vision, mission and values and we have refreshed our Group wide ethics policy and code of conduct;
2) Organisational Design - we are reviewing the Group's organisational model to determine how best to structure the Group to deliver our strategy. Whilst this is unlikely to lead to wholesale changes, it will lead to changes in roles, responsibilities and the allocation of corporate, divisional and local resources;
3) Process and Practice - we are making some progress in improving a number of our core processes, particularly in the areas of commercial management, programme management and technology investment, although there is much more to do;
4) Infrastructure - we have delivered significant improvements in our underlying IT capability as planned, launching a collaborative intranet across the Group, and investment will accelerate into H2 as we further improve our group wide IT functions.

We have also made good progress on changing inefficient working capital management practices to optimise working capital throughout the year. Average rolling 12 month working capital turn improved to 6.8x at the end of June 2019 versus 6.4x at the end of June 2018.

Grow

In the first half we have won positions on a number of important new "programs of record" that will secure our growth for a number of years ahead, including two large sole-source IDIQ awards in our Communications & Security division and Maritime & Land division. We are already seeing the benefits of a more collaborative culture, using expertise and capability from across the Group to bid on new programmes. This enables us to de-risk solutions for our customers, which will increase our win rate over time.

Outlook for H2

Our major markets are continuing to grow and our strong technology base positions us well to meet our customers' needs.

We have a strong order book and positive momentum into the second half and remain confident that 2019 will be a year of progress for Ultra. Importantly, with a number of key new programme wins having significant long term potential and as our Focus; Fix; Grow programme begins to take effect, we see exciting long term future growth and improvement opportunities for Ultra.

FINANCIAL REVIEW

Orders

The order book increased organically by 6.6% to £1,014.1m (2018: £969.2m) compared to the prior period and showed 6.3% organic growth from the 31 December 2018 position of £983.9m, reflecting improving defence budgets, notably in the US, and some key wins on new and existing programmes. Order intake in the period grew organically by 12.4% to £449.9m (2018: £391.6m) and represents a book to bill ratio of 1.16 (2018: 1.12). The opening order cover for the second half is 93%.

Revenue

	£m	% impact
Six months to June 2018	350.5	
Currency translation	13.7	+3.9
Disposals	(6.7)	-1.9
Six months to June 2018 (for organic measure)	357.5	
Organic growth	**29.6**	**+8.3**
Six months to June 2019	387.1	+10.4

Revenue grew by 10.4% to £387.1m compared to the prior period. This represents organic[2] growth of 8.3%, reflecting improved conditions in our US market. Specific programmes include revenue from the recently won Next Generation Surface Search Radar development contract, military aircraft platforms and tactical command and control systems. Sterling weakened during the period, increasing reported revenue by 3.9%. The average US dollar rate in the six months to 30 June 2019 was $1.29 compared to $1.38 in the prior period. The disposal of the Airport Systems business early in the year reduced revenue by 1.9% compared to the prior period.

Underlying operating profit and margins[1]

	£m	% impact
Six months to June 2018	47.9	
Currency translation	1.5	+3.1
Impact of IFRS 16 adoption	0.6	+1.3
Disposals	(0.9)	-1.9
Six months to June 2018 (for organic measure)	49.1	
Organic growth	**3.8**	**+7.7**
Six months to June 2019	52.9	+10.4

Underlying operating profit was £52.9m (2018: £47.9m), an increase of 10.4% on the prior period. The underlying operating margin[1] was 13.7% (2018: 13.7%). Excluding the over-run costs at Herley in the prior period, H1 2019 underlying operating margin declined, as expected, due to:

- mix, predominantly sonobuoys and reduced radio sales in H1;
- increased investment in R&D, IT and other "Fix" programmes;
- delayed orders and challenges selling into China in our Energy business;
- additional lower margin development work;
- increased incentive accrual; and
- lack of the £1.2m one off gain on forex exposure gained in 2018, which is now hedged.

Ultra continued its programme of R&D, with total spend in the period of £70.0m (2018: £72.8m). Company funded investment increased to £13.0m (2018: £12.6m), while customer funding decreased to £57.0m (2018: £60.2m). The overall level of R&D investment in the period was 18.1% (2018: 20.8%). The rate of company funded investment is expected to increase further in the second half of the year.

Finance charges

Net financing charges[5] increased by £2.2m to £6.5m (2018: £4.3m). £0.7m of the increase is due to the adoption of the new leasing standard, IFRS 16, from 1 January 2019. £0.9m of the increase is 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. The remaining £0.6m increase reflects the higher average net debt compared to H1 2018, due to the share buy-back that was completed in January 2019, as well as higher US interest rates. The interest on bank debt was covered 11 times (2018: 11 times) by underlying operating profit.

Profit before tax

Underlying profit before tax[1] was £46.5m (2018: £43.6m). IFRS profit before tax increased to £37.9m (2018: £20.0m), as set out below:

£m	2019 H1	2018 H1
Underlying profit before tax[1]	**46.5**	43.6
Amortisation of intangibles arising on acquisition	(10.6)	(14.0)
Acquisition and disposal related costs	(0.7)	(2.1)
Gain on disposals	0.8	-
Gain/(loss) on derivatives	2.6	(5.2)
Significant legal charges and expenses	(0.7)	(0.9)
Net finance charge on defined benefit pensions*	-	(1.0)
S3 programme	-	(0.4)
IFRS profit before tax	**37.9**	20.0

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

Reported IFRS profit before tax

As expected, there are fewer non-underlying items than the prior period and detail is provided as follows:

- acquisition and disposal related costs in the period were £0.7m (2018: £2.1m).

- a £0.8m gain arose upon disposing of our Airport Systems business from the Aerospace & Land division in February 2019 and our Corvid Paygate business from the Communications & Security division in June 2019.
- the net gain on forward foreign exchange contracts and interest rate swap was £2.6m (2018: £5.2m loss).
- legal charges and expenses include £0.5m of conduct of business investigation costs.

Tax, EPS and dividends

The Group's underlying tax rate(4) in the period decreased to 20.0% (2018: 21.5%), which is consistent with the 2018 underlying tax rate for the full year. The statutory tax rate on IFRS profit before tax is 19.2% (2018: 19.0%).

Underlying earnings per share(1) increased 16.4% to 52.5p (2018: 45.1p), reflecting the increase in profit and reduced number of shares in issue compared to the prior period. The weighted average number of shares in issue was 70.9m (2018: 76.0m). Basic earnings per share increased to 43.3p (2018: 20.0p). During the period, the Group spent £8.6m to re-purchase 0.6m ordinary shares at an average of £13.41 per share. At 30 June 2019 the number of shares in issue was 70,835,807.

An interim dividend of 15.0p (2018: 14.6p) is proposed, representing growth of 2.7% on the prior year, with the interim dividend being covered 3.5 times (2018: 3.1 times) by underlying earnings per share. The dividend will be paid on 20 September 2019 to shareholders on the register at 30 August 2019.

Operating cash flow and working capital

Cash generated by operations was £25.8m (2018: £13.1m), as a result of increases in working capital. Underlying operating cash flow(1) was £13.4m (2018: £6.5m) resulting in underlying operating cash conversion of 25% (2018: 14%). Capital expenditure, including continuing Enterprise Resource Planning ('ERP') systems implementation, increased to £8.4m (2018: £8.1m). The ERP programme remains on track with three more implementations successfully going live so far during 2019 and more projects expected to commence later in the year. Working capital increased by £32.6m principally due to reduced payables and increased receivables reflecting the previously announced working capital normalisation. Increases in inventory reflect revenue growth in the period, as well as purchases required to supply orders in the second half of the year.

Net debt

Ultra's net debt(3), excluding finance leases, at the end of the period was £171.0m (2018: £170.1m) and net debt/EBITDA was 1.32 times (2018: 1.39 times). The net debt figure including finance leases, which have been brought onto the balance sheet following the adoption of IFRS 16 from 1 January 2019, was £208.2m and net debt/EBITDA calculated on this IFRS 16 basis was 1.50 times.

£8.6m was spent in the period 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 buyback has now ceased. Initial proceeds of £21m were received in the period from the disposals of the Airport Systems and Corvid Paygate businesses.

New unsecured loan notes of US$70m were issued by Prudential Investment Management Inc ("Pricoa") in January 2019, which expire in January 2026 and January 2029. On the same date, $60m of expiring Pricoa debt was repaid. £62m of our Term Loan was repaid during the period with the balance (£67m) repaid on 31 July 2019. Consequently, the Group's committed facilities now comprise the £300m revolving credit facility, which has a maturity to November 2023 (and can be extended to November 2024 subject to lender consent) 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 Electronics Holdings plc (‘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, Ultra is investigating another conduct of business issue associated with the Philippines and is keeping the relevant authorities informed.

Updates to technical guidance

- As disclosed in note 11 of our 2018 Annual Report, the Group is monitoring developments relating to the European Commission decision that the UK CFC rules are partial State Aid. The UK Government has appealed the decision and requested certain information from recipients including Ultra but not yet provided details of how it will quantify and seek to recover State Aid. Our potential exposure is between £0m - £20m. We do not currently expect this exposure to be resolved in the near term;
- Tax guidance remains unchanged at 20% for 2019;
- We have made significant progress implementing a more rigorous assessment of investment and return analysis in R&D. Total investment in our own R&D has increased in the period and is likely to be 3.5% - 4% of revenue in 2019 (2018: 3.7%). The impact on margins of this lower than originally guided R&D spend in 2019 will likely be offset by a greater proportion of development contracts, some of which are sole source, versus 2018. Long term guidance for R&D spend remains at 4-5% of revenue;
- Increased radio sales, improving Energy performance and a better sonobuoy mix are expected to improve underlying operating margins in H2; and
- Total capital expenditure is expected to be in the range of £20m – 25m in 2019 (2018 £18.3m).

OPERATIONAL AND DIVISIONAL REVIEW

Aerospace & Infrastructure (26% of Group revenue for the 6 months ended 30 June 2019)

Specialist provider of products, sub-systems and solutions delivering critical detection, instrumentation and control capability for aerospace and energy applications.

£m	2019 H1 as stated	2018 H1 as stated	2018 H1 for organic measure	Growth %	Organic[2] growth %
Order book	300.2	319.1	287.4	-5.9	+4.5
Revenue	100.5	91.9	88.6	+9.4	+13.4
Underlying operating profit[1]	11.3	14.8	14.0	-23.6	-19.3
Underlying operating margin[1]	11.2%	16.1%	15.8%		

Markets

The defence aerospace market is showing strong signs of growth, driven by increased US defence spending and the ramp up of the F-35 Joint Strike Fighter programme. Additionally, forecast growth in platforms on which Ultra has secure positions are driving growth. The civil aerospace market also continues to grow, particularly in developing nations where there is an increasing need to meet growing air passenger traffic. Ultra remains well-positioned on a wide range of long term military and civil aerospace platforms, including the F-35 programme and several Airbus and Boeing commercial aircraft.

Performance
Revenue grew, despite the disposal of the Airport Systems business early in the year, reflecting organic revenue growth in the period. The growth was primarily due to increased activity on military aircraft platforms including the build rate of our high pressure pure air generating (HiPPAG) units for the F-35, although this growth was at lower than group average margins. Underlying operating profits declined in the first half due to:

- In H1 2018 this division benefited from £1.2m of foreign exchange gains; these were not repeated in 2019 following the previously announced adoption of the revised hedging strategy to reduce income statement volatility.
- Restructuring costs and higher spend on R&D, as we invest in programmes to support future growth.
- Product mix in our Energy business with some higher margin activity delayed into the second half of the year and increasing competition in the Chinese nuclear market.

As a result, the H1 underlying operating margin was 11.2% vs 16.1% last year.

The division's order book grew organically, but decreased £33.5m since December 2018 due to the £36.4m Airport Systems order book removal upon disposal. The larger orders won in the period were:

1) A £17m low-rate/initial-production three-year contract by Pratt & Whitney to provide equipment for ice protection for the F135 military engine.
2) Multiple awards from Boeing totaling over £10m to provide wing ice protection controllers and harnesses on the B787 commercial aircraft.

Communications & Security (30% of Group revenue for the 6 months ended 30 June 2019)

Specialist provider of mission-critical solutions for C3, cyber, encryption and electronic warfare applications.

£m	2019 H1 as stated	2018 H1 as stated	2018 H1 for organic measure	Growth %	Organic[2] growth %
Order book	259.5	282.6	287.5	-8.2	-9.7
Revenue	117.8	110.2	114.5	+6.9	+2.9
Underlying operating profit[1]	12.0	7.9	8.3	+51.9	+44.6
Underlying operating margin[1]	10.2%	7.2%	7.2%		

Markets
Growing US investment and rising regional tensions in the Pacific have led to a significant increase in the adoption of Communications & Security systems and equipment. The Communications & Security and cyber market is expected to grow considerably over the next five years. This growth is driven by growing demand for military communications infrastructure, cybersecurity functionality

and application of new technologies. Ultra is well-positioned on a broad range of C3 and cyber applications and remains well-placed to deliver solutions that already encompass future market technologies.

Performance
This division's revenue grew organically, 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 44.6% in the period, however, when the cost overrun impact at Herley in H1 2018 is excluded, operating profit declined by 18.9% versus H1 2018. This was predominantly due to lower international forensic product system shipments, and the reduced radio sales of the ORION radio systems in H1 for the US Army's Network Modernisation programme.

The division won a number of contracts during the period including two larger ones that are noted below. The order book reduced versus H1 2018 reflecting a strong prior year comparator. The order book however still grew by £29.3m versus 31 December 18. The larger orders won in the period were:

1) A $497m indefinite-delivery/indefinite-quantity (IDIQ) contract to provide the US Army with Orion radio systems with an initial order of $16.5m.
2) A five-year framework contract from the U.S. Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF), valued at over US$85 million for the provision of hardware, software, support and training services to ATF's National Integrated Ballistic Information Network (NIBIN).

Maritime & Land (44% of Group revenue for the 6 months ended 30 June 2019)

Specialist provider of high-integrity systems and solutions for a broad range of predominantly military maritime and land-based requirements.

£m	**2019 H1** as stated	**2018 H1** as stated	**2018 H1** for organic measure	Growth %	Organic[2] growth %
Order book	454.4	367.5	376.3	+23.6	+20.8
Revenue	168.8	148.4	154.4	+13.7	+9.3
Underlying operating profit[1]	29.6	25.2	26.8	+17.5	+10.4
Underlying operating margin[1]	17.5%	17.0%	17.4%		

Markets
Global maritime budgets remain strong as geopolitical disputes endure. Rising tensions in Asia-Pacific in particular, have led to increased investment in naval platforms and underwater warfare systems, elsewhere, the US is expected to have a strong pipeline of new-build surface ship and submarine platforms. Ultra is well positioned to benefit from the projected growth in the maritime market in the coming years, with world-class products, capabilities and strong positions on a broad range of long term programmes.

Performance

This division's revenue also grew organically, driven by the recently won Next Generation Surface Search Radar (NGSSR) development contract and maritime propulsion system activity. Demand also remains positive for Ultra's US sonobuoys. Shortly after the period end, the ERAPSCO JV was awarded a five year $1bn IDIQ for sonobuoys to the US Navy. Whilst operating margins remained similar to last year, this division has an increasing volume of cost-plus type contracts.

The division's order book increased £34.4m since December 2018, owing in part to the orders noted below:

1) The signing of a significant contract with Lockheed Martin Canada as the Underwater Warfare Integrated Product Team lead for the Canadian Surface Ship Combatant (CSC) programme. As part of Canada's Combat Ship Team, Ultra will provide a Towed Low-Frequency Active Sonar as well as its latest hull-mounted sonar; Ultra will also lead the integration of these sensors with sonobuoys and other Underwater Warfare capabilities to provide wide-area underwater battlespace surveillance.
2) Ultra was awarded an initial $5.5m contract for the US Navy NGSSR Production Programme. This development and qualification contract has a potential total value of over $34m and will provide navigation and general surface search radar functionality on all US Navy ships.
3) The award of a ten-year contract with the UK Ministry of Defence for support of its fleet of 16 Surface Ship Torpedo Defence Systems.

DIVIDEND

The Board has implemented a progressive dividend policy with a through cycle target of circa two times normalised cash and earnings cover, signalling confidence in the Group's future prospects. The 2019 proposed interim dividend is 15.0p. The dividend will be paid on 20 September 2019 to shareholders on the register at 30 August 2019.

Ultra Electronics Holdings plc

Results for the Six Months Ended 30 June 2019

Consolidated Unaudited Income Statement

	Note	**Six months to 30 June 2019 £'000**	Six months to 30 June 2018 £'000	Year to 31 December 2018 £'000
Revenue	3	**387,126**	350,510	766,745
Cost of sales		**(282,678)**	(254,804)	(544,649)
Gross profit		**104,448**	95,706	222,096
Other operating income		**449**	1,598	3,195
Distribution costs		**(442)**	(459)	(1,573)
Administrative expenses		**(58,563)**	(64,054)	(138,721)
Other operating expenses		**(4,209)**	(1,092)	(3,275)
Significant legal charges and expenses	3	**(669)**	(934)	(2,292)
S3 programme		**-**	(395)	(6,503)
Impairment charges		**-**	-	(7,589)
Operating profit	3	**41,014**	30,370	65,338
Gain/(loss) on disposal	16	**752**	-	(729)
Retirement benefit scheme GMP equalisation		**-**	-	(3,150)
Investment revenue	5	**2,761**	6,213	6,193
Finance costs	6	**(6,586)**	(16,575)	(25,097)
Profit before tax		**37,941**	20,008	42,555
Tax	7	**(7,298)**	(4,849)	(10,205)
Profit for the period		**30,643**	15,159	32,350
Attributable to:				
Owners of the Company		**30,712**	15,179	32,381
Non-controlling interests		**(69)**	(20)	(31)
Earnings per ordinary share (pence)				
- basic	9	**43.3**	20.0	43.6
- diluted	9	**43.3**	20.0	43.6

All results are derived from continuing operations.

Ultra Electronics Holdings plc

Results for the Six Months Ended 30 June 2019

Consolidated Unaudited Statement of Comprehensive Income

	Six months to 30 June 2019 £'000	Six months to 30 June 2018 £'000	Year to 31 December 2018 £'000
Profit for the period	**30,643**	15,159	32,350
Items that will not be reclassified to profit or loss:			
Actuarial profit on defined benefit pension schemes	**-**	-	4,588
Tax relating to items that will not be reclassified	**-**	-	(713)
Total items that will not be reclassified to profit or loss	**-**	-	3,875
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations	**8,588**	8,625	21,100
Transfer (to)/from profit and loss on cash flow hedge	**(254)**	(170)	435
Loss on loans used in net investment hedges	**(752)**	(4,930)	(11,521)
(Loss)/profit on cash flow hedge	**(11)**	253	(604)
Tax relating to items that may be reclassified	**-**	-	29
Total items that may be reclassified to profit or loss	**7,571**	3,778	9,439
Other comprehensive income for the period	**7,571**	3,778	13,314
Total comprehensive income for the period	**38,214**	18,937	45,664
Attributable to:			
Owners of the Company	**38,283**	18,957	45,695
Non-controlling interests	**(69)**	(20)	(31)

Ultra Electronics Holdings plc

Results for the Six Months Ended 30 June 2019

Consolidated Unaudited Balance Sheet

	Note	**At 30 June 2019 £'000**	At 30 June 2018 £'000	At 31 December 2018 £'000
Non-current assets				
Goodwill		**379,684**	398,929	377,761
Other intangible assets		**108,769**	125,432	113,889
Property, plant and equipment	10	**61,176**	61,232	62,597
Leased assets	2	**34,277**	-	-
Deferred tax assets		**18,134**	18,863	18,692
Derivative financial instruments	18	**267**	963	113
Trade and other receivables	11	**19,967**	24,222	22,639
		622,274	629,641	595,691
Current assets				
Inventories		**99,600**	91,917	88,551
Trade and other receivables	11	**216,827**	203,336	205,184
Tax assets		**6,937**	10,209	8,108
Cash and cash equivalents		**92,943**	124,351	96,319
Derivative financial instruments	18	**270**	581	301
Assets classified as held for sale		**-**	-	30,575
		416,577	430,394	429,038
Total assets	3	**1,038,851**	1,060,035	1,024,729
Current liabilities				
Trade and other payables	12	**(191,529)**	(190,910)	(212,247)
Tax liabilities		**-**	-	(5,032)
Derivative financial instruments	18	**(3,348)**	(4,359)	(5,534)
Borrowings		**(74,471)**	(53,054)	(175,759)
Liabilities classified as held for sale		**-**	-	(8,575)
Short-term provisions	13	**(12,162)**	(9,576)	(13,326)
		(281,510)	(257,899)	(420,473)
Non-current liabilities				
Retirement benefit obligations		**(68,531)**	(78,434)	(72,970)
Other payables	12	**(19,058)**	(16,214)	(14,878)
Deferred tax liabilities		**(12,009)**	(14,147)	(10,454)
Derivative financial instruments	18	**(944)**	(2,581)	(1,000)
Borrowings		**(226,669)**	(241,372)	(77,964)
Long-term provisions	13	**(5,908)**	(5,254)	(6,200)
		(333,119)	(358,002)	(183,466)
Total liabilities	3	**(614,629)**	(615,901)	(603,939)
Net assets		**424,222**	444,134	420,790
Equity				
Share capital	14	**3,542**	3,711	3,574
Share premium account		**201,045**	201,026	201,033
Capital redemption reserve		**346**	177	314
Own shares		**(2,581)**	(2,581)	(2,581)
Hedging reserve		**(60,737)**	(52,906)	(52,720)
Translation reserve		**125,091**	104,028	116,503
Retained earnings		**157,439**	190,660	161,659
Equity attributable to owners of the company		**424,145**	444,115	420,782
Non-controlling interest		**77**	19	8
Total equity		**424,222**	444,134	420,790

Ultra Electronics Holdings plc
Results for the Six Months Ended 30 June 2019
Consolidated Unaudited Cash Flow Statement

	Note	**Six months to 30 June 2019 £'000**	Six months to 30 June 2018 £'000	Year to 31 December 2018 £'000
Net cash inflow from operating activities	15	**13,991**	4,880	86,712
Investing activities				
Interest received		**131**	264	715
Purchase of property, plant and equipment		**(3,988)**	(5,852)	(12,953)
Proceeds from disposal of property, plant and equipment		**5**	19	134
Expenditure on product development and other intangibles		**(5,192)**	(3,267)	(7,029)
Disposal of subsidiary undertakings		**20,544**	-	225
Net cash from/(used in) investing activities		**11,500**	(8,836)	(18,908)
Financing activities				
Issue of share capital		**12**	116	123
Share buy-back (including transaction costs)		**(8,612)**	(49,739)	(91,902)
Dividends paid		**(26,122)**	(26,269)	(36,883)
Loan syndication costs		**(26)**	-	(657)
Repayments of borrowings		**(108,678)**	(25,000)	(181,297)
Proceeds from borrowings		**117,716**	89,996	198,961
Finance lease payments		**(4,461)**	-	-
Cash out-flow on closing out foreign currency hedging contracts		**-**	(11,104)	(11,104)
Net cash used in financing activities		**(30,171)**	(22,000)	(122,759)
Net decrease in cash and cash equivalents		**(4,680)**	(25,956)	(54,955)
Cash and cash equivalents at beginning of period		**96,319**	149,522	149,522
Effect of foreign exchange rate changes		**1,304**	785	1,752
Cash and cash equivalents at end of period		**92,943**	124,351	96,319

Consolidated Unaudited Statement of Changes in Equity

Equity attributable to equity holders of the parent

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Reserve for own shares £'000	Hedging reserve £'000	Translation reserve £'000	Retained earnings £'000	Non-controlling interest £'000	Total equity £'000
Balance at 31 December 2018 as originally presented	**3,574**	**201,033**	**314**	**(2,581)**	**(59,720)**	**116,503**	**161,659**	**8**	**420,790**
Adoption of IFRS 16	-	-	-	-	-	-	(1,284)	-	(1,284)
Restated total equity at 1 January 2019	**3,574**	**201,033**	**314**	**(2,581)**	**(59,720)**	**116,503**	**160,375**	**8**	**419,506**
Profit for the period	-	-	-	-	-	-	30,574	69	30,643
Other comprehensive income for the period	-	-	-	-	(1,017)	8,588	-	-	7,571
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**(1,017)**	**8,588**	**30,574**	**69**	**38,214**
Equity-settled employee share schemes	-	12	-	-	-	-	1,224	-	1,236
Shares purchased in buy-back	(32)	-	32	-	-	-	(8,612)	-	(8,612)
Dividend to shareholders	-	-	-	-	-	-	(26,122)	-	(26,122)
Balance at 30 June 2019	**3,542**	**201,045**	**346**	**(2,581)**	**(60,737)**	**125,091**	**157,439**	**77**	**424,222**

Ultra Electronics Holdings plc
Results for the Six Months Ended 30 June 2018
Consolidated Unaudited Statement of Changes in Equity

Equity attributable to equity holders of the parent

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Reserve for own shares £'000	Hedging reserve £'000	Translation reserve £'000	Retained earnings £'000	Non-controlling interest £'000	Total equity £'000
Balance at 31 December 2017 as originally presented	**3,887**	**200,911**	**-**	**(2,581)**	**(48,059)**	**95,403**	**262,611**	**39**	**512,211**
Adoption of IFRS 15	-	-	-	-	-	-	(11,393)	-	(11,393)
Restated total equity at 1 January 2018	**3,887**	**200,911**	**-**	**(2,581)**	**(48,059)**	**95,403**	**251,218**	**39**	**500,818**
Profit for the period	-	-	-	-	-	-	15,179	(20)	15,159
Other comprehensive income for the period	-	-	-	-	(4,847)	8,625	-	-	3,778
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**(4,847)**	**8,625**	**15,179**	**(20)**	**18,937**
Equity-settled employee share schemes	1	115	-	-	-	-	271	-	387
Shares purchased in buy-back	(177)	-	177	-	-	-	(49,739)	-	(49,739)
Dividend to shareholders	-	-	-	-	-	-	(26,269)	-	(26,269)
Balance at 30 June 2018	**3,711**	**201,026**	**177**	**(2,581)**	**(52,906)**	**104,028**	**190,660**	**19**	**444,134**

Ultra Electronics Holdings plc
Results for the Twelve Months Ended 31 December 2018
Consolidated Statement of Changes in Equity

Equity attributable to equity holders of the parent

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Reserve for own shares £'000	Hedging reserve £'000	Translation reserve £'000	Retained earnings £'000	Non-controlling interest £'000	Total equity £'000
Balance at 1 January 2018	**3,887**	**200,911**	**-**	**(2,581)**	**(48,059)**	**95,403**	**262,611**	**39**	**512,211**
Adoption of IFRS 15	-	-	-	-	-	-	(12,156)	-	(12,156)
Tax adjustment of adoption of IFRS 15	-	-	-	-	-	-	2,240	-	2,240
Restated total equity at 1 January 2018	**3,887**	**200,911**	**-**	**(2,581)**	**(48,059)**	**95,403**	**252,695**	**39**	**502,295**
Profit for the year	-	-	-	-	-	-	32,381	(31)	32,350
Other comprehensive income for the year	-	-	-	-	(11,661)	21,100	3,875	-	13,314
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**(11,661)**	**21,100**	**36,256**	**(31)**	**45,664**
Equity-settled employee share schemes	1	122	-	-	-	-	1,493	-	1,616
Shares purchased in buy-back	(314)	-	314	-	-	-	(91,902)	-	(91,902)
Dividend to shareholders	-	-	-	-	-	-	(36,883)	-	(36,883)
Balance at 31 December 2018	**3,574**	**201,033**	**314**	**(2,581)**	**(59,720)**	**116,503**	**161,659**	**8**	**420,790**

1. General information

The information for the year ended 31 December 2018 does not constitute statutory accounts as defined in section 435 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report and did not contain statements under section 498 (2) or (3) of the Companies Act 2006.

These interim financial statements, which were approved by the Board of Directors on 7 August 2019, have not been audited or reviewed by the Auditor.

2. Accounting policies

The annual financial statements of Ultra Electronics Holdings plc are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The condensed consolidated financial statements included in this half-yearly financial report have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and International Accounting Standard 34 'Interim Financial Reporting' as adopted by the European Union.

The same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the Group's latest annual audited financial statements. The following Standards and interpretations were adopted as at 1 January 2019:

- IFRS 16 – Leases

IFRS 16

Background

IFRS 16 Leases came into effect on 1 January 2019 and replaced IAS 17 and IFRIC 4. IFRS 16 requires that all leases and the related rights and obligations should be recognised on the lessee's Balance Sheet, unless the lease is less than one year in length or is for a low value asset. Leases that do not meet these criteria are expensed on a straight-line basis.

For each lease, a liability for lease obligations to be incurred in the future must be recognised. Correspondingly, a right-of-use asset is capitalised. The asset and liability are initially measured at the present value of all future lease payments plus directly attributable costs.

Under IFRS 16, previous lease charges (recognised in gross profit or indirect costs) are replaced with depreciation on the right-of-use asset and interest on the lease liability in the consolidated income statement. In addition, the cash impact of the lease is split between the principal and interest, with net cash flow remaining unchanged to pre-IFRS 16 cash flow.

The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease.

Therefore, the definition of a lease in accordance with IAS 17 and IFRIC 4 continues to apply to those leases entered or modified before 1 January 2019. For leases entered into or modified on or after 1 January 2019, a contract will be determined as a lease if the Group has control of the leased asset, as defined by IFRS 16. The following practical expedients, permitted by IFRS 16, have also been utilised:

- The application of a single discount rate to a portfolio of similar characteristic leases;
- Reliance on prior IAS 37 assessments of onerous leases as an alternative to performing an impairment review on transition;

2. Accounting policies (continued)

- The use of hindsight: for property leases with historical extension option exercise dates, hindsight was applied such that the initial lease period also includes the extension period. Similarly, if the exercise date for a termination option had already passed by the transition date, it was assumed that the termination option was not exercised.

For the measurement of the right-of-use assets at the date of transition, initial direct costs were not taken into account. Additionally, the Group had one sublet that was determined as a finance lease and therefore the opening lease liability and right-of-use asset were adjusted for the sublease income for this property as required under IFRS 16. For the measurement of the lease liabilities at the date of first time application the value was adjusted for any prepaid or accrued lease payments.

Initial recognition

The Group has adopted the modified retrospective approach 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 £1.3m (£1.7m 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:

	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	-	35.3	1.4	-	36.7
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)	-	-	0.4	(15.1)
Net assets	420.8	(1.7)	-	0.4	419.5
Retained earnings	**161.7**	**(1.7)**	**-**	**0.4**	**160.4**

2. Accounting policies (continued)

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 £'000	Non-property leases £'000	Total £'000
Operating lease commitment at 31 December 2018	35,468	1,441	36,909
Discounted at 1 January 2019	31,650	1,331	32,981
Recognition exemption for:			
Short term leases	(69)	(9)	(78)
Leases of low-value assets	-	(1)	(1)
Removal of service charges / utilities	(2,820)	(9)	(2,829)
Reduction for subletting	(233)	-	(233)
Change in lease length assumption	8,889	18	8,907
Change in lease cost increase assumption	(70)	(27)	(97)
Change due to phasing of payments	(93)	(30)	(123)
Other adjustments	838	116	954
Lease liabilities recognised at 1 January 2019	**38,092**	**1,389**	**39,481**

The lease liabilities were discounted as at 1 January 2019; the weighted average discount rate was 3.7% for property leases and 2.7% 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.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The asset and liability are initially measured at the present value of all future lease payments plus directly attributable costs. Payments made before the commencement date and incentives received from the lessor are also included in the carrying amount of the right-of-use asset. The asset is then amortised over the useful life of the lease on a straight-line basis. Further details on the valuation of the right-of-use asset and the lease liability and the discount rate applied in calculating the present value are discussed below.

During the six months ended 30 June 2019, in relation to leases under IFRS 16, the Group recognised depreciation of £4.6m and an interest expense of £0.7m.

Short term leases and leases of low value assets

The Group has elected not to recognise leases that are less than one year in length or are for a low value asset (<£3.5k) on the balance sheet. These leases are expensed on a straight-line basis as short term leases or leases of low value assets.

Valuation of lease liabilities and right-of-use assets

IFRS 16 requires the Group to make judgments that impact the initial valuation of the lease liabilities and the right-of-use assets. These judgments include: determining what contracts are in scope of IFRS 16, determining the lease contract term and determining the interest rate used for discounting future cash flows.

2. Accounting policies (continued)

The lease term is the non-cancellable period of the lease contract. It can also be impacted by periods covered by an option to extend the lease if the Group is reasonably certain that it will exercise that option. For lease contracts with an indefinite term the Group estimates the length of the contract to be equal to the economic useful life of the asset or typical market contract term. The lease term is used to determine the depreciation rate of right-of-use assets.

For property leases, the Group has assumed that for leases that are due to expire within three years of the transition date that these will be renewed for the same length of time as the initial lease term, except where lease specific non-renewal information was already known at the transition date.

The lease liability is measured at amortised cost using the effective interest method. The present value of the lease payment is determined using the discount rate. The Group has used two discount rates for each country the lease is based in; one for property and one for non-property leases. The discount rate is determined based on: 1) the risk free rate on government bonds in the location and currency of the lease over a similar term as the lease; 2) the Group's borrowing rate; and 3) an asset specific premium. Discount rates remain the same throughout the lease unless the lease term or renewal assumptions change and range between 0.5% and 11.9%.

Onerous lease provisions are offset against the right-of-use asset and replaced by an annual assessment of impairment on the right-of-use assets in accordance with IAS 36. Additionally, under IFRS 16, lease incentives (e.g. rent free periods) will be recognised as part of the measurement of the right-of-use asset and lease liability, rather than recognised as a separate liability as under IAS 17.

The lease liability and right-of-use asset are remeasured when there is a change in the future lease payments arising from a change in the expected lease term, or a change in the estimated total cost of the lease.

Subletting

The Group sublets some property space to third parties. For these sublets, the Group first determines if the sublet lease is an operating or finance lease. This is determined as a finance lease if substantially all of the risks and rewards of the property are transferred to the lessee through the lease, otherwise it is classified as an operating lease.

When the sublease is considered as a finance lease, the discounted value of the cash income from the sublet is deducted from the right-of-use asset and liability of the Group's lease ("head lease") for that property unless the head lease is a short lease or a low value asset lease.

If the sublease is considered an operating lease, then the payments received from the lease are recognised as income on a straight-line basis.

3. Segment information

(i) Revenue by segment

	Six months to 30 June 2019			Six months to 30 June 2018		
	External revenue £'000	**Internal revenue £'000**	**Total £'000**	External revenue £'000	Internal revenue £'000	Total £'000
Revenue						
Aerospace & Infrastructure	**100,479**	**3,646**	**104,125**	91,889	3,566	95,455
Communications & Security	**117,792**	**1,405**	**119,197**	110,240	2,159	112,399
Maritime & Land	**168,855**	**7,622**	**176,477**	148,381	5,771	154,152
Eliminations	**-**	**(12,673)**	**(12,673)**	-	(11,496)	(11,496)
Consolidated revenue	**387,126**	**-**	**387,126**	350,510	-	350,510

(ii) Profit by segment

	Aerospace & Infrastructure £'000	**Communications & Security £'000**	**Maritime & Land £'000**	**Unallocated £'000**	**Six months to 30 June 2019 Total £'000**
Underlying operating profit	**11,298**	**12,032**	**29,588**	**-**	**52,918**
Amortisation of intangibles arising on acquisition	**(679)**	**(5,822)**	**(4,072)**	**-**	**(10,573)**
Significant legal charges and expenses	**(206)**	**-**	**-**	**(463)**	**(669)**
Acquisition & disposal related costs net of adjustments to contingent consideration	**(207)**	**(376)**	**(79)**	**-**	**(662)**
Operating profit/(loss)	**10,206**	**5,834**	**25,437**	**(463)**	**41,014**
Gain on disposal					**752**
Investment revenue					**2,761**
Finance costs					**(6,586)**
Profit before tax					**37,941**
Tax					**(7,298)**
Profit after tax					**30,643**

Significant legal charges and expenses include £463,000 (2018: £934,000) of anti-bribery and corruption investigation costs and £206,000 (2018: nil) on legal charges relating to the Ithra contract. Unallocated items are specific corporate level costs that cannot be allocated to a specific division.

3. Segment information (continued)

	Aerospace & Infrastructure £'000	Communications & Security £'000	Maritime & Land £'000	Unallocated £'000	Six months to 30 June 2018 Total £'000
Underlying operating profit	14,790	7,890	25,171	-	47,851
Amortisation of intangibles arising on acquisition	(648)	(7,312)	(6,078)	-	(14,038)
Significant legal charges and expenses	-	-	-	(934)	(934)
Acquisition & disposal related costs net of adjustments to contingent consideration	(301)	(235)	(1,578)	-	(2,114)
S3 programme	(99)	(152)	(144)	-	(395)
Operating profit/(loss)	13,742	191	17,371	(934)	30,370
Investment revenue					6,213
Finance costs					(16,575)
Profit before tax					20,008
Tax					(4,849)
Profit after tax					15,159

	Aerospace & Infrastructure £'000	Communications & Security £'000	Maritime & Land £'000	Unallocated £'000	Year to 31 December 2018 Total £'000
Underlying operating profit	29,966	29,953	52,807	-	112,726
Amortisation of intangibles arising on acquisition	(1,357)	(14,437)	(12,466)	-	(28,260)
Impairment charge	(6,550)	-	(1,039)	-	(7,589)
Significant legal charges and expenses	-	-	-	(2,292)	(2,292)
Acquisition & disposal related costs net of adjustments to contingent consideration	(560)	(465)	(1,719)	-	(2,744)
S3 programme	(457)	(1,484)	(4,562)	-	(6,503)
Operating profit/(loss)	21,042	13,567	33,021	(2,292)	65,338
Loss on disposal					(729)
Retirement benefit scheme GMP equalisation					(3,150)
Investment revenue					6,193
Finance costs					(25,097)
Profit before tax					42,555
Tax					(10,205)
Profit after tax					32,350

3. Segment information (continued)

(iii) Total assets by segment

	At 30 June 2019 £'000	At 30 June 2018 £'000	At 31 December 2018 £'000
Aerospace & Infrastructure	**202,603**	223,058	224,523
Communications & Security	**438,634**	424,504	429,451
Maritime & Land	**279,061**	257,506	247,222
	920,298	905,068	901,196
Unallocated	**118,553**	154,967	123,533
Consolidated total assets	**1,038,851**	1,060,035	1,024,729

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

(iv) Total liabilities by segment

	At 30 June 2019 £'000	At 30 June 2018 £'000	At 31 December 2018 £'000
Aerospace & Infrastructure	**43,530**	50,940	51,573
Communications & Security	**110,098**	91,629	87,479
Maritime & Land	**120,626**	87,430	104,848
	274,254	229,999	243,900
Unallocated	**340,375**	385,902	360,039
Consolidated total liabilities	**614,629**	615,901	603,939

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

(v) Revenue by destination

	Six months to 30 June 2019 £'000	Six months to 30 June 2018 £'000	Year to 31 December 2018 £'000
United Kingdom	**84,281**	80,573	171,511
Continental Europe	**23,579**	29,527	62,870
Canada	**15,823**	10,012	22,825
USA	**221,001**	180,026	416,495
Rest of World	**42,442**	50,372	93,044
	387,126	350,510	766,745

4. 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 2019 £'000	Six months to 30 June 2018 £'000	Year to 31 December 2018 £'000
Operating profit	**41,014**	30,370	65,338
Amortisation of intangibles arising on acquisition	**10,573**	14,039	28,260
Significant legal charges and expenses	**669**	934	2,292
Acquisition and disposal related costs net of adjustments to contingent consideration	**662**	2,114	2,744
S3 programme	**-**	395	6,503
Impairment charges	**-**	-	7,589
Underlying operating profit	**52,918**	47,852	112,726
Profit before tax	**37,941**	20,008	42,555
Amortisation of intangibles arising on acquisition	**10,573**	14,039	28,260
Acquisition and disposal related costs net of adjustments to contingent consideration	**662**	2,114	2,744
Profit on fair value movements on derivatives	**(2,630)**	(5,949)	(5,476)
(Gain)/Loss on disposal	**(752)**	-	729
Significant legal charges and expenses	**669**	934	2,292
Loss on closing out foreign currency derivative contract	**-**	11,104	11,104
Net interest charge on defined benefit pensions*	**-**	1,000	1,929
S3 programme	**-**	395	6,503
Retirement benefit scheme GMP equalisation	**-**	-	3,150
Impairment charges	**-**	-	7,589
Underlying profit before tax	**46,463**	43,645	101,379
Cash generated by operations	**25,802**	13,124	102,446
Principal payments on finance leases	**(4,461)**	-	-
Purchase of property, plant and equipment	**(3,988)**	(5,852)	(12,953)
Proceeds on disposal of property, plant and equipment	**5**	19	134
Expenditure on product development and other intangibles	**(5,192)**	(3,267)	(7,029)
Significant legal charges and expenses	**918**	-	1,532
S3 programme	**-**	1,377	2,600
Acquisition and disposal related payments	**356**	1,116	2,523
Underlying operating cash flow	**13,440**	6,517	89,253

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

4. Additional performance measures (continued)

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. 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. 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.
- 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.
- Other matters arising due to the Group's acquisitions such as adjustments to contingent consideration, payment of retention bonuses, acquisition and disposal related costs and fair value adjustments for acquired inventory made in accordance with IFRS 13 are separately disclosed in aggregate.
- Furthermore, 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 9.

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 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.

5. Investment revenue

	Six months to 30 June 2019 £'000	Six months to 30 June 2018 £'000	Year to 31 December 2018 £'000
Bank interest	**131**	264	717
Fair value movement on derivatives	**2,630**	5,949	5,476
	2,761	6,213	6,193

6. Finance costs

	Six months to 30 June 2019 £'000	Six months to 30 June 2018 £'000	Year to 31 December 2018 £'000
Amortisation of finance costs of debt	**452**	401	825
Interest payable on bank loans, overdrafts and other loans	**4,490**	4,070	11,239
Interest payable on leases	**706**	-	-
Total borrowing costs	**5,648**	4,471	12,064
Retirement benefit scheme finance cost	**938**	1,000	1,929
Loss on closing out foreign currency derivative contract	**-**	11,104	11,104
	6,586	16,575	25,097

7. Tax

	Six months to 30 June 2019 £'000	Six months to 30 June 2018 £'000	Year to 31 December 2018 £'000
Current tax			
United Kingdom	1,529	1,879	5,118
Overseas	3,618	3,444	7,119
	5,147	5,323	12,237
Deferred tax	2,151	(474)	(2,032)
Total tax charge	7,298	4,849	10,205

The main rate of UK corporation tax was 19% at 1 April 2019.

8. Ordinary dividends

	Six months to 30 June 2019 £'000	Six months to 30 June 2018 £'000
Final dividend for the year ended 31 December 2018 of 37.0p (2017: 35.0p) per share	**26,122**	26,269
Proposed interim dividend for the year ended 31 December 2019 of 15.0p (2018: 14.6p) per share	**10,591**	10,614

The interim 2019 dividend of 15.0 pence per share will be paid on 20 September 2019 to shareholders on the register at 30 August 2019. It was approved by the Board after 30 June 2019 and has not been included as a liability as at 30 June 2019.

9. Earnings per share

	Six months to 30 June 2019 Pence	Six months to 30 June 2018 Pence	Year to 31 December 2018 Pence
From continuing operations			
Basic underlying (see below)	**52.5**	45.1	109.5
Diluted underlying (see below)	**52.5**	45.1	109.5
Basic	**43.3**	20.0	43.6
Diluted	**43.3**	20.0	43.6

9. Earnings per share (continued)

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

	Six months to 30 June 2019 £'000	Six months to 30 June 2018 £'000	Year to 31 December 2018 £'000
Earnings			
Earnings for the purposes of earnings per share being profit for the period	**30,712**	15,179	32,381
Underlying earnings			
Profit for the period	**30,712**	15,179	32,381
Amortisation of intangibles arising on acquisition (net of tax)	**8,194**	10,849	21,968
Acquisition and disposal related costs net of contingent consideration (net of tax)	**662**	2,114	2,744
Profit on fair value movements on derivatives (net of tax)	**(2,181)**	(4,938)	(6,433)
Disposals (net of tax)	**(752)**	-	729
Significant legal charges and expenses (net of tax)	**544**	934	2,292
Net interest charge on defined benefit pensions (net of tax) *	**-**	830	1,929
S3 programme (net of tax)	**-**	298	5,059
Loss on closing out foreign currency derivative contracts (net of tax)	**-**	8,994	11,104
Impairment charges (net of tax)	**-**	-	7,342
Retirement benefit scheme GMP equalisation (net of tax)	**-**	-	2,300
Earnings for the purposes of underlying earnings per share	**37,179**	34,260	81,415

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

The adjustments to profit are explained in note 4.

The weighted average number of shares is given below:

	Six months to 30 June 2019	Six months to 30 June 2018	Year to 31 December 2018
Number of shares used for basic earnings per share	**70,870,331**	75,993,564	74,350,521
Effect of dilutive potential ordinary shares – share options	**5,078**	792	831
Number of shares used for fully diluted earnings per share	**70,875,409**	75,994,356	74,351,352

9. Earnings per share (continued)

	Six months to 30 June 2019 £'000	Six months to 30 June 2018 £'000	Year to 31 December 2018 £'000
Underlying profit before tax	**46,463**	43,645	101,379
Tax rate applied for the purposes of underlying earnings per share	**20.0%**	21.5%	19.7%

During the first six months of 2019, the company purchased and cancelled 634,996 shares. In 2018, the company purchased and cancelled 3,534,494 shares in the first six months, and purchased and cancelled 6,288,127 shares in the full year. See note 14.

10. Property, plant and equipment

During the period, the Group spent £4.0m on the acquisition of property, plant and equipment. The Group did not make any significant disposals during the period.

11. Trade and other receivables

	At 30 June 2019 £'000	At 30 June 2018 £'000	At 31 December 2018 £'000
Non-current:			
Amounts receivable from over time contract customers	**19,967**	24,222	22,639
	19,967	24,222	22,639

	At 30 June 2019 £'000	At 30 June 2018 £'000	At 31 December 2018 £'000
Current:			
Trade receivables	**100,870**	95,351	109,176
Provisions against receivables	**(3,472)**	(2,376)	(3,910)
Net trade receivables	**97,398**	92,975	105,266
Amounts receivable from over time contract customers	**97,039**	87,111	81,026
Prepayments and other receivables	**22,390**	23,250	18,892
	216,827	203,336	205,184

12. Trade and other payables

	At 30 June 2019 £'000	At 30 June 2018 £'000	At 31 December 2018 £'000
Amounts included in current liabilities:			
Trade payables	**54,945**	65,451	78,742
Amounts due to over time contract customers	**63,541**	59,063	52,442
Other payables	**73,043**	66,396	81,063
	191,529	190,910	212,247
Amounts included in non-current liabilities:			
Amounts due to over time contract customers	**14,235**	8,567	11,061
Other payables	**4,823**	7,647	3,817
	19,058	16,214	14,878

13. Provisions

	Warranties £'000	Contract related provisions £'000	Other £'000	Total £'000
At 30 June 2018	5,898	2,994	5,938	14,830
At 31 December 2018	6,267	6,522	6,737	19,526
At 30 June 2019	**6,023**	**5,721**	**6,326**	**18,070**
Included in current liabilities	2,713	5,083	4,366	12,162
Included in non-current liabilities	3,310	638	1,960	5,908
	6,023	**5,721**	**6,326**	**18,070**

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. Other provisions include re-organisation costs, deferred consideration and dilapidation costs. Dilapidations will be payable at the end of the contracted life, which is up to fifteen years. Contingent consideration is payable when earnings targets are met.

14. Share capital

3,738 shares, with a nominal value of £187 have been allotted in the first six months of 2019 under the terms of the Group's various share option schemes. The aggregate consideration received by the Company was £12,000.

During the first six months of 2019 the company purchased and cancelled 634,996 shares. The shares were acquired at an average price of £13.41 per share, with prices ranging from £12.80 to £14.02. The total cost of £8,612,000, including fees and stamp duty of £92,000, has been transferred to retained earnings. The total reduction in paid up capital was £32,000 for the period.

15. Cash flow information

	Six months to 30 June 2019 £'000	Six months to 30 June 2018 £'000	Year to 31 December 2018 £'000
Operating profit	**41,014**	30,370	65,338
Adjustments for:			
Depreciation of property, plant and equipment	**4,604**	4,291	8,933
Amortisation of intangible assets	**12,366**	15,831	32,366
Amortisation of leased assets	**4,590**	-	-
Impairment charges	**-**	-	7,589
Cost of equity-settled employee share schemes	**1,224**	271	1,493
Adjustment for pension funding	**(5,377)**	(5,298)	(10,301)
(Profit)/loss on disposal of property, plant and equipment	**(35)**	25	53
(Decrease)/increase in provisions	**(1,492)**	348	4,948
Operating cash flow before movements in working capital	**56,894**	45,838	110,419
Increase in inventories	**(9,369)**	(12,956)	(10,198)
(Increase)/decrease in receivables	**(4,755)**	2,640	(1,808)
(Decrease)/increase in payables	**(16,968)**	(22,398)	4,033
Cash generated by operations	**25,802**	13,124	102,446
Income taxes paid	**(6,876)**	(3,747)	(4,640)
Interest paid	**(4,229)**	(4,497)	(11,094)
Finance lease interest paid	**(706)**	-	-
Net cash inflow from operating activities	**13,991**	4,880	86,712

15. Cash flow information (continued)

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

	Six months to 30 June 2019 £'000	Six months to 30 June 2018 £'000	Year to 31 December 2018 £'000
Net decrease in cash and cash equivalents	(4,680)	(25,956)	(54,955)
Cash inflow from decrease in debt	(9,038)	(64,996)	(17,664)
Change in net debt arising from cash flows	(13,718)	(90,952)	(72,619)
Loan syndication costs	26	-	657
Lease liability	(37,200)	-	-
Amortisation of finance costs of debt	(420)	(366)	(761)
Translation differences	519	(4,300)	(10,224)
Movement in net debt in the period	(50,793)	(95,618)	(82,947)
Net debt at start of period	(157,404)	(74,457)	(74,457)
Net debt at end of period	(208,197)	(170,075)	(157,404)

Net debt comprised the following:	**At 30 June 2019 £'000**	At 30 June 2018 £'000	At 31 December 2018 £'000
Cash and cash equivalents	92,943	124,351	96,319
Borrowings	(301,140)	(294,426)	(253,723)
	(208,197)	(170,075)	(157,404)

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:

	At 30 June 2019 £'000	At 30 June 2018 £'000	At 31 December 2018 £'000
Borrowings at start of period	(253,723)	(223,979)	(223,979)
Repayments of borrowings	108,678	25,000	181,297
Proceeds from borrowings	(117,716)	(89,996)	(198,961)
Loan syndication costs	26	-	657
Amortisation of finance costs of debt	(420)	(366)	(761)
Lease liability recognition	(37,200)	-	-
Translation differences	(785)	(5,085)	(11,976)
Borrowings at end of period	(301,140)	(294,426)	(253,723)

16. Disposals

The Aerospace and Infrastructure division disposed of the Airport Systems business in February 2019 to ADB SAFEGATE. The Communications and Security division disposed of Corvid Paygate Limited in June 2019 to Jonas Computing (UK) Limited. Final cash proceeds remain deferred until the novation of certain contracts is completed. The gain on disposal calculation is provisional and subject to final working capital adjustments.

	Six months to 30 June 2019 £'000
Goodwill and intangible fixed assets	**22,073**
Property, plant and equipment	**1,494**
Leased assets	**1,484**
Inventories	**625**
Trade and other receivables	**8,597**
Trade and other payables	**(10,715)**
Lease liability	**(1,510)**
Total	**22,048**
Proceeds (cash in 2019 and deferred)	**(22,800)**
Gain on disposal	**(752)**

17. Going concern

The Directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing these condensed consolidated half year financial statements.

18. Financial instruments

Exposure to currency and interest rate risks arises in the normal course of the Group's business. Derivative financial instruments are used to hedge exposure to all significant fluctuations in foreign exchange rates and interest rates. All of the Group's financial instruments have been assessed as Level 2 or Level 3 and comprise foreign exchange forward contracts and interest rate swaps as Level 2 and the Strategic Aerospace and Defence Initiative ("SADI") loan as Level 3.

The directors consider that the carrying amount of all financial assets and liabilities approximates to their fair value.

Fair value measurements as at 30 June 2019 are set out in the table below. These forward exchange contracts have been fair valued using forward exchange rates that are quoted in an active market.

18. Financial instruments (continued)

	At 30 June 2019 £'000	At 30 June 2018 £'000	At 31 December 2018 £'000
Financial assets:			
Foreign exchange derivative financial instruments (through profit and loss)	**537**	1,027	149
Interest rate swap	**-**	517	265
Total	**537**	1,544	414
Financial liabilities:			
Foreign exchange derivative financial instruments (through profit and loss)	**4,292**	6,940	6,534
SADI loan	**8,398**	8,047	10,382
Total	**12,690**	14,987	16,916

19. Other matters

Seasonality

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

Related party transactions

There were no significant related party transactions, other than the remuneration of key management personnel during the period.

Organic performance measures

The Divisional management teams, the Executive Team and the Board review and compare current and prior period divisional and group order book, revenue and underlying operating profit at constant exchange rates and adjusted for any acquisitions or disposals to reflect the comparable period of ownership from the organic performance measures. The constant exchange comparison retranslates the prior period results from the prior period's average exchange rates into the current period's average exchange rates. The operating profit comparatives have also been adjusted as if IFRS 16 had applied in 2018.

RISKS AND UNCERTAINTIES

The Group faces a number of potential risks and uncertainties that may have a material impact on its performance in the remainder of 2019 (and beyond), and, as a consequence of which, 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 is available for download at https://www.ultra-electronics.com/investor-centre/results-centre.

In the defence sector, which contributes around 72% of Ultra's revenue, US defence budgets have now been agreed but time is still required for this to flow down into contract action. In addition, UK defence budgets remain under pressure. Nevertheless, the overall size of defence budgets worldwide, relative to the Group's revenue, provides sufficient headroom to support Ultra's growth potential.

There is a risk of programme delays or cancellations but this has always been a feature of the Group's markets.

Movements in foreign currency exchange rates result in both transaction and translation effects on the Group's results. Ultra's projected net transaction exposure is mitigated by the use of forward hedging contracts. From 1 January 2019 the Group revised its hedging strategy under IFRS 9 to reduce income statement volatility from re-valuation of US dollar assets and liabilities held on the UK balance sheet. By their nature, other currency translation risks cannot be mitigated.

Preparing for Brexit is a challenge due to the different possible scenarios. Ultra has continued working to establish Brexit plans within the supply chain during the first half of 2019 and continues to work with our suppliers to proactively manage Brexit interruption risk. The impact is currently difficult to estimate with the combination of different scenarios that could occur. This risk is included within the Group's supply chain risk and the Board continues to monitor this as Brexit approaches.

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

- Growth (including contract delivery)
- Delivering change
- People and culture
- Information management and security
- Supply chain (including Brexit)
- Governance and internal controls
- Pensions
- Legislation/regulation
- Health, safety and environment

As previously announced, the SFO is continuing to investigate the conduct of business in Algeria by Ultra Electronics Holdings plc, 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 Ultra is investigating another conduct of business issue associated with the Philippines and is keeping the relevant authorities informed.

As disclosed in note 11 of our 2018 Annual Report, the Group is monitoring developments relating to the European Commission decision that the UK CFC rules are partial State Aid. The UK Government has appealed the decision and requested certain information from recipients including Ultra but not yet provided details of how it will quantify and seek to recover State Aid. Our potential exposure is between £0m - £20m. We do not currently expect this exposure to be resolved in the near term.

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.

RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

(a) these condensed financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting";
(b) this half year report includes a fair review of the information required by Disclosure and Transparency Rule (DTR) 4.2.7R (indication of important events during the period and description of principal risks and uncertainties for the remainder of the financial year); and
(c) this half year report includes a fair review of the information required by DTR 4.2.8R (disclosure of related party transactions and changes therein).

By order of the Board

Simon Pryce
Chief Executive Officer
7 August 2019

Amitabh Sharma
Group Finance Director