For Immediate Release 6 March 2019

Ultra Electronics Holdings plc
("Ultra" or "the Group")
Audited Preliminary Results for the year ended 31 December 2018

£'m	**Year to 31 Dec 18**	Year to 31 Dec 17	Change % Reported	Change % Organic(2)
Order book	**983.9**	897.4	+9.6	+5.2
Revenue	**766.7**	775.4	-1.1	+2.2
Underlying(1)				
Operating profit	**112.7**	120.1	-6.2	-4.3
Profit before tax	**101.4**	110.0	-7.8	
EPS (p)	**109.5**	116.7	-6.2	
Statutory				
Operating profit	**65.3**	61.5	+6.2	
Profit before tax	**42.6**	60.6	-29.7	
EPS (p)	**43.6**	66.2	-34.1	
Final dividend per share (p)	**37.0**	35.0	+5.7	
Total dividend per share (p)	**51.6**	49.6	+4.0	
Net debt to EBITDA(3)	**1.25x**	0.56x		

- **Results for 2018 encouraging**
  - Return to organic(2) revenue growth
  - Profits as anticipated, better than expected cash conversion of 79% (2017: 97%)
  - Total dividend up 4.0% to 51.6p
- **Fundamentally good businesses**
  - Strong technology base
  - Talented and committed people
- **Exciting improvement opportunities**
  - **Focus**: On the things we're good at where we can add value
  - **Fix**: Core processes, enhance capabilities, better leverage strengths and evolve culture
  - **Grow**: Through strategic investment
- **Positive outlook**
  - Key wins on new and existing programmes
  - Well positioned in growth markets
  - 2019 organic(2) opening order book up 5.2% (66% opening order cover)
  - Increased investment in technology, processes and systems

Simon Pryce, Chief Executive Officer, commented:

"After a good second half and having addressed a number of legacy issues, we delivered an encouraging set of results in 2018. While there is much work to be done in the next phase of Ultra's development, we now have a solid platform from which to grow and deliver against our goal of creating long term, sustainable value for all our stakeholders.

Significant additional potential exists in Ultra through focusing the Group on where we add value, improving core processes and better leveraging the combined Group's strengths and capabilities. We anticipate that 2019 will be a year of good underlying progress and we look forward to an exciting future of growth with confidence."

Webcast

Ultra Electronics will host a presentation to analysts on 6 March 2019 at 9.00am (GMT) at Investec, 30 Gresham Street, EC2V 7QP. An audio webcast will be broadcast live via the following link http://bit.ly/ULE_FY18

Alternatively, a listen-only conference call will also be available on +44(0)330 221 0097; access code 838-007-349. An archive version of the presentation will be accessible on Ultra's website later today.

Notes:

Although Ultra has adopted the modified retrospective approach, with the cumulative impact of IFRS 15 posted through retained earnings at 1 January 2018, to provide further information to readers of the financial statements the narrative includes two figures for 2017, the first figure being the result as stated last year and the second being the result as if presented under IFRS 15. Percentage movement figures stated in the narrative with respect to revenue, profit and order book are relative to the prior period as if on an IFRS 15 basis. See note 18 for further detail on the adoption of IFRS 15.

(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 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 prepared on an IFRS 15 basis. Adjustment is also made for any acquisitions or disposals to reflect the comparable period of ownership.
(3) 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. Net debt comprises borrowings, less cash and cash equivalents.
(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 defined benefit pension finance charges.
(6) Bank interest cover is the ratio of underlying operating profit to finance charges associated with borrowings.

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CEO Review

Business overview – *A solid platform to grow*

Ultra is a specialist international electrical and electronics engineering company. The Group operates mainly, but not solely, in defence and other highly regulated markets with particular expertise in the maritime, and C3 (command, communication, and control including cyber) domains. Ultra is a Tier 3 equipment/sub-system and occasionally a Tier 2 systems provider, focused on providing mission specific, bespoke solutions.

Ultra's strengths include:

- good technology with pockets of excellence in areas such as sensors and transducers, signal transmission, processing and interpretation, specialist encryption and information assurance;
- a wide range of physical capabilities;
- limited product, platform or customer dependency with generally, although not always, relatively small shipset values;
- experience in designing products for operation in extreme environments where low size, weight and/or power are important;
- a strong reputation with customers for solving challenging and complex customer problems and needs; and
- talented and committed people, who have a close technical engagement with their customers.

However, Ultra today is an aggregation of different and independent companies and business models which is reflected in the Group operating model and its management and governance. A lack of common process, systems and infrastructure makes collaboration and the sharing of knowledge and best practice challenging. It also means that some of the Group's commercial processes and practices are sub-optimal. Most importantly, it also prevents Ultra leveraging the Group's combined strengths.

In recent years, against a back-drop of challenging core markets and some poorly performing businesses, a number of which were acquired, the Group has also tended to behave tactically rather than strategically. Whilst this has not impacted core technology strengths, which continued to benefit from customer funded development, it has led to a need to invest, particularly in Ultra's own R&D, processes, systems, IT infrastructure and most notably its highly capable and committed people.

Improvement opportunities – *Focus, Fix, Grow*

Ultra is fundamentally a good business but one that is not yet optimised. 2019 marks the start of our evolutionary journey to realise improvement opportunities at Ultra through 'Focus, Fix, and Grow'.

1. Focus

Over time, we intend to migrate Ultra from an aggregation of small, independent, loosely associated companies to a collaborative federation of connected businesses through:

- focusing on the things we are good at;
- collaborating better, particularly in technologies, capabilities, and strategic positioning; and
- better leveraging Group-wide capability.

***Immediate Priorities* -** The team has already completed the process of mapping and analysing our key technologies, capabilities and identifying our core competencies. We are well advanced in:

- developing a revised corporate strategy, reviewing our operating model and structure, including footprint and capability; and
- identifying and scaling the unrealised parenting opportunities within Ultra from greater collaboration, co-operation and focus.

During 2019, we will be finalising the corporate strategy, developing long term corporate goals, developing detailed and value creative strategic plans to support delivery of those objectives and ensuring the Group operating model is fit for purpose.

2. Fix

To fully realise Ultra's exciting potential, we need to fix and strengthen our core processes and better share best practice. We also need to support our people to evolve our culture to better support the next phase of our development. We have the opportunity to leverage the combined strengths of Ultra. Areas of particular focus will be:

- Cultural evolution and investment in talent to:
    - recognise, support and reward the behaviours needed to drive greater coordination and collaboration; and
    - to enhance, develop and empower the considerable talent already in the Group.
- Key process and practice:
    - programme management;
    - commercial: improve delivery on time, to cost and at a price that reflects the value of our products and services to our customers; and
    - technology: better assess and price contract and engineering risk.
- Operating model, structure and footprint where there is significant opportunity for Ultra to:
    - pool resources and realise synergies across businesses; and
    - increase the non-value-added process standardisation and centralisation. This was originally envisaged as part of the Standardisation and Shared Services (S3) programme. However, the cost savings delivered were achieved principally through restructuring, onerous lease provisions and indirect procurement in the UK.
- Connectivity and IT infrastructure enabling:
    - better collaboration and information sharing across businesses and functions; and
    - the standardisation of selected tools and processes across the Group.

***Immediate Priorities* -** We have already made progress with a number of the areas we need to fix, including:

- two new senior leadership roles have been created including a Commercial & Corporate Affairs Executive Vice President, to lead the review and enhancement of our programme management and commercial processes;
- appointment of significant new external hires at a senior level including Chairman, CEO, General Counsel and Company Secretary and Chief HR Officer. Work is underway to upgrade the performance management practices, systems and other people processes and rewards structures to support, develop, retain and focus our talent;
- increasing investment in 2019 and beyond in IT infrastructure and our own R&D; and
- ceasing inefficient working capital management practices and optimising working capital throughout the year to improve business practices and culture.

3. Grow

Ultra is well positioned in key technology, with its major markets projected to deliver good growth. Evolving defence delivery practices as well as the need to support our growth potential means we also need to increase investment in our own R&D. This is in part to meet the needs of existing customers, and in part to ensure we continue to maintain technology and capability leadership to win key positions on future platforms and programmes.

This requires a targeted, disciplined and Group wide approach to innovation and investment. There may well be opportunities in the future to acquire technologies and capabilities to support more rapid execution of our strategy, but we will only consider these once we have the right capabilities in place and then only where it makes clear strategic, commercial and financial sense.

We will keep you regularly informed and updated as our 'Focus, Fix, Grow' journey develops and we plan to provide additional KPIs to measure our progress and success later this year. However, we are confident that over time and with effective execution of our strategic and operational improvement plans, Ultra has the potential to achieve strong long-term, sustainable, value creation from organic growth in excess of its major defence markets, with at least mid-teens operating margins, 80-85% cash conversion, a progressive dividend policy and within a prudent capital structure.

FINANCIAL REVIEW

Orders

At the end of 2018 the order book was 9.6% higher at £983.9m (2017: £897.4m, IFRS 15: £914.4m), reflecting improving defence budgets, notably in the US, and some key wins on new and existing programmes. The organic increase was 5.2%. Opening order cover for 2019 is 66% (2018: 66%).

Revenue

	£m	% impact
2017 as stated	775.4	
IFRS 15	(7.1)	-0.9
2017 if under IFRS 15	768.3	
Currency movements	(18.3)	-2.4
Organic growth	**16.7**	**+2.2**
2018 revenue	**766.7**	-1.1

Revenue of £766.7m represented a return to organic[2] growth for the first time since 2011. The 2.2% organic[2] growth reflected increases in our US and international sonobuoy revenues and demand for our radio and Air Defense Systems Integrator (ADSI) products by the US military.

Reported revenue declined 1.1% to £766.7m compared to prior year revenue of £775.4m (IFRS 15: £768.3m). This was due to the organic[2] revenue growth of 2.2% being offset by the strengthening of sterling during the year, causing a negative foreign exchange impact of 2.4% from the translation of overseas revenue, and a 0.9% reduction arising from IFRS 15. The average US dollar rate in 2018 was $1.34 compared to $1.29 in 2017.

Underlying operating profit and margins[1]

Underlying operating profit was £112.7m (2017: £120.1m, IFRS 15 £117.7m), a decrease of 6.2% on the prior year. There was an organic decline of 4.3%, due to the previously announced £6.3m cost overruns at our Herley business on specific development contracts, a 0.1% impact of foreign exchange and IFRS 15 accounted for the remaining 2.0% reduction. The resulting underlying operating margin[1] was 14.7% (2017: 15.5%, IFRS 15: 15.3%). Underlying operating profit included a £2.9m gain in the period arising from foreign exchange on US dollar assets held in the UK. We have revised our hedging strategy under IFRS 9, with effect from 1 January 2019, as outlined in the financial guidance section below, to reduce income statement volatility from the revaluation of US dollar assets held on the UK balance sheet and a gain of this nature will not happen in future years.

Ultra continued its programme of R&D, with total spend in 2018 of £145.8m (2017: £161.1m). In 2018, company funded investment was 3.7% of revenue at £28.1m (2017: £29.9m or 3.9%), while customer funding decreased to 15.3% of revenue at £117.7m (2017: £131.2m or 16.9%). The funding required is dependent on the type and timing of engineering contracts awarded, as some require Ultra to fund the development phase while others attract customer funding. The overall level of R&D investment in the year was 19.0% (2017: 20.8%).

Finance charges

Net financing charges[5] were £11.3m (2017: £10.1m). The increase reflects higher US interest rates and higher average borrowing, compared to the prior year, following the share buyback. The interest on bank debt was covered 10 times (2017: 12 times) by underlying operating profit. The resulting underlying profit before tax was £101.4m (2017: £110.0m).

Profit before tax

Underlying profit before tax[1] was £101.4m (2017: £110.0m). IFRS profit before tax decreased to £42.6m (2017: £60.6m), as set out below:

£m	2018	2017
Underlying profit before tax[1]	**101.4**	110.0
Amortisation of intangibles arising on acquisition	(28.3)	(28.5)
Acquisition and disposal related costs	(2.7)	(12.8)
(Loss)/gain on derivatives	(5.6)	12.0
Significant legal charges and expenses	(2.3)	(8.0)
S3 programme	(6.5)	(7.8)
Loss on disposal	(0.7)	-
Impairment charges	(7.6)	(1.6)
Net finance charge on defined benefit pensions	(1.9)	(2.7)
Guaranteed Minimum Pensions (GMP) equalisation	(3.2)	-
IFRS profit before tax	**42.6**	60.6

Reported IFRS profit before tax

There are a higher number of non-underlying items than last year and detail is provided for this as follows:

- acquisition and disposal related costs of £2.7m (2017: £12.8m) include those remaining costs associated with the Sparton Corporation transaction which was terminated in March 2018;

- the net loss on forward foreign exchange contracts and interest rate swap was £5.6m (2017: £12.0m gain). This includes £11.1m of costs incurred closing out the foreign exchange forward contract put in place as part of the Sparton transaction. This was partially offset by a gain of £5.5m from the mark-to-market revaluation of the Group's foreign exchange forward contracts;
- significant legal charges and expenses include £2.3m of anti-bribery and corruption investigation costs. £8.0m was incurred in the prior year on legal charges relating to the Ithra (Oman) contract;
- as mentioned above, savings from the Group's S3 initiative of £19.7m (2017: £13.5m) were realised in the period, whilst costs on the programme were £6.5m (2017: £7.8m). In 2018 costs were incurred following the decision to close additional facilities and non-core product lines. The S3 initiative has yielded tangible benefits in terms of cost savings, although the operational efficiencies originally envisaged have yet to be fully realised. The below the line costs associated with the S3 programme ceased at the end of 2018, but work remains to simplify our transactional processes; this will continue and there remain opportunities for further operational improvements in the future;
- a £0.7m loss on disposal was incurred disposing of our non-core Fuel Cell business from the Maritime & Land division;
- impairment charges of £7.6m (2017: £1.6m) include a £6.6m impairment of the infrastructure cash generating unit goodwill following the previously disclosed agreement to dispose of the Airport Systems business for £22.0m, and a £1.0m impairment of an intangible asset relating to a non-core product line that was closed in the Maritime & Land division in the year;
- a £3.2m charge was incurred in relation to Guaranteed Minimum Pensions ("GMP") equalisation of the UK defined benefit pension scheme benefits earned in the period 17 May 1990 to 5 April 1997. This was following a High Court ruling in October 2018 against Lloyds Banking Group that impacts many UK businesses.

Tax, EPS and dividends

The Group's underlying tax rate(4) in the year decreased to 19.7% (2017: 21.6%) owing to the reduction in the federal income tax rate applicable to underlying US profits, offset by the new restriction of tax relief for US interest expenses, for which no deferred tax asset is recognised. The statutory tax rate on IFRS profit before tax was 19.0% (2017: 19.3%).

Underlying earnings per share(1) decreased to 109.5p (2017: 116.7p), reflecting the reduction in profit. The weighted average number of shares in issue was 74.4m (2017: 74.0m). Basic earnings per share decreased to 43.6p (2017: 66.2p). During the period, the Group spent £91.9m, to re-purchase 6.3m ordinary shares at an average of £14.52 per share. At 31 December 2018 the number of shares in issue was 71,470,065. As at 6 March 2019 the Group had spent £100m on the share buyback programme.

A final dividend of 37.0p (2017: 35.0p) is proposed. Subject to approval at the Annual General Meeting, this will result in a full year dividend of 51.6p (2017: 49.6p).

Operating cash flow and working capital

Cash generated by operations was £102.4m (2017: £97.4m), reflecting increases in working capital. Underlying operating cash flow(1) was £89.3m (2017: £116.5m) resulting in underlying operating cash conversion of 79% (2017: 97%). Capital expenditure, including Enterprise Resource Planning ('ERP') systems implementation, increased to £18.3m (2017: £11.2m). Seven Ultra businesses commenced ERP implementations over the year, with two going live in 2018 and the others on track to go live in the first half of 2019. Working capital increased by £7.9m principally due to increases in inventory, work-in-progress and raw materials reflecting increased organic revenues in the year. Specifically, this increase was due to purchases required to supply orders in early 2019 and purchasing requirements on essential long lead-time components. The inventory increase was partially offset by an increase in payables.

Net Debt

Ultra's net debt[3] at the end of the year was £157.4m (2017: £74.5m) and reflected the impact of the £91.9m spent in the year to re-purchase 6.3m ordinary shares. The Group's net debt/EBITDA was 1.25 times (2017: 0.56 times), and net interest payable on borrowings was covered around 10x by underlying operating profit.

2019 Financial Guidance

- we are targeting an increase in our own R&D investment to between 4% and 5% of revenue compared with 3.7% last year. The investment programme in the Group's IT infrastructure and systems will be a three to four-year operational expenditure improvement programme at a cost of c.£5m per year. These costs are partially offset by an improvement in organic profit and we expect operating margin to remain in the mid-teens range;
- the Group will regularise trade debtors and creditors during the year to reflect average working balances rather than those at period ends. This will have a cash impact of about £46m and will be reflected in a reduced cash conversion for the year, and the first half of 2019 will likely see a net cash out-flow for the Group. It is anticipated that cash conversion will return to the Group's historical range of 80-85% in the medium term;
- year-end Net debt/EBITDA is expected to be around 1.2x, reflecting the normalisation of working capital during the year and disposal of Airport Systems;
- Ultra has forward contracts in place to hedge the net US dollar cash generation of its UK businesses. However, the balance sheet which, has carried increasing US dollar denominated assets from certain long-term programmes, has not been hedged prior to the conversion of those assets into cash. From 1 January 2019 we have revised our hedging strategy under IFRS 9 to reduce income statement volatility from revaluation of US dollar assets held on the UK balance sheet. The £2.9m gain in FY 2018 will therefore not recur;
- tax guidance has been updated to c.20% (2018: 21.5%), reflecting changes to our US tax structure;
- IFRS 16 will result in a c. £1.5m increase in finance costs, partially offset by a c.£1m increase in operating profit. Net finance charges on defined benefit pensions will move to become an underlying cost from 1 January 2019;
- capital expenditure will increase to c.£25m (2018: £18.3m) due to ERP systems implementation, and;
- 2019 will have a similar second half weighting to 2018 due to the phasing in the Group's revenue from military tactical radios for the US Army's Network Modernisation programme.

OPERATIONAL AND DIVISIONAL REVIEW

The overall market background for Ultra is positive, reflecting the improving US defence market and other global defence budgets across multiple geographic regions. The Group continues to focus its operations in the "Five Eyes" nations. Ultra also works towards winning work in export markets around the world as military expenditure and the drive for indigenous defence capabilities is increasing. Key partnerships have been formed in these new target markets, such as India and Japan.

Aerospace & Infrastructure (26% of FY18 Group revenue)

Covering aerospace and nuclear, this division provides military and civil aerospace systems and sub-systems as well as control systems and instrumentation that ensure the safe operation of energy generating plants.

	2018 £m	**2017 (as stated)** £m	**2017 (IFRS 15)** £m	Growth vs 2017 as stated %	Growth vs 2017 IFRS 15 %
Order book	333.7	283.2	294.6	+17.8	+13.3
Revenue	196.2	203.2	202.0	-3.4	-2.9
Underlying operating profit[1]	30.0	32.6	32.0	-8.0	-6.3
Underlying operating margin[1]	15.3%	16.0%	15.8%		

Markets
The defence aerospace market is showing good signs of growth, with the North American, Europe, Middle East and Asian countries looking to acquire new aircraft, upgrade ageing fleets and develop indigenous platforms. Civil aerospace continues to grow, particularly in developing nations where there is a need to meet growing air passenger traffic, as well as in the demand for regional jets in North America and Europe. Ultra's long-standing positions on both military and a number of civil platforms position us well for this growth.

Divisional performance
This division's revenue declined due to lower demand for nuclear temperature products and delayed orders in information processing at Airport Systems, which were partially offset by an increase in the build rate of our high pressure pure air generating (HiPPAG) units. Profits declined due to lower revenue as well as product mix, with reduced high margin nuclear temperature revenues. As a result, the underlying operating margin was 15.3%.

The division's order book increased £39.1m since December 2017 (IFRS 15: £294.6m) owing in part to the orders noted below, which will underpin the division's future performance:

- multiple contract awards of over £60m to provide various subsystems to both Tier 1 and 2 OEMs for the Lockheed Martin F-35 Joint Strike Fighter programme; and
- orders received worth £18.1m to provide B787 electro-thermal wing ice protection systems (WIPS) to Boeing as part of an ongoing long-term contract.

Communications & Security (33% of FY18 Group revenue)

The provision of mission critical solutions including secure communications, encryption solutions as well as capabilities related to command and control, security and surveillance solutions and military electronic warfare ("EW").

	2018 **£m**	**2017 (as stated)** **£m**	**2017 (IFRS 15)** **£m**	Growth vs 2017 as stated %	Growth vs 2017 IFRS 15 %
Order book	230.2	258.7	258.1	-11.0	-10.8
Revenue	252.6	242.7	243.5	+4.1	+3.7
Underlying operating profit(1)	29.9	28.2	28.6	+6.0	+4.5
Underlying operating margin(1)	11.8%	11.6%	11.7%		

Markets
Increased demand for greater bandwidth and broader connectivity, coupled with a need for multi-platform and multi-user interoperability across global defence markets continues. The US continues to be the largest spender in these markets, however, countries in Asia-Pacific and European regions are ramping up their investments as they continue to face territorial disputes, domestic unrest and terrorism. Growing border disputes also call for higher critical infrastructure protection, surveillance and border control, particularly in the Asia-Pacific and Middle East regions. Ultra remains well positioned in a broad range of markets, spanning defence applications, cyber security, physical infrastructure & data security, surveillance command & control systems and forensic analysis markets.

Divisional performance
This division's revenue grew, benefitting from ORION radio system sales for the US Army's Network Modernisation programme, as well as growth in airborne platform sales and airborne EW and strategic missile programmes. This followed on from the strong order intake at the end of 2017. In the UK, revenues were impacted by continued uncertainty and government contracting delays within the secure comms and information assurance markets. Our US cyber solutions revenues also reduced as discretionary US Naval funding was allocated elsewhere. The overall revenue growth more than offset the foreign exchange reduction to the division's reported results.

Cost overruns incurred on specific development contracts at our Herley division resulted in an underlying divisional margin of 11.8%. However, margin improvements were driven by increased Air Defence Systems Integrator ("ADSI") and Orion radio deliveries in the year.

The division won a number of contracts during the year including two larger ones which are noted below. Relative to the strong closing order book at the end of 2017, the division's 2018 closing order book was £27.9m lower at £230.2m (IFRS 15: £258.1m). The larger orders won in the year were:
- a $46m five year IDIQ support contract to provide Ultra's ADSI to the US Army; and
- the award of a $24m contract to provide military tactical radios to the US Department of Defense.

Maritime & Land (41% of FY18 Group revenue)

Covering underwater warfare and maritime systems for surface, sub-surface and unmanned platforms for military, paramilitary and civil domains, as well as the provision of modern military manned and unmanned vehicles.

	2018 **£m**	**2017 (as stated)** **£m**	**2017 (IFRS 15)** **£m**	Growth vs 2017 as stated %	Growth vs 2017 IFRS 15 %
Order book	420.0	355.5	361.7	+18.1	+16.1
Revenue	317.9	329.5	322.8	-3.5	-1.5
Underlying operating profit(1)	52.8	59.3	57.1	-11.0	-7.5
Underlying operating margin(1)	16.6%	18.0%	17.7%		

Markets

Global underwater warfare budgets continue to grow as geopolitical disputes in Europe and Asia-Pacific have led to an increased investment in naval platforms and underwater warfare systems. The US, UK, Australia and Canada have all adopted national shipbuilding strategies to stimulate long-term new ship construction to meet evolving threats. Ultra is strongly positioned in this area of growth, securing a number of positions on long-term programmes.

Divisional performance

This division’s revenue grew organically, but declined overall due to the impact of foreign exchange. Demand for Ultra’s international and US sonobuoys remains healthy and our ERAPSCO JV continues to have a strong working relationship with the US Navy. Revenues on the maritime propulsion system order that was won in 2017 also contributed to sales in the year. However, there have been delays to some programmes resulting in lower revenue on receivers, as well as reduced datacom and sonar shipments where a number of projects completed in 2017.

Profits were impacted principally due to additional costs on the Health and Usage Monitoring System (HUMS) programme and receiver development programmes and this resulted in a reduction in the division’s underlying operating margin to 16.6%.

The division’s order book increased £58.3m since December 2017 (IFRS 15: £361.7m) owing in part to the orders noted below:

- a $42m contract award to supply the US Navy with MK 54 torpedo arrays;
- the award of a C$24m contract as part of the Royal Canadian Navy’s Underwater warfare suite upgrade; and
- the award of a £24.5m order to provide sonobuoys to the UK MoD – the first multi-year sonobuoy order received by Ultra from the UK.

BOARD CHANGES

Over a year ago the Board started the process to recruit a new Chief Executive Officer, which resulted in the appointment of Simon Pryce in June. Douglas Caster, who performed the role of Interim Executive Chairman during the process of recruiting the new CEO, stepped back to being Chairman upon Simon's appointment. In accordance with the Board's succession planning process, the Board and the Nomination Committee commenced a search for a new Non-executive Director and Chair Designate, resulting in Tony Rice joining the Board in December 2018 and taking over as Chairman on 28 January 2019.

As announced separately today, due to his increasing non-Ultra commitments and his recent appointment as Chair of the British Standards Institution, John Hirst has indicated that, with regret, he intends to step down as a Non-Executive Director and Chair of the Audit Committee later this year once a suitable replacement has been found. John will step down from the Remuneration Committee after the 2019 Annual General Meeting.

Sir Robert Walmsley's term as a Non-Executive Director was due to expire in April 2018. Given the changes to the Board on 10 November 2017, it was announced that the Board had asked Sir Robert to remain on the Board for a further year as Senior Independent Director to provide non-executive continuity and leadership. Following the further changes to the Board in 2018, the Board has again requested Sir Robert to remain on the Board until January 2020, at the latest, to ensure a degree of continuity and business knowledge.

DIVIDEND

The Board has implemented a new progressive dividend policy with a through cycle target of circa two times normalised cash and earnings cover. This progressive policy is a signal of the Board's confidence in the future of Ultra. The 2018 proposed final dividend of 37.0p per share is proposed to be paid on 9 May 2019 to shareholders on the register at 12 April 2019. This implies a total dividend of 51.6p, a 4% increase on 2017.

SHARE BUYBACK

In March 2018 the Group announced it had terminated the proposed acquisition of Sparton Corp, due to the result of an antitrust review from the US Department of Justice ("DOJ"). The Group incurred c.£20m of costs as part of this process. The Group had raised approximately £134m (net) through an equity placing to part fund the acquisition. As at 6 March 2019 Ultra had bought back and cancelled c.£100m of Ultra shares, at an average cost of £14.42. We see good medium-term opportunities to invest the remaining issued capital in a value-creative way in the businesses as part of our 'Focus, Fix, Grow" journey. It is therefore our intention to formally close the buyback that was announced in March 2018, whilst retaining the opportunity to buyback our shares in the normal way should it make economic sense to do so.

CAPITAL ALLOCATION PRIORITIES

The Group intends to take a prudent and disciplined approach to capital management with the following priorities:

1) Investing for sustainable growth
2) Progressive dividend policy
3) Efficient balance sheet
4) Longer term strategic investment potential

OUTLOOK

After a good second half and having addressed a number of legacy issues, we delivered an encouraging set of results in 2018. While there is much work to be done in the next phase of Ultra's development, we now have a solid platform from which to grow and deliver against our goal of creating long term, sustainable value for all our stakeholders.

Significant additional potential exists in Ultra through focusing the Group on where we add value, improving core processes and better leveraging the combined Group's strengths and capabilities. We anticipate that 2019 will be a year of good underlying progress and we look forward to an exciting future of growth with confidence.

Ultra Electronics Holdings plc
Results for the Year Ended 31 December 2018
Consolidated Income Statement

	Note	**2018 £'000**	2017 £'000
Revenue	1	**766,745**	775,400
Cost of sales		**(544,649)**	(545,178)
Gross profit		**222,096**	230,222
Other operating income		**3,195**	249
Distribution costs		**(1,573)**	(1,066)
Administrative expenses		**(138,721)**	(134,857)
Other operating expenses		**(3,275)**	(15,648)
Impairment charges	2	**(7,589)**	(1,608)
S3 programme		**(6,503)**	(7,850)
Significant legal charges and expenses	4	**(2,292)**	(7,958)
Operating profit		**65,338**	61,484
Loss on disposal	17	**(729)**	-
Retirement benefit scheme GMP equalisation	15	**(3,150)**	-
Investment revenue	5	**6,193**	12,439
Finance costs	6	**(25,097)**	(13,331)
Profit before tax	1	**42,555**	60,592
Tax	7	**(10,205)**	(11,666)
Profit for the year		**32,350**	48,926
Attributable to:			
Owners of the Company		**32,381**	48,956
Non-controlling interests		**(31)**	(30)
Earnings per ordinary share (pence)			
- basic*	9	**43.6**	66.2
- diluted*	9	**43.6**	66.1

All results are derived from continuing operations.

Ultra Electronics Holdings plc

Results for the Year Ended 31 December 2018

Consolidated Statement of Comprehensive Income

	2018	2017
	£'000	£'000
Profit for the year	**32,350**	48,926
Items that will not be reclassified to profit or loss:		
Actuarial profit on defined benefit pension schemes	**4,588**	24,135
Tax relating to items that will not be reclassified	**(713)**	(4,113)
Total items that will not be reclassified to profit or loss	**3,875**	20,022
Items that may be reclassified to profit or loss:		
Exchange differences on translation of foreign operations	**21,100**	(44,089)
Transfer from profit and loss on cash flow hedge	**435**	27
(Loss)/profit on loans used in net investment hedges	**(11,521)**	20,567
(Loss)/profit on cash flow hedge	**(604)**	407
Tax relating to items that may be reclassified	**29**	(74)
Total Items that may be reclassified to profit or loss	**9,439**	(23,162)
Other comprehensive income/(expense) for the year	**13,314**	(3,140)
Total comprehensive income for the year	**45,664**	45,786
Attributable to:		
Owners of the Company	**45,695**	45,816
Non-controlling interests	**(31)**	(30)

Ultra Electronics Holdings plc
Results for the Year Ended 31 December 2018
Consolidated Balance Sheet

	Note	2018 £'000	2017 £'000
Non-current assets			
Goodwill	10	**377,761**	394,529
Other intangible assets		**113,889**	136,889
Property, plant and equipment		**62,597**	59,150
Deferred tax assets		**18,692**	15,659
Derivative financial instruments		**113**	2,025
Trade and other receivables	12	**22,639**	32,225
		595,691	640,477
Current assets			
Inventories	11	**88,551**	76,627
Trade and other receivables	12	**205,184**	205,627
Tax assets		**8,108**	11,127
Cash and cash equivalents		**96,319**	149,522
Derivative financial instruments		**301**	437
Assets classified as held for sale		**30,575**	-
		429,038	443,340
Total assets		**1,024,729**	1,083,817
Current liabilities			
Trade and other payables	13	**(212,247)**	(215,080)
Tax liabilities		**(5,032)**	(2,255)
Derivative financial instruments		**(5,534)**	(11,203)
Borrowings		**(175,759)**	(51,752)
Liabilities classified as held for sale		**(8,575)**	-
Short-term provisions	14	**(13,326)**	(8,665)
		(420,473)	(288,955)
Non-current liabilities			
Retirement benefit obligations	15	**(72,970)**	(82,732)
Other payables	13	**(14,878)**	(8,114)
Deferred tax liabilities		**(10,454)**	(11,337)
Derivative financial instruments		**(1,000)**	(2,688)
Borrowings		**(77,964)**	(172,227)
Long-term provisions	14	**(6,200)**	(5,553)
		(183,466)	(282,651)
Total liabilities		**(603,939)**	(571,606)
Net assets		**420,790**	512,211
Equity			
Share capital		**3,574**	3,887
Share premium account		**201,033**	200,911
Capital redemption reserve		**314**	-
Own shares		**(2,581)**	(2,581)
Hedging reserve		**(59,720)**	(48,059)
Translation reserve		**116,503**	95,403
Retained earnings		**161,659**	262,611
Equity attributable to owners of the Company		**420,782**	512,172
Non-controlling interests		**8**	39
Total equity		**420,790**	512,211

Ultra Electronics Holdings plc

Results for the Year Ended 31 December 2018

Consolidated Cash Flow Statement

	Note	**2018 £'000**	2017 £'000
Net cash flow from operating activities	16	**86,712**	77,565
Investing activities			
Interest received		**715**	455
Purchase of property, plant and equipment		**(12,953)**	(7,098)
Proceeds from disposal of property, plant and equipment		**134**	102
Expenditure on product development and other intangibles		**(7,029)**	(5,680)
Disposal of subsidiary undertakings		**225**	-
Net cash used in investing activities		**(18,908)**	(12,221)
Financing activities			
Issue of share capital		**123**	137,255
Share buy-back (including transaction costs)		**(91,902)**	-
Dividends paid		**(36,883)**	(34,959)
Loan syndication costs		**(657)**	(2,040)
Repayments of borrowings		**(181,297)**	(168,975)
Proceeds from borrowings		**198,961**	83,493
Cash out-flow on closing out foreign currency hedging contracts		**(11,104)**	-
Net cash (used in)/from financing activities		**(122,759)**	14,774
Net (decrease)/increase in cash and cash equivalents		**(54,955)**	80,118
Cash and cash equivalents at beginning of year		**149,522**	74,625
Effect of foreign exchange rate changes		**1,752**	(5,221)
Cash and cash equivalents at end of year		**96,319**	149,522

Ultra Electronics Holdings plc

Results for the Year 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 2017	**3,523**	**64,020**	**-**	**(2,581)**	**(68,986)**	**139,492**	**228,034**	**69**	**363,571**
Profit for the year	-	-	-	-	-	-	48,956	(30)	48,926
Other comprehensive income for the year	-	-	-	-	20,927	(44,089)	20,022	-	(3,140)
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**20,927**	**(44,089)**	**68,978**	**(30)**	**45,786**
Issue of share capital	352	133,195	-	-	-	-	-	-	133,547
Equity-settled employee share schemes	12	3,696	-	-	-	-	682	-	4,390
Dividend to shareholders	-	-	-	-	-	-	(34,959)	-	(34,959)
Tax on share-based payment transactions	-	-	-	-	-	-	(124)	-	(124)
Balance at 31 December 2017	**3,887**	**200,911**	**-**	**(2,581)**	**(48,059)**	**95,403**	**262,611**	**39**	**512,211**
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. Segment information

(i) Revenue by segment

	2018			2017		
	External revenue £'000	**Inter-segment £'000**	**Total £'000**	External revenue £'000	Inter-segment £'000	Total £'000
Aerospace & Infrastructure	**196,213**	**7,938**	**204,151**	203,174	10,219	213,393
Communications & Security	**252,575**	**8,972**	**261,547**	242,708	7,000	249,708
Maritime & Land	**317,957**	**12,960**	**330,917**	329,518	14,920	344,438
Eliminations	**-**	**(29,870)**	**(29,870)**	-	(32,139)	(32,139)
Consolidated revenue	**766,745**	**-**	**766,745**	775,400	-	775,400

(ii) Profit by segment

2018

	Aerospace & Infrastructure £'000	**Communications & Security £'000**	**Maritime & Land £'000**	**Unallocated £'000**	**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 and 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**

Significant legal charges and expenses include £2,292,000 incurred in relation to the ongoing anti-bribery and corruption investigation. £7,958,000 was incurred in the prior period on legal charges relating to the Ithra contract. Unallocated items are specific corporate level costs that cannot be allocated to a specific division. The S3 programme is the Group's Standardisation & Shared Services programme.

1. Segment information (continued)

	2017			
	Aerospace & Infrastructure £'000	Communications & Security £'000	Maritime & Land £'000	Total £'000
Underlying operating profit	32,638	28,235	59,263	120,136
Amortisation of intangibles arising on acquisition	(1,136)	(20,070)	(7,242)	(28,448)
Impairment charge	-	(1,608)	-	(1,608)
Significant legal charges and expenses	(7,958)	-	-	(7,958)
Acquisition and disposal related costs net of adjustments to contingent consideration	1,163	(366)	(13,585)	(12,788)
S3 programme	(1,085)	(3,446)	(3,319)	(7,850)
Operating profit	23,622	2,745	35,117	61,484
Investment revenue				12,439
Finance costs				(13,331)
Profit before tax				60,592
Tax				(11,666)
Profit after tax				48,926

The acquisition and disposal related costs of £12,788,000 in 2017 included those associated with the proposed Sparton Corporation acquisition and 3Phoenix staff retention payments, which were put in place at the time of the acquisition of that business.

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

	Capital expenditure and additions to intangibles (excluding goodwill and acquired intangibles)		**Depreciation and amortisation**	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
Aerospace & Infrastructure	**4,172**	3,546	**4,807**	4,783
Communications & Security	**9,268**	4,840	**19,471**	25,516
Maritime & Land	**6,542**	4,392	**17,021**	11,862
Total	**19,982**	12,778	**41,299**	42,161

The 2018 depreciation and amortisation expense includes £32,366,000 of amortisation charges (2017: £31,995,000) and £8,933,000 of property, plant and equipment depreciation charges (2017: £10,166,000).

(iv) Total assets by segment

	2018 £'000	2017 £'000
Aerospace & Infrastructure	**224,523**	227,932
Communications & Security	**429,451**	428,884
Maritime & Land	**247,222**	248,231
	901,196	905,047
Unallocated	**123,533**	178,770
Consolidated total assets	**1,024,729**	1,083,817

1. Segment information (continued)

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

(v) Total liabilities by segment

	2018 £'000	2017 £'000
Aerospace & Infrastructure	**51,573**	61,376
Communications & Security	**87,479**	81,443
Maritime & Land	**104,848**	102,085
	243,900	244,904
Unallocated	**360,039**	326,702
Consolidated total liabilities	**603,939**	571,606

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

(vi) Revenue by destination

	2018 £'000	2017 £'000
United Kingdom	**171,511**	161,293
Continental Europe	**62,870**	78,199
Canada	**22,825**	22,844
USA	**416,495**	384,330
Rest of World	**93,044**	128,734
	766,745	775,400

(vii) Other information (by geographic location)

	Non-current assets		Total assets		Additions to property, plant & equipment and intangible assets (excluding acquisitions)	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000	**2018 £'000**	2017 £'000
United Kingdom	**163,060**	206,433	**328,296**	342,792	**7,781**	4,742
USA	**322,611**	317,613	**439,749**	426,826	**7,531**	6,069
Canada	**82,549**	91,057	**118,209**	123,646	**4,278**	1,341
Rest of World	**8,666**	7,689	**14,943**	11,784	**392**	626
	576,886	622,792	**901,197**	905,048	**19,982**	12,778
Unallocated	**18,805**	17,685	**123,532**	178,769	**-**	-
	595,691	640,477	**1,024,729**	1,083,817	**19,982**	12,778

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:

	2018 **£'000**	2017 £'000
Operating profit	**65,338**	61,484
Amortisation of intangibles arising on acquisition	**28,260**	28,448
Impairment charges	**7,589**	1,608
Significant legal charges and expenses	**2,292**	7,958
Acquisition and disposal related costs net of adjustments to contingent consideration	**2,744**	12,788
S3 programme	**6,503**	7,850
Underlying operating profit	**112,726**	120,136
Profit before tax	**42,555**	60,592
Amortisation of intangibles arising on acquisition	**28,260**	28,448
Impairment charges	**7,589**	1,608
Acquisition and disposal related costs net of adjustments to contingent consideration	**2,744**	12,788
Loss on closing out foreign currency derivative contract*	**11,104**	-
Profit on fair value movements of derivatives	**(5,476)**	(11,983)
Net interest charge on defined benefit pensions	**1,929**	2,741
S3 programme	**6,503**	7,850
Loss on disposal	**729**	-
Significant legal charges and expenses	**2,292**	7,958
Retirement benefit scheme GMP equalisation	**3,150**	-
Underlying profit before tax	**101,379**	110,002
Cash generated by operations	**102,446**	97,432
Purchase of property, plant and equipment	**(12,953)**	(7,098)
Proceeds on disposal of property, plant and equipment	**134**	102
Expenditure on product development and other intangibles	**(7,029)**	(5,680)
Significant legal charges and expenses	**1,532**	9,836
S3 programme	**2,600**	8,949
Acquisition and disposal related payments	**2,523**	12,966
Underlying operating cash flow	**89,253**	116,507

* In March 2018, the USD250m foreign exchange forward, put in place in July 2017 with respect to the proposed Sparton acquisition, was closed-out when the acquisition was terminated. This resulted in a £11.1m non-underlying cash outflow and a net debit to the 2018 income statement of £3.9m when the impact to the fair value movements on derivatives is also taken into consideration. In 2017, the fair value movements on derivatives included £7.2m of loss incurred with respect to the mark-to-market revaluation of this derivative as at 31 December 2017.

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.

2. Additional non-statutory performance measures (continued)

- 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 entities 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 is presented separately.

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.

EBITDA is the underlying operating profit before depreciation charges and before amortisation arising on internally-generated intangible assets and on other, non-acquired, intangible assets. The figure is adjusted to remove the EBITDA generated by businesses up to the date of their disposal in the period.

Net debt comprises loans and overdrafts less cash and cash equivalents.

3. Revenue

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

2018 under IFRS 15	Aerospace & Infrastructure £'000	2018 Communications & Security £'000	Maritime & Land £'000	Total £'000
Point in time	**105,411**	**114,620**	**84,000**	**304,031**
Over time	**90,802**	**137,955**	**233,957**	**462,714**
	196,213	**252,575**	**317,957**	**766,745**

2017 under IAS 11 and IAS 18	2017 £'000
Sale of goods	308,416
Revenue from long-term contracts	466,984
	775,400

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.

	2019 £'000	2020 £'000	2021 and beyond £'000	Total £'000
Over time revenue	**289,174**	**157,958**	**171,253**	**618,385**
Point in time revenue	**244,588**	**91,664**	**29,224**	**365,476**

4. Significant legal charges and expenses

Significant legal charges and expenses are the charges arising from investigations and settlement of litigation that are not in the normal course of business. £2.3m was expensed in the period relating to anti-bribery and corruption investigation costs. In the prior period, £8.0m of legal charges associated with the Oman Airport IT contract termination were expensed to the income statement.

5. Investment revenue

	2018 £'000	2017 £'000
Bank interest	**717**	456
Fair value movement on derivatives	**5,476**	11,983
	6,193	12,439

6. Finance costs

	2018 £'000	2017 £'000
Amortisation of finance costs of debt	**825**	1,281
Interest payable on bank loans, overdrafts and other loans	**11,239**	9,309
Total borrowing costs	**12,064**	10,590
Retirement benefit scheme finance cost	**1,929**	2,741
Loss on closing out foreign currency derivative contract	**11,104**	-
	25,097	13,331

7. Tax

	2018	2017
	£'000	£'000
Current tax		
United Kingdom	**5,118**	2,319
Overseas	**7,119**	3,710
	12,237	6,029
Deferred tax		
Origination and reversal of temporary differences	**(1,635)**	7,676
Recognition of deferred tax assets	**(397)**	(2,077)
US tax rate change	**-**	38
	(2,032)	5,637
Total	**10,205**	11,666

8. Dividends

	2018	2017
	£'000	£'000
Final dividend for the year ended 31 December 2017 of 35.0p (2016: 33.6p) per share	**26,269**	23,647
Interim dividend for the year ended 31 December 2018 of 14.6p (2017: 14.6p) per share	**10,614**	11,312
	36,883	34,959
Proposed final dividend for the year ended 31 December 2018 of 37.0p (2017: 35.0p) per share	**26,360**	27,124

The 2018 proposed final dividend of 37.0p per share is proposed to be paid on 9 May 2019 to shareholders on the register at 12 April 2019. It was approved by the Board after 31 December 2018 and has not been included as a liability as at 31 December 2018.

9. Earnings per share

	2018 Pence	2017 Pence
Basic underlying (see below)	**109.5**	116.7
Diluted underlying (see below)	**109.5**	116.5
Basic	**43.6**	66.2
Diluted	**43.6**	66.1

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

	2018 £'000	2017 £'000
Earnings		
Earnings for the purposes of earnings per share being profit for the year	**32,381**	48,956
Underlying earnings		
Profit for the year	**32,381**	48,956
Amortisation of intangibles arising on acquisition (net of tax)	**21,968**	20,005
Impairment charges (net of tax)	**7,342**	997
Acquisition and disposal related costs net of contingent consideration (net of tax)	**2,744**	10,394
Loss on closing out foreign currency derivative contract	**11,104**	-
(Profit) on fair value movements on derivatives (net of tax)	**(6,433)**	(9,411)
Net interest charge on defined benefit pensions (net of tax)	**1,929**	2,275
S3 programme (net of tax)	**5,059**	5,983
Disposals (net of tax)	**729**	-
Significant legal charges and expenses (net of tax)	**2,292**	7,097
Retirement benefit scheme GMP equalisation (net of tax)	**2,300**	-
Earnings for the purposes of underlying earnings per share	**81,415**	86,296

The adjustments to profit are explained in note 2.

	2018 Number of shares	2017 Number of shares
The weighted average number of shares is given below:		
Number of shares used for basic earnings per share	**74,350,521**	73,959,565
Effect of dilutive potential ordinary shares – share options	**831**	86,340
Number of shares used for fully diluted earnings per share	**74,351,352**	74,045,905

	2018 £'000	2017 £'000
Underlying profit before tax (see note 2)	**101,379**	110,002
Tax rate applied for the purposes of underlying earnings per share	**19.7%**	21.6%

On 7 July 2017 a total of 7,047,168 ordinary shares of 5 pence were placed, representing 9.9% of Ultra's issued ordinary share capital prior to the placing. During 2018, the company purchased and cancelled 6,288,127 shares.

10. Goodwill

	2018	2017
	£'000	£'000
Cost		
At 1 January	**451,807**	478,565
Exchange differences	**15,001**	(26,758)
Reclassified as held for sale	**(28,311)**	-
At 31 December	**438,497**	451,807
Accumulated impairment losses		
At 1 January	**(57,278)**	(62,972)
Impairment of goodwill	**(6,550)**	-
Reclassified as held for sale	**6,550**	-
Exchange differences	**(3,458)**	5,694
Carrying amount at 31 December	**377,761**	394,529

The Group's market-facing-segments, which represent Cash Generating Unit (CGU) groupings, are; Aerospace, Infrastructure, Nuclear, Communications, C2ISR, Maritime, Land 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:

	2018 Discount rate	2017 Discount Rate	**2018 £'000**	2017 £'000
Aerospace	9.7%	10.1%	**32,686**	32,531
Infrastructure	9.7%	10.1%	**-**	28,276
Nuclear	9.7-11.4%	10.1%	**18,869**	18,030
Aerospace & Infrastructure			**51,555**	78,837
Communications	9.7-11.4%	10.1%	**92,279**	90,894
C2ISR	10.7-11.4%	10.1%	**120,020**	115,135
Communications & Security			**212,299**	206,029
Maritime	9.7-11.4%	10.1%	**35,118**	33,716
Underwater Warfare	9.7-11.4%	10.1%	**78,789**	75,947
Maritime & Land			**113,907**	109,663
Total – Ultra Electronics			**377,761**	394,529

Goodwill is initially allocated, in the year a business is acquired, to the CGU group expected to benefit from the acquisition. Subsequent adjustments are made to this allocation to the extent that operations, to which goodwill relates, are transferred between CGU groups. The size of a CGU group varies but is never larger than a reportable operating segment. There have been no changes in the year.

The recoverable amounts of CGUs are determined from value-in-use calculations. In determining the value-in-use for each CGU, the Group prepares cash flows derived from the most recent financial budgets and strategic plans, representing the best estimate of future performance. These plans, which have been approved by the Board, include detailed financial forecasts and market analysis covering the expected development of each CGU over the next five years. The cash flows for the following ten years are also included and assume a growth rate of 2.5% (2017: 2.5%) per annum. Cash flows beyond that period are not included in the value-in-use calculation.

The key assumptions used in the value-in-use calculations are those regarding the discount rate, future revenues, growth rates, forecast gross margins, underlying operating profit and operating cash conversion. Management estimates the discount rate using pre-tax rates that reflect current market assessments of the time value of money and risks specific to the Group, being the Weighted Average Cost of Capital (WACC).

10. Goodwill (continued)

The WACC is then risk-adjusted to reflect risks specific to each business. The pre-tax discount rate used during 2018 was 9.7% for UK and Australia, 10.7% for Canada and 11.4% for USA (2017: 10.1% for all regions). Future revenues are based on orders already received, opportunities that are known and expected at the time of setting the budget and strategic plans and future growth rates. Budget and strategic plan growth rates are based on a combination of historical experience, available government spending data, and management and industry expectations of the growth rates that are expected to apply in the major markets in which each CGU operates. Longer-term growth rates, applied for the ten-year period after the end of the strategic planning period, are set at 2.5%. Ultra considers the long-term growth rate to be appropriate for the sectors in which it operates. Forecast gross margins reflect past experience, factor in expected efficiencies to counter inflationary pressures, and also reflect likely margins achievable in the shorter-term period of greater defence spending uncertainty.

Within each of the strategic plans a number of assumptions are made about business growth opportunities, contract wins, product development and available markets. A key assumption is that there will be continued demand for Ultra's products and expertise from a number of US government agencies and prime contractors during the strategic plan period.

Sensitivity analysis, which included consideration of the potential impacts of Brexit, has been performed on the value-in-use calculations to:
(i) reduce the post-2023 growth assumption from 2.5% to nil;
(ii) apply a 20% reduction to forecast operating profits in each year of the modelled cash inflows; and
(iii) consider specific market factors as noted above.

Certain of these sensitivity scenarios give rise to a potential impairment in C2ISR, the CGU grouping which includes Herley, ATS and Forensic Technology. Profitability in Herley in 2017 and 2018 has missed expectations due to difficulties encountered with certain development contracts, however, an improvement in profitability is envisaged in future years as contracts enter the production phase. Despite these profitability challenges at Herley, headroom in C2ISR which represents the value derived from the key growth assumptions in the value-in-use calculations, is £46.5m (2017: £79.4m). Sensitivity (ii) results in a £2.3m impairment to the goodwill allocated to the C2ISR CGU group. This CGU grouping is also sensitive to the ability of the operations to retain existing customers, win new business and profitably execute contracts over the medium term, particularly given the recent profitability challenges at Herley.

On 2 November 2018 Ultra announced the sale of its Airport Systems business for a total consideration of £22m. The infrastructure CGU is comprised entirely of the Airport Systems business. The disposal proceeds are below the carrying value of the net assets being sold and consequently a goodwill impairment charge of £6.6m has been recorded in the year. Following the impairment charge, the carrying value of the goodwill for the Infrastructure CGU was £21.8m, which has been reclassified as held for sale. As set out in note 2, the £6.6m impairment charge has been included as part of the non-underlying operating results of the Group. Airport Systems is within the Aerospace & Infrastructure operating segment. The disposal completed on 1 February 2019.

For all other CGUs, the value-in-use calculations exceed the CGU carrying values after applying sensitivity analysis.

11. Inventories

	2018	2017
	£'000	£'000
Raw materials and consumables	**56,090**	48,965
Work in progress	**23,682**	18,787
Finished goods and goods for resale	**8,779**	8,875
	88,551	76,627

12. Trade and other receivables

	2018	2017
	£'000	£'000
Non-current:		
Amounts receivable from over time contract customers	**22,639**	32,225
	22,639	32,225

	2018	2017
	£'000	£'000
Current:		
Trade receivables	**109,176**	102,934
Provisions against receivables	**(3,910)**	(1,505)
Net trade receivables	**105,266**	101,429
Amounts receivable from over time contract customers	**81,026**	84,507
Other receivables	**6,517**	12,897
Prepayments	**9,180**	6,794
Accrued income	**3,195**	-
	205,184	205,627

13. Trade and other payables

	2018	2017
	£'000	£'000
Amounts included in current liabilities:		
Trade payables	**78,742**	89,205
Amounts due to over time contract customers	**52,442**	55,166
Other payables	**20,608**	21,007
Accruals	**42,158**	41,263
Deferred income	**18,297**	8,439
	212,247	215,080

	2018	2017
	£'000	£'000
Amounts included in non-current liabilities:		
Amounts due to over time contract customers	**11,061**	3,541
Other payables	**7**	12
Accruals	**224**	3,333
Deferred income	**3,586**	1,228
	14,878	8,114

14. Provisions

	Warranties £'000	Contract related provisions £'000	Other provisions £'000	Total £'000
At 1 January 2018	4,666	3,131	6,421	14,218
Created	3,081	5,959	1,900	10,940
Reversed	(189)	(1,365)	(207)	(1,761)
Utilised	(1,414)	(1,308)	(1,437)	(4,159)
Exchange differences	123	105	60	288
At 31 December 2018	**6,267**	**6,522**	**6,737**	**19,526**
Included in current liabilities	3,114	5,992	4,220	13,326
Included in non-current liabilities	3,153	530	2,517	6,200
	6,267	**6,522**	**6,737**	**19,526**

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.

15. 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:

	2018 £'000	2017 £'000
Fair value of scheme assets	**297,695**	306,302
Present value of scheme liabilities	**(370,665)**	(389,034)
Scheme deficit	**(72,970)**	(82,732)
Related deferred tax asset	**12,580**	14,133
Net pension liability	**(60,390)**	(68,599)

The UK defined benefit pension scheme was closed 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 2018 was 2.80% (2017: 2.50%).

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 is £3,150,000; this has been recorded as a debit to the income statement in 2018 with a corresponding increase in scheme liabilities.

16. Cash flow information

	2018 £'000	2017 £'000
Operating profit	**65,338**	61,484
Adjustments for:		
Depreciation of property, plant and equipment	**8,933**	10,166
Amortisation of intangible assets	**32,366**	31,995
Impairment charge	**7,589**	1,608
Cost of equity-settled employee share schemes	**1,493**	682
Adjustment for pension funding	**(10,301)**	(8,964)
Loss on disposal of property, plant and equipment	**53**	565
Increase/(decrease) in provisions	**4,948**	(7,086)
Operating cash flow before movements in working capital	**110,419**	90,450
Increase in inventories	**(10,198)**	(2,093)
Increase in receivables	**(1,808)**	(15,367)
Increase in payables	**4,033**	24,442
Cash generated by operations	**102,446**	97,432
Income taxes paid	**(4,640)**	(10,324)
Interest paid	**(11,094)**	(9,543)
Net cash from operating activities	**86,712**	77,565

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

	2018 £'000	2017 £'000
Net increase in cash and cash equivalents	**(54,955)**	80,118
Cash inflow from movement in debt and finance leasing	**(17,664)**	85,482
Change in net debt arising from cash flows	**(72,619)**	165,600
Loan syndication costs	**657**	2,040
Amortisation of finance costs of debt	**(761)**	(1,281)
Translation differences	**(10,224)**	15,884
Movement in net debt in the year	**(82,947)**	182,243
Net debt at start of year	**(74,457)**	(256,700)
Net debt at end of year	**(157,404)**	(74,457)

Net debt comprised the following:	2018 £'000	2017 £'000
Cash and cash equivalents	**96,319**	149,522
Borrowings	**(253,723)**	(223,979)
	(157,404)	(74,457)

16. Cash flow information (continued)

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:	**2018**	2017
	£'000	£'000
Borrowings at start of year	**(223,979)**	(331,325)
Repayments of borrowings	**181,297**	168,975
Proceeds from borrowings	**(198,961)**	(83,493)
Loan syndication costs	**657**	2,040
Amortisation of finance costs of debt	**(761)**	(1,281)
Translation differences	**(11,976)**	21,105
Borrowings at end of year	**(253,723)**	(223,979)

17. Disposal

Fuel Cell business

The Maritime & Land division disposed of its small Fuel Cell business in December 2018. Cash proceeds of the sale totalled £0.6m, of which £0.2m was received in the year with an additional £0.4m to be received in 2019. The net loss on disposal was £0.7m.

	2018
	£'000
Property, plant and equipment	**402**
Inventories	**1,032**
Payables	**(80)**
Total	**1,354**
Proceeds (cash in 2018 and 2019)	**(625)**
Loss on disposal	**729**

Airport Systems

On 2 November 2018, the Group announced the agreed disposal of the Airport Systems business to ADB SAFEGATE for £22m, of which £2m will be deferred until the novation of certain contracts has completed. The Airport Systems business was in the Aerospace & Infrastructure division. The disposal was completed on 1 February 2019. As at 31 December 2018, the assets and liabilities have been classified as held for sale. As set out in note 10, a £6.6m goodwill impairment charge has been recorded in 2018.

	2018
	£'000
Goodwill	**21,761**
Intangible fixed assets	**12**
Property, plant and equipment	**1,514**
Inventories	**615**
Trade and other receivables	**6,673**
Total assets classified as held for sale	**30,575**
Trade and other payables	**(8,575)**
Total liabilities classified as held for sale	**(8,575)**
Net assets of disposal group	**22,000**

18. IFRS 15 - Revenue from contracts with customers

IFRS 15 Revenue from contracts with customers became effective from 1 January 2018. The standard has been adopted using the modified retrospective method such that the cumulative impact of IFRS 15 was posted through retained earnings on 1 January 2018, as shown on the Statement of Changes in Equity. Comparative statutory numbers are not restated. The table below sets out the impact to the 1 January 2018 opening balance sheet of the application of IFRS 15.

		Adjustment				
	Year ended 31 December 2017 as presented £m	Over time becoming point in time £m	Separation of performance obligations £m	Other £m	Total adjustment £m	Year ended 31 December 2017 if presented under IFRS 15 £m
Balance sheet impact:						
Inventories	76.6	1.5	-	(0.3)	1.2	77.8
Amounts recoverable from over time contract customers	116.7	(1.6)	(10.3)	1.4	(10.5)	106.2
Amounts due to over time contract customers	(58.7)	(2.9)	-	0.1	(2.8)	(61.5)
Tax liabilities	(13.6)	-	-	2.2	2.2	(11.4)
Net assets	**512.2**	**(3.0)**	**(10.3)**	**3.4**	**(9.9)**	**502.3**
Adjustment to retained earnings	**262.6**	**(3.0)**	**(10.3)**	**3.4**	**(9.9)**	**252.7**

Although Ultra has adopted the modified retrospective approach, with the cumulative impact of IFRS 15 posted through retained earnings at 1 January 2018, to provide further information to readers of the financial statements, the table below sets out the impact to the 2017 full year income statement as if IFRS 15 had been applied during 2017.

		Adjustment				
	Year ended 31 December 2017 as presented £m	Over time becoming point in time £m	Separation of performance obligations £m	Other £m	Total adjustment £m	Year ended 31 December 2017 if presented under IFRS 15 £m
Income statement impact:						
Revenue	775.4	(5.6)	(0.6)	(0.9)	(7.1)	768.3
Cost of sales	(545.2)	4.2	-	0.5	4.7	(540.5)
Gross profit	230.2	(1.4)	(0.6)	(0.4)	(2.4)	227.8
Underlying operating profit	120.1	(1.4)	(0.6)	(0.4)	(2.4)	117.7
Operating profit	61.5	(1.4)	(0.6)	(0.4)	(2.4)	59.1
Profit before tax	60.6	(1.4)	(0.6)	(0.4)	(2.4)	58.2
Tax	(11.7)	-	-	0.7	0.7	(11.0)
Profit after tax	**48.9**	**(1.4)**	**(0.6)**	**0.3**	**(1.7)**	**47.2**

The most significant changes relative to previous accounting treatments arise in the following areas:

Over time revenue becoming point in time
A small number of contracts no longer qualify to be contract-accounted and revenue is now recorded at the point at which control of the goods transfers to the customer as opposed to revenue being recognised over the life of the contract. If IFRS 15 had been applied in 2017 then £1.4m of profit would have been delayed from 2017 to 2018, when the control was transferred to the customer.

Separation of performance obligations
The revenue for the substantial majority of contracts that were previously recognised using contract accounting continues to be accounted for over the life of the contract, however, the method by which performance obligations are determined has changed on certain contracts.

For a performance obligation to be recognised over time, the Group recognises revenue using an input method. As such, revenue and related margin are calculated based on reliable estimates of transaction price and total expected costs, with revenue recognised as costs are incurred. The Group has determined

18. IFRS 15 - Revenue from contracts with customers (continued)

that this method reflects the Group's performance in transferring control of the goods and services to the customer.

When applying IFRS 15 there was a separation of performance obligations on a number of contracts, primarily between development and production phases, which led to lower margins being recognised in the initial contract performance obligations. As such, £0.6m of profit recognised in 2017 under prior revenue recognition accounting standards is recognised in 2018 under IFRS 15. Additionally, revenue and profit recognised in prior periods would have been lower due to the lower margin on the initial performance obligations of these contracts. The separation of performance obligations led to an adjustment of £10.3m to reduce opening reserves and amounts receivable from over time contract customers; this was predominantly from two UK contracts within the Aerospace & Infrastructure division on electronics development and production programmes. These contracts have been running for a number of years and the majority of the impact to the income statement would have impacted the years prior to 2017, if IFRS 15 had been adopted in those earlier periods.

Other

Items included within the 'other' category in the tables above predominantly relate to certain licences that are deemed to provide separately identifiable benefits to customers and to certain material rights in licensing arrangements.

The timing of revenue recognised on the substantial majority of sale-of-goods contracts was not significantly affected with revenue continuing to be recognised as control of goods is passed to the customer, which is normally when legal title has passed to the customer.

2018 impact

The tables below set out the impact to the 2018 income statement and balance sheet if IFRS 15 had not been applied during the year:

		Adjustment				
	2018 as presented £m	Over time becoming point in time £m	Separation of performance obligations £m	Other £m	Total adjustment £m	2018 if not presented under IFRS 15 £m
Balance sheet impact:						
Inventories	88.6	(0.7)	-	0.5	(0.2)	88.4
Amounts recoverable from over time contract customers	103.7	1.2	10.3	(1.5)	10.0	113.7
Amounts due to over time contract customers	(63.5)	0.7	-	-	0.7	(62.8)
Tax liabilities	(15.5)	-	-	(1.5)	(1.5)	(17.0)
Net assets	**420.8**	**1.2**	**10.3**	**(2.5)**	**9.0**	**429.8**
Adjustment to retained earnings	**161.7**	**1.2**	**10.3**	**(2.5)**	**9.0**	**170.7**

		Adjustment				
	2018 as presented £m	Over time becoming point in time £m	Separation of performance obligations £m	Other £m	Total adjustment £m	2018 if not presented under IFRS 15 £m
Income statement impact:						
Revenue	766.7	(2.7)	(0.1)	0.3	(2.5)	764.2
Cost of sales	(544.6)	0.7	-	0.1	0.8	(543.8)
Gross profit	222.1	(2.0)	(0.1)	0.4	(1.7)	220.4
Underlying operating profit	112.7	(2.0)	(0.1)	0.4	(1.7)	111.0
Operating profit	65.3	(2.0)	(0.1)	0.4	(1.7)	63.6
Profit before tax	42.6	(2.0)	(0.1)	0.4	(1.7)	40.9
Tax	(10.2)	-	-	0.7	0.7	(9.5)
Profit after tax	**32.4**	**(2.0)**	**(0.1)**	**1.1**	**(1.0)**	**31.4**

19. IFRS 16 - Leases

IFRS 16 Leases is effective from 1 January 2019. A project has been undertaken to determine the impact of IFRS 16. The project has assessed lease contracts (excluding short-term and immaterial leases) from across all the Group's business units. The Group has adopted the modified retrospective approach and will recognise the cumulative effect of applying IFRS 16 at the 1 January 2019 transitional date; the prior period will not be restated. The table below sets out the current estimated impact to the 1 January 2019 balance sheet:

	31 December 2018 £m	Property leases adjustment £m	Non-property leases adjustment £m	1 January 2019 £m
Leased assets – Right of use asset	-	31.1	1.5	32.6
Lease Liability	-	(34.9)	(1.5)	(36.4)
Lease accruals	(0.2)	0.2	-	-
Onerous lease provisions	(0.9)	0.9	-	-
Expected net assets adjustment	**420.8**	**(2.7)**	**-**	**418.1**
Expected adjustment to retained earnings	**161.7**	**(2.7)**	**-**	**159.0**

Further work will be undertaken in early 2019 to finalise this opening balance sheet determination.

Under IFRS 16, operating leases that are longer than 12 months must be recognised on the balance sheet and amortised over the life of the lease. The impact of IFRS 16 on the accounts will be as follows:

(i) Balance sheet – recognise right-of-use assets and liabilities for all leases >1yr or where the asset value is >£3.5k. Leases that do not meet this criteria will be expensed on a straight-line basis. The asset and liability are calculated based on the discounted value of all future lease payments.
(ii) Income statement – 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.
(iii) Cash flow statement – 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.

Onerous lease provisions are offset against the right-of-use asset and will be 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 Group will make 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 will continue 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;
- The use of hindsight: for property leases with historic 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.

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. In particular, 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, 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. Ultra continues to cooperate with the SFO and will make a further statement once the investigation is complete. It is not yet possible to estimate the timescale in which the investigation might be resolved, or to reliably predict its outcome.

21. Five-year review

	2014* £m	2015* £m	2016* £m	2017* £m	**2018 £m**
Revenue					
Aerospace & Infrastructure	198.6	193.2	204.7	203.2	**196.2**
Communications & Security	224.4	239.3	259.0	242.7	**252.6**
Maritime & Land	290.7	293.8	322.1	329.5	**317.9**
Total revenue	713.7	726.3	785.8	775.4	**766.7**
Underlying operating profit(1)					
Aerospace & Infrastructure	29.6	28.7	32.4	32.6	**30.0**
Communications & Security	37.0	40.4	39.7	28.2	**29.9**
Maritime & Land	51.5	50.9	59.0	59.3	**52.8**
Total underlying operating profit(1)	118.1	120.0	131.1	120.1	**112.7**
Margin(1)	16.5%	16.5%	16.7%	15.5%	**14.7%**
Profit before tax	21.5	34.8	67.6	60.6	**42.6**
Profit after tax	6.5	25.0	58.3	48.9	**32.4**
Underlying operating cash flow(2)	83.1	81.3	120.4	116.5	**89.3**
Free cash before dividend payments, acquisitions and financing(3)	52.8	48.4	86.0	65.3	**67.6**
Net debt at year-end(4)	(129.5)	(295.6)	(256.7)	(74.5)	**(157.4)**
Underlying earnings per share (p)(5)	123.1	123.9	134.6	116.7	**109.5**
Dividends per share (p)	44.3	46.1	47.8	49.6	**51.6**
Average employee numbers	4,787	4,843	4,466	4,172	**4,119**

Notes:

1) Underlying operating profit is before the S3 programme, amortisation of intangibles arising on acquisition, impairment charges, acquisition and disposal related costs net of contingent consideration adjustments, and significant legal charges and expenses.
2) Cash generated by operations and dividends from associates, less net capital expenditure, R&D, and excluding cash outflows from the S3 programme, acquisition and disposal related payments and significant legal charges and expenses.
3) Free cash flow before dividends paid, acquisitions and financing has been adjusted to include the purchase of LTIP shares, which are included in financing activities. Prior periods have been re-stated to include dividend receipts from equity-accounted investments.
4) Loans and overdrafts less cash and cash equivalents.
5) Underlying earnings per share is before the S3 programme, amortisation of intangibles arising on acquisition, impairment charges, fair value movements on derivatives and the loss on closing out a foreign currency derivative contract, defined benefit pension finance charges and GMP equalisation, acquisition and disposal related costs net of contingent consideration adjustments, loss on disposal, significant legal charges and expenses and before related taxation.

* Not prepared under IFRS 15.

22. Financial Information

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2018 or 2017, but is derived from those accounts. Statutory accounts for 2017 have been delivered to the Registrar of Companies and those for 2018 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 preliminary announcement has been prepared on the basis of the accounting policies as stated in the financial statements for the year ended 31 December 2017. The company expects to publish full financial statements on 27 March 2019.

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:

- None.

The following new standard has been issued but is not yet effective:

- IFRS 16 Leases – is effective from 1 January 2019. A project has been undertaken to determine the impact of IFRS 16. The key findings and determination of impact are set out in note 19.

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 417 Bridport Road, Greenford, Middlesex, UB6 8UA. The report will also be available on the Company's website: www.ultra-electronics.com.

RISKS AND UNCERTAINTIES

The Group faces a number potential risks and uncertainties that may have a material impact on its performance in 2019 (and beyond), and, as a consequence of which, actual results may differ materially from expected and/or historic 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 www.ultra-electronics.com/investors/annual-reports.aspx.

In the defence sector, which contributes around 68% 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. By their nature, currency translation risks cannot be mitigated.

Preparing for Brexit is a challenge due to the different possible scenarios. Ultra has been working to establish Brexit plans within the supply chain during 2018 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 Serious Fraud Office (the "SFO") is continuing to investigate the conduct of business 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. Ultra continues to cooperate with the SFO and will make a further statement once the investigation is complete.

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
- 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.