

Ultra Electronics Holdings plc
 (“Ultra” or “the Group”)
Preliminary Results for the Year Ended 31 December 2013

FINANCIAL HIGHLIGHTS

	Year ended 31 December 2013	Year ended 31 December 2012 [†]	Change
Revenue	£745.2m	£760.8m	-2.1%
Underlying operating profit ^{*(1)}	£121.7m	£121.8m	-0.1%
Underlying profit before tax ^{*(2)}	£116.8m	£116.5m	+0.3%
IFRS profit before tax	£49.3m	£79.8m	-38.2%
Underlying earnings per share ⁽²⁾	127.1p	125.5p	+1.3%
Dividend per share - final	29.5p	27.8p	+6.1%
- total	42.2p	40.0p	+5.5%

⁽¹⁾ before amortisation of intangibles arising on acquisitions, impairment of goodwill and adjustments to deferred consideration net of acquisition costs. IFRS operating profit was £57.4m (2012, as restated: £88.3m). See Note 2 for reconciliation.

⁽²⁾ before amortisation of intangibles arising on acquisitions, impairment of goodwill, fair value movements on derivatives, unwinding of discount on provisions, defined benefit pension interest charges and adjustments to contingent consideration net of acquisition costs and, in the case of underlying earnings per share, before related taxation. Basic EPS 54.8p (2012, as restated: 88.1p). See Note 2 for reconciliation.

[†] restated following adoption of IAS19 ‘Employee Benefits’ (revised)

- Sustained performance despite the challenging US defence market conditions
- Continued investment to drive future growth
 - 5.8% of revenue reinvested by Ultra in new products and business development
 - acquisition of two specialist businesses in the period
- Underlying operating margin maintained at 16.3%
- Cash conversion of 65% (rolling 5 year average cash conversion of 91%)
- Robust balance sheet at 0.3x net debt/EBITDA with headroom for further acquisitions
- Dividend increased by +5.5%, maintaining 3 times cover and reflecting confidence in future prospects

Rakesh Sharma, Chief Executive, commented:

“Market conditions in 2013 continued broadly as outlined at the beginning of the period. Non-defence markets remained healthy and the Group saw pleasing progress in a number of these sectors. In the US defence market, overall uncertainty and delays rather than budget constraints impacted order placement and payment approvals. In response to these factors Ultra continued to reduce business costs, whilst maintaining its investment internally and in acquisitions. There continue to be a number of larger opportunities for growth alongside the regular flow of smaller orders and we have a healthy acquisition pipeline, as evidenced by the recent acquisition of 3 Phoenix Inc.

During 2014, Ultra’s non-defence sectors are expected to remain positive. The US defence market will continue to provide challenges but we expect improving certainty and order placement in Ultra’s niche areas during the second half of the year. Ultra will continue its geographic expansion and development of collaborative solutions to secure new contracts. The focus on investment and tight cost management will remain integral to our business strategy. Ultra enters 2014 with order cover levels consistent with previous years, supplemented by a noticeable shift toward more annual contract awards. Combining these factors, and recognising current currency headwinds, we are confident that the Group can achieve progress in 2014.”

FINANCIAL RESULTS

	Year ended 31 December 2013 £m	Year ended 31 December 2012 [†] £m	Growth
Order book			
- Aircraft & Vehicle Systems	166.0	163.6	+1.5%
- Information & Power Systems	330.1	391.4	-15.7%
- Tactical & Sonar Systems	285.1	350.0	-18.5%
Total order book	781.2	905.0	-13.7%
Revenue			
- Aircraft & Vehicle Systems	155.5	147.0	+5.8%
- Information & Power Systems	305.0	315.8	-3.4%
- Tactical & Sonar Systems	284.7	298.0	-4.5%
Total revenue	745.2	760.8	-2.1%
Organic underlying revenue movement at constant currencies			-4.4%
Underlying operating profit*			
- Aircraft & Vehicle Systems	32.4	30.6	+5.9%
- Information & Power Systems	41.2	44.9	-8.2%
- Tactical & Sonar Systems	48.1	46.3	+3.9%
Total underlying operating profit*	121.7	121.8	-0.1%
Organic underlying operating profit movement at constant currencies			-3.4%
Underlying operating margin*			
- Aircraft & Vehicle Systems	20.8%	20.8%	
- Information & Power Systems	13.5%	14.2%	
- Tactical & Sonar Systems	16.9%	15.5%	
Total underlying operating margin*	16.3%	16.0%	
Finance charges*	(4.9)	(5.3)	-7.6%
Underlying profit before tax	116.8	116.5	+0.3%
Underlying operating cash flow*	79.0	89.6	
Operating cash conversion*	65%	74%	
Net debt/EBITDA	0.3x	0.3x	
Net debt* at year-end	42.2	43.0	
Bank interest cover*	24.8x	22.8x	
Underlying earnings per share	127.1p	125.5p	+1.3%

* see notes below

underlying operating profit before amortisation of intangibles arising on acquisition, impairment of goodwill and adjustments to contingent consideration net of acquisition costs. IFRS operating profit was £57.4m (2012, as restated: £88.3m). See Note 2 for reconciliation.

organic growth (of revenue or profit) is the annual rate of increase in revenue or profit that was achieved, assuming that acquisitions made during the prior year were only included for the same proportion of the current year at constant currencies.

underlying operating margin is the underlying operating profit as a percentage of revenue.

finance charges exclude fair value movements on derivatives, defined benefit pension interest charges and discount on provisions.

underlying profit before tax before amortisation of intangibles arising on acquisition, impairment of goodwill, fair value movements on derivatives, unwinding of discount on provisions, defined benefit pension interest charges and adjustments to contingent consideration net of acquisition costs. Basic EPS 54.8p (2012, as restated: 88.1p). See Note 2 for reconciliation.

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.

underlying operating cash flow is cash generated by operations and dividends from associates, less net capital expenditure, R&D and LTIP share purchases.

operating cash conversion is underlying operating cash flow as a percentage of underlying operating profit

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

bank interest cover is the ratio of underlying operating profit to finance costs associated with borrowings.

[†] the 2012 profit and loss account has been restated to reflect the adoption of IAS19 (revised) 'Employee Benefits'.

Revenue for 2013 was 2.1% lower at £745.2m (2012: £760.8m). Acquisitions contributed 1.7%, whilst exchange rate movements increased revenue by a further 0.6%. Underlying revenue at constant currencies fell by 4.4%.

In the year, Ultra broadly maintained its internal investment in the development of new capabilities and products at 5.8% of revenue or £43.3m (2012: £49.2m).

Underlying operating profit* was maintained at £121.7m (2012: £121.8m). Acquisition growth of 2.8% and a foreign exchange contribution of 0.5% were offset by an organic operating profit decline at constant currencies of 3.4%. The Group's businesses maintained their constant focus on restructuring their cost bases. This contributed to an underlying operating margin of 16.3% (2012: 16.0%).

Underlying profit before tax* was sustained at £116.8m (2012: £116.5m), after net financing charges* of £4.9m (2012: £5.3m).

The Group's underlying tax rate* in the year was 24.3% (2012: 25.3%) and underlying earnings per share increased by 1.3% to 127.1p (2012: 125.5p).

Reported (IFRS) profit before tax was £49.3m (2012: £79.8m) and reflected the combined effects of the elements detailed below:

All £m	2013	2012†
Underlying profit before tax	116.8	116.5
Amortisation of intangibles arising on acquisition	(29.1)	(32.1)
Net interest charge on defined benefit pensions	(3.4)	(3.9)
Profit on fair value movements on derivatives	1.5	1.4
Adjustments to contingent consideration net of acquisition costs	9.0	(1.5)
Unwinding of discount on provisions	(1.3)	(0.6)
Impairment of goodwill	(44.2)	-
Reported profit before tax	49.3	79.8

† the 2012 profit and loss account has been restated to reflect the adoption of IAS19 (revised) 'Employee Benefits'.

IAS 19 (revised 2011) has impacted the accounting for the Group's defined benefit pension scheme by replacing the interest cost and expected return on plan assets with a net interest charge on the net defined benefit liability, and by reclassifying administration costs of the defined benefit scheme from finance costs to administration expenses. In addition, the Group has elected to report the net interest charge as non-underlying. Note 2 provides further details.

The impairment of £44.2m reflects a non-cash write-down of the acquired goodwill in Prologic. A severely constrained budget environment and reduction in placement of US service contracts, exacerbated by the federal shutdown in October, has impacted Prologic's software services business. The services element of the Prologic business has now been restructured and Prologic's products remain a critical element of Ultra's crypto capabilities.

The Group's balance sheet remains strong, with net debt/EBITDA of 0.3x and net interest payable on borrowings covered around 25 times by underlying operating profit. Operating cash flow* in the year was £79.0m (2012: £89.6m) reflecting the delay in payment approvals relating to the US shutdown and changes in customer cash management behaviour. Ultra had net debt* at the end of the year of £42.2m compared to £43.0m at the end of 2012. Net cash expenditure on acquisitions in the year was £24.7m (2012: £37.0m) including retention payments in respect of acquisitions.

The proposed final dividend is 29.5p, bringing the total dividend for the year to 42.2p (2012: 40.0p). This represents an annual increase of 5.5%, with the dividend being covered 3.0 times (2012: 3.1 times) by underlying earnings per share. If approved, the dividend will be paid on 2 May 2014 to shareholders on the register on 11 April 2014.

*See notes on page 2

The order book at the end of 2013 was £781.2m compared to £905.0m in the previous year. The order book reflects changes in order placement profiles with many orders now being placed on an annual basis. In addition the US DoD is steadily moving to the use of multi-year IDIQs (indefinite delivery/indefinite quantity) as the preferred medium term contracting vehicles. This gives the customer maximum flexibility in volume, timing and scheduling of the required goods and services and Ultra receives these as orders within the year. The level of opening firm order cover against the current consensus of analysts' forecast of Group revenue for 2014 is 57% (2013: 58%). Within this, Ultra's businesses in North America have an average opening order cover of 37% (2013: 48%), reflecting the impact of US defence order intake delays, while the average for businesses elsewhere in the world is 69% (2013: 67%).

INVESTING FOR GROWTH

Ultra continued its programme of investment to position for long-term growth, with total spending in 2013 of £68.0m (2012: £86.2m), comprising £24.7m (2012: £37.0m) on acquisitions and £43.3m (2012: £49.2m) on new capabilities. In addition, customer-funding for new product development was £87.1m (2012: £97.9m).

- In the year, the Group made good progress in further developing specialist techniques to reduce the flammability of aircraft fuel tanks to meet emerging regulations. Ultra has secured a feasibility study for the addition of this capability to a commercial aircraft in development.
- Significant development continued across the range of Ultra's encryption and secure network products for both core markets and wider export opportunities. Ultra also set up the Ultra Cyber Protection Group (CPG) to protect its own networks, as well helping protect the networks of third party organisations. The Ultra CPG has now been formally accepted into the UK Government's Defence Cyber Protection Partnership (DCPP). The DCPP aims to meet the emerging threat to the UK defence supply chain by increasing awareness of cyber risks and sharing best practices amongst partners.
- The Group continues to target the next generation of nuclear reactors with the development of new sensors and improved production facilities to meet increased demand from life extension programmes and legacy reactor plants.
- Following successful trials in the US, Ultra is continuing to develop innovative power solutions, based on the Group's fuel cell technology, that provide critical secondary power to the oil and gas industry, railroad crossings and traffic intersections.
- At the end of the year, Ultra initiated a major development in sonar towed array technology which will enable Ultra to access new markets and smaller platforms with its Anti-Submarine Warfare (ASW) products.
- In addition, the Group delivered a considerable capital investment in the development of the next generation of battlefield radios, with recognised success in US Army field trials leading to an order for quantities of the radio from the US Army to support extensive interoperability trials in 2014.

In June 2013, the Group acquired Varisys, a UK business that develops products for high performance embedded computing applications. Its product portfolio includes bespoke solutions for customers operating in the aerospace, defence, telecommunications and industrial sectors. Varisys is now a part of Ultra's Aircraft & Vehicle Systems division.

In October 2013, Ultra acquired Wood & Douglas Limited ("W&D"). W&D provides bespoke wireless products, radio networks, video monitoring and wireless data platforms capabilities to the defence, homeland security, transportation, emergency services, exploration, healthcare and utilities sectors in the UK, and to over 30 countries worldwide. W&D has been integrated into Ultra's Tactical & Sonar Systems division to form a centre of excellence for communication products.

OPERATIONAL REVIEW

Aircraft & Vehicle Systems

- Revenue increased by 6% to £155.5m (2012: £147.0m)
- Underlying operating profit increased by 6% to £32.4m (2012: £30.6m[†])
- Order book increased by 1.5% to £166.0m (2012: £163.6m)

Revenue in the period was lifted by increased sales in Ultra's long-term, specialist ice protection systems business and by a short-term Urgent Operational Requirement (UOR) radio contract for the British Army, as well as a positive contribution from the Varisys acquisition.

Underlying operating profit reflected a good contribution from the UOR, ice protection sales and the Airbus Defence System's A400M cargo handling system, as well as operational efficiencies from the site move by Ultra's Precision Air & Land Systems business. These factors more than offset the negative impacts of the under-recovery of overheads and labour from the fuel cell business as a result of delayed UAV orders. These factors, together with lower R&D costs at this point in the division's development cycle, enabled the operating margin to be sustained at 20.8% (2012: 20.8%[†]).

The increase in the order book reflected the receipt of the delayed Lockheed Martin Warrior contract in the second half of the year.

Highlights of activities in the period that will underpin the division's future performance included:

- a £26.3m contract with Lockheed Martin UK under the Warrior Capability Sustainment Programme (WCSP) for the development of a new power distribution system for the British Army's Warrior armoured fighting vehicle.
- Ultra's teaming partner Raytheon winning the US Joint Miniature Munitions Bomb Release Unit (JMM BRU). Ultra's work share will include the provision of the complete pneumatic stored energy system. Contract award is expected in the first quarter of 2014.
- the award of an exclusive long term supply agreement with Pratt & Whitney for the electronic control unit that manages the Joint Strike Fighter's F-135 engine's Electrical Ice Protection System (EIPS). The agreement is effective for the life of the engine programme.

Information & Power Systems

- Revenue fell by 3% to £305.0m (2012: £315.8m)
- Underlying operating profit reduced by 8% to £41.2m (2012: £44.9m[†])
- The order book reduced by 16% to £330.1m (2012: £391.4m)

Revenue in this division was reduced by delays in the federal procurement process, delaying expected orders, milestone approvals and payments, further exacerbated by the unexpected US Government shutdown. The reduction in the placement of US service contracts particularly impacted Prologic's business, as indicated in our November IMS. Sales from the Indonesian Fatahillah corvette upgrade and strong demand for specialist electrical power management equipment for submarine programmes in both the UK and US helped offset revenue reductions in the division.

The underlying operating profit reduction largely reflects revenue pressures. In particular the sharp decline in software services at Prologic led to an under-recovery of overheads. The divisional margin reduced to 13.5% (2012: 14.2%[†]) with the Oman airport IT contract continuing to trade at a lower margin than the division as a whole.

The order book reduced at the end of the period reflecting the trading of the Oman airport IT contract, US order intake delays and foreign exchange translation.

[†]See notes on page 2

Features of the division's performance in the year that will underpin future performance included:

- a £16.1m contract for the supply of specialist instrumentation to EDF Energy. Under this contract Ultra will manufacture and support safety-critical nuclear reactor instrumentation for use in EDF Energy's current UK nuclear power stations. This is the first contract to benefit from Ultra's recent investment in a state-of-the-art nuclear instrumentation manufacturing facility.
- a contract to supply specialist electrical power management systems and equipment to the UK Royal Navy's submarine programme.
- a contract worth £32m with the Republic of Indonesia Ministry of Defence for the mid-life modernisation of the first of the Fatahillah Class corvettes, including the development, installation and integration of the combat system.

Tactical & Sonar Systems

- Revenue in Tactical & Sonar Systems reduced by 5% to £284.7m (2012: £298.0m)
- Underlying operating profit increased by 4% to £48.1m (2012: £46.3m[†])
- Order book decreased by 19% to £285.1m (2012: £350.0m)

The period saw good sales in the US for ASW, a strong performance on a UK crypto programme and further sales of surveillance systems in both the UK and US, which partially offset the continued lower sales for tactical radios and the impact of US budget cuts and contract delays.

The increase in underlying operating profit was driven by the performance of the UK cryptographic programme with development and production risks being retired as the programme is delivered. This, together with good contributions from the sales of Litening pods in the UK and ASW sales in the US, resulted in the division's underlying operating margin increasing to 16.9% (2012: 15.5%[†]).

The order book reduction reflected the trading of the End Cryptographic Unit Replacement Programme (ECU RP) contract and US order intake delays, with the balance largely due to foreign exchange translation. This division also saw increased use by customers of IDIQs and annual 'call-off' contract awards which are not reflected in the order book.

Features of the division's performance in the year that will underpin future performance included:

- a £14m contract extension to its ECU RP for the integration & installation phase of the programme.
- a A\$15m contract for the upgrade of the ANZAC Class Frigate electronic support system for the Royal Australian Navy.
- an increase in ASW spend reflects the US 'Pivot to the Pacific' policy. The US Navy has recently changed from issuing an annual sonobuoy tender and issued a 5-year IDIQ competitive tender for which Ultra, through its JV, was the only bidder. Contract award is expected in the first quarter of 2014.

[†]See notes on page 2

MARKET ENVIRONMENT

Defence (57% of Group revenue)

Within the Group's established markets, defence priorities are shifting from land-focused "hold and build" operations to focused intervention and forward presence capabilities that favour maritime, air and special forces. Budget constraints are leading to more life extension projects, phased contract awards and greater reliance upon established, proven solutions tailored to specific needs.

The US Bipartisan Budget Act has moderated cuts to the defence investment budget of 8% in FY14 and of 2% in FY15. Appropriations saw policy reflected in sustained or even increased budgets for maritime and air programmes and cuts in land warfare. Ultra expects intelligence, surveillance and reconnaissance (ISR) capabilities to be prioritised, along with capabilities that counter anti-access and area denial systems. It will take several months for budgets to flow down into contract action and for detailed areas of priority to become clear.

In the UK defence procurement remains anchored upon a core programme with substantial financial contingency. Fiscal and other pressures, such as the rising cost of manpower, will squeeze the equipment programme making choices in the 2015 Strategic Defence & Security Review capability debate even more critical. Ultra has benefited from the improved stability in procurement, most evident in the nuclear submarine programme, and is well positioned in priority areas such as ISR, data links, force protection and crypto management.

Australia has committed to return defence spending back to 2% of GDP within a decade. A new defence white paper, expected in mid-2015, will provide much needed clarity. India's ambitious defence modernisation programme provides Ultra with opportunities, through partners, in areas such as high-capacity radios and ASW. Ultra continues to partner with Turkish industry to develop the next generation of torpedo defence in a programme that demonstrates our long term commitment to the region. The Middle East remains a valuable market and Ultra is also seeing emerging opportunities in ASW, vehicle electronics and communications.

Security & Cyber (23% of Group revenue)

Budgets for security are growing substantially in the face of terrorism, organised crime, drug trafficking and cyber threats. Border security and critical national infrastructure protection opportunities are increasing. Ultra's portfolio approach and access to well-established partners makes the Group attractive in this space, both in established markets and regions such as the Middle East and Central America. With the Government and commercial markets becoming increasingly reliant on internet communications and data, there is a growing awareness of the need to protect these networks and the intellectual property contained within them. While the Snowden leaks have suppressed some opportunities, the demand for intelligence surveillance in sensitive areas, such as borders and global event sites, remains high.

Transport & Energy (20% of Group revenue)

With predictions of 6% year-on-year growth in global air traffic in 2014, demand for innovative technologies to improve efficiency and increase safety play well to Ultra's established strengths. Transport infrastructure investment in established economies is being made to upgrade capabilities and drive economic recovery. In emerging economies, investment is being used to secure growth, build national capacity and deliver prestigious projects. With some new nuclear programmes being delayed, there are increasing opportunities in life extension and safety system improvements. The energy debate continues to be driven by growing capacity demands and low-carbon footprint, both of which make nuclear an important part of the mix for many countries.

RISKS AND UNCERTAINTIES

A number of potential risks and uncertainties exist which could have a material impact on the Group's performance in 2014 and beyond and which could cause actual results to differ materially from expected and historical levels. The directors do not consider that the principal risks and uncertainties have changed substantially since the publication of the Group's Annual Report for 2012. An explanation of the risks detailed below, and the robust business strategies that Ultra uses to manage and mitigate those risks and uncertainties, can be found in the annual report which is available for download at www.ultra-electronics.com/investors.

In the defence sector, which contributes around 57% of Ultra's revenue, there is continuing pressure on US and UK defence budgets. In the US, the US Bipartisan Budget Act has secured budget allocations at levels higher than sequestration limits. However, funding will take time to flow down into contract action during 2014. Nevertheless, the overall size of defence budgets worldwide, relative to the Group's revenue, provides sufficient headroom to support Ultra's continuing growth.

There is a risk of programme delays or cancellations but this has always been a feature of the Group's markets. Excluding the Oman Airport IT project, no programme represents more than 5% of Ultra's revenue in any year, so the cancellation or curtailment of any single programme is unlikely to have a material impact on the Group.

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.

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 record of delivering high quality profits growth
- 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

SUMMARY

During 2014, Ultra's non-defence sectors are expected to remain positive. The US defence markets will continue to provide challenges but the Group expects improving certainty and order placement in its niche areas during the second half of the year. Ultra will continue its geographic expansion and development of collaborative solutions to secure new contracts and the focus on investment and cost management will remain integral to the Group's business strategy. Ultra enters 2014 with order cover levels consistent with previous years, supplemented by a noticeable shift toward more annual contract awards. There continues to be a number of larger opportunities for growth alongside the regular flow of smaller orders and the Group has a healthy acquisition pipeline. Combining these factors, while recognising current currency headwinds, the Board is confident that the Group can achieve progress in 2014.

- End -

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NATURE OF ANNOUNCEMENT

This preliminary announcement of Ultra's audited results for the year ended 31 December 2013 does not serve as the dissemination announcement as required by Rule 6.3 of the Disclosure and Transparency Rules ('DTR'). A separate dissemination announcement will be made when the annual financial report is made public in accordance with DTR requirements.

This preliminary 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 preliminary 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 preliminary 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.

Further information about Ultra:

Ultra Electronics is a group of businesses which manage a portfolio of specialist capabilities, generating highly differentiated solutions and products in the defence & aerospace, security & cyber, transport and energy markets by applying electronic and software technologies in demanding and critical environments to meet customer needs

Ultra has world-leading positions in many of its specialist capabilities and, as an independent, non-threatening partner, is able to support all of the main prime contractors in its sectors. As a result of such positioning, Ultra's systems, equipment or services are often mission or safety-critical to the successful operation of the platform to which they contribute. In turn, this mission-criticality secures Ultra's positions for the long term which underpins the superior financial performance of the Group.

Ultra offers support to its customers through the design, delivery and support phases of a programme. Ultra businesses have a high degree of operational autonomy where the local management teams are empowered to devise and implement competitive strategies that reflect their expertise in their specific niches. The Group has a small head office and executive team that provide to the individual businesses the same agile, responsive support that they provide to customers as well as formulating Ultra's overarching, corporate strategy.

Across the Group's three divisions, the major market sectors in which Ultra operates are:

Defence: Ultra supplies advanced electronic and electrical systems and equipment to coalition defence forces around the world. The Group innovates to provide battle-winning, specialist capabilities that are tailored to the customer's need and environment. Ultra has world-class capabilities in sonar systems, command & control, platform electrics, surveillance systems and network communications solutions.

Security: Ultra provides highly differentiated systems and capabilities to the broad security, intelligence and cyber market. Ultra has highly specialised capabilities in secure communications, networks and cryptographic equipment, key management systems and surveillance systems and intelligence gathering systems.

Transport: Ultra provides specialist software, systems and equipment for use in mass passenger transport systems. This includes high integrity real-time controls for civil aircraft, advanced IT solutions for modern airports and trackside power equipment for transit rail systems.

Energy: Ultra has a range of safety critical sensors and controls used in existing and new build nuclear reactors. The Group has innovative portable energy sources powered by readily available propane gas.

Ultra Electronics Holdings plc
Preliminary Results for the Year Ended 31 December 2013
Consolidated Income Statement

	Note	2013 £'000	2012 £'000 As restated*
Revenue	1	745,154	760,826
Cost of sales		<u>(523,687)</u>	<u>(534,622)</u>
Gross profit		221,467	226,204
Other operating income		497	2,008
Distribution costs		(1,883)	(1,264)
Administrative expenses		(126,371)	(140,509)
Share of profit from associate		1,424	3,487
Other operating expenses		(2,860)	(1,655)
Contingent consideration release		9,363	-
Impairment of goodwill	1	<u>(44,239)</u>	<u>-</u>
Operating profit		57,398	88,271
Investment revenue	3	1,606	1,583
Finance costs	4	<u>(9,723)</u>	<u>(10,036)</u>
Profit before tax	1	49,281	79,818
Tax	5	<u>(11,124)</u>	<u>(18,552)</u>
Profit for the year		38,157	61,266
Attributable to:			
Owners of the Company		38,157	60,957
Non-controlling interests		<u>-</u>	<u>309</u>
Earnings per ordinary share (pence)			
- basic	7	54.8	88.1
- diluted	7	54.7	87.9

*see note 16

Ultra Electronics Holdings plc
Preliminary Results for the Year Ended 31 December 2013
Consolidated Statement of Comprehensive Income

	2013	2012
	£'000	£'000
		As restated*
Profit for the year	38,157	61,266
Items that will not be reclassified to profit or loss:		
Actuarial loss on defined benefit pension schemes	(5,677)	(3,110)
Tax relating to items that will not be reclassified	(1,321)	(797)
Total items that will not be reclassified to profit or loss	(6,998)	(3,907)
Items that may be reclassified to profit or loss:		
Exchange differences on translation of foreign operations	(4,896)	(12,803)
Gain on net investment hedges	810	4,044
Tax relating to items that may be reclassified	748	77
Total Items that may be reclassified to profit or loss	(3,338)	(8,682)
Other comprehensive income for the year	(10,336)	(12,589)
Total comprehensive income for the year	27,821	48,677
Attributable to:		
Owners of the Company	27,821	48,368
Non-controlling interests	-	309

Ultra Electronics Holdings plc
Preliminary Results for the Year Ended 31 December 2013
Consolidated Balance Sheet

	Note	2013 £'000	2012 £'000
Non-current assets			
Goodwill	8	252,115	291,824
Other intangible assets		125,445	139,160
Property, plant and equipment		59,146	57,756
Interest in associate		7,317	8,989
Deferred tax assets		5,147	1,138
Derivative financial instruments		4,226	3,152
Trade and other receivables	10	9,622	4,133
		463,018	506,152
Current assets			
Inventories	9	57,774	52,185
Trade and other receivables	10	239,916	201,039
Tax assets		2,454	-
Cash and cash equivalents		30,570	30,840
Derivative financial instruments		3,307	2,454
		334,021	286,518
Total assets		797,039	792,670
Current liabilities			
Trade and other payables	11	(269,907)	(242,858)
Tax liabilities		(16,927)	(13,428)
Derivative financial instruments		(777)	(490)
Obligations under finance leases		(44)	(37)
Borrowings		-	(27,544)
Short-term provisions	12	(18,140)	(22,474)
		(305,795)	(306,831)
Non-current liabilities			
Retirement benefit obligations	13	(86,078)	(83,096)
Other payables	11	(4,773)	(20,987)
Deferred tax liabilities		(222)	(7,079)
Derivative financial instruments		(269)	(99)
Obligations under finance leases		(19)	(50)
Borrowings		(72,664)	(46,209)
Long-term provisions	12	(6,040)	(14,094)
		(170,065)	(171,614)
Total liabilities		(475,860)	(478,445)
Net assets		321,179	314,225
Equity			
Share capital		3,490	3,470
Share premium account		53,908	48,752
Own shares		(2,581)	(2,581)
Hedging reserve		(9,169)	(9,979)
Translation reserve		16,240	21,119
Retained earnings		258,609	252,745
Equity attributable to owners of the Company		320,497	313,526
Non-controlling interest		682	699
Total equity		321,179	314,225

Ultra Electronics Holdings plc
Preliminary Results for the Year Ended 31 December 2013
Consolidated Cash Flow Statement

	Note	2013 £'000	2012 £'000 As restated*
Net cash flow from operating activities	14	63,932	82,243
Investing activities			
Interest received		136	193
Dividends received from equity accounted investments		2,825	765
Purchase of property, plant and equipment		(13,857)	(20,470)
Proceeds from disposal of property, plant and equipment		1,280	67
Expenditure on product development and other intangibles		(7,657)	(4,659)
Acquisition of subsidiary undertakings		(26,374)	(40,904)
Net cash acquired with subsidiary undertakings		<u>4,623</u>	<u>5,445</u>
Net cash used in investing activities		<u>(39,024)</u>	<u>(59,563)</u>
Financing activities			
Issue of share capital		5,176	4,911
Dividends paid		(28,071)	(26,877)
Funding from government loans		1,282	1,298
Loan syndication costs		(181)	(722)
Decrease in borrowings		(2,317)	(10,145)
Decrease in loan to associate		-	577
Repayment of obligations under finance leases		(24)	(52)
Net cash used in financing activities		<u>(24,135)</u>	<u>(31,010)</u>
Net increase/(decrease) in cash and cash equivalents		773	(8,330)
Cash and cash equivalents at beginning of year		30,840	41,051
Effect of foreign exchange rate changes		(1,043)	(1,881)
Cash and cash equivalents at end of year		<u>30,570</u>	<u>30,840</u>

*2012 comparatives have been restated to include acquisition costs of £1,494,000 within net cash flow from operating activities. See note 14.

Ultra Electronics Holdings plc
Preliminary Results for the Year Ended 31 December 2013
Consolidated Statement of Changes in Equity

Equity attributable to equity holders of the parent

	Share capital £'000	Share premium account £'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 2013	3,470	48,752	(2,581)	(9,979)	21,119	252,745	699	314,225
Profit for the year	-	-	-	-	-	38,157	-	38,157
Other comprehensive income for the year	-	-	-	810	(4,879)	(6,250)	(17)	(10,336)
Total comprehensive income for the year	-	-	-	810	(4,879)	31,907	(17)	27,821
Equity-settled employee share schemes	20	5,156	-	-	-	1,859	-	7,035
Dividend to shareholders	-	-	-	-	-	(28,071)	-	(28,071)
Tax on share-based payment transactions	-	-	-	-	-	169	-	169
Balance at 31 December 2013	3,490	53,908	(2,581)	(9,169)	16,240	258,609	682	321,179
Balance at 1 January 2012	3,449	43,862	(2,581)	(14,023)	33,898	220,149	414	285,168
Profit for the year - restated	-	-	-	-	-	60,957	309	61,266
Other comprehensive income for the year - restated	-	-	-	4,044	(12,779)	(3,830)	(24)	(12,589)
Total comprehensive income for the year	-	-	-	4,044	(12,779)	57,127	285	48,677
Equity-settled employee share schemes	21	4,890	-	-	-	1,974	-	6,885
Dividend to shareholders	-	-	-	-	-	(26,877)	-	(26,877)
Tax on share-based payment transactions	-	-	-	-	-	372	-	372
Balance at 31 December 2012	3,470	48,752	(2,581)	(9,979)	21,119	252,745	699	314,225

Ultra Electronics Holdings plc
Preliminary Results for the Year Ended 31 December 2013
Notes

1. Segment information

(a) Revenue by segment

	2013			2012		
	External revenue £'000	Inter segment £'000	Total £'000	External revenue £'000	Inter segment £'000	Total £'000
Aircraft & Vehicle Systems	155,481	19,409	174,890	147,017	18,440	165,457
Information & Power Systems	304,976	8,928	313,904	315,835	13,815	329,650
Tactical & Sonar Systems	284,697	18,824	303,521	297,974	20,261	318,235
Eliminations	-	(47,161)	(47,161)	-	(52,516)	(52,516)
Consolidated revenue	745,154	-	745,154	760,826	-	760,826

(b) Profit by segment

	2013			
	Aircraft & Vehicle Systems £'000	Information & Power Systems £'000	Tactical & Sonar Systems £'000	Total £'000
Underlying operating profit	32,400	41,205	48,112	121,717
Amortisation of intangibles arising on acquisition	(4,586)	(9,375)	(15,122)	(29,083)
Adjustments to deferred consideration net of acquisition costs [†]	364	(36)	8,675	9,003
Impairment of goodwill [^]	-	(44,239)	-	(44,239)
Operating profit/(loss)	28,178	(12,445)	41,665	57,398
Investment revenue				1,606
Finance costs				(9,723)
Profit before tax				49,281
Tax				(11,124)
Profit after tax				38,157

[†] A provision of £9,363,000 was released relating to the Gigasat earn-out agreement for which the 2013 target was not met. Gigasat is in the Tactical & Sonar Systems division.

[^] The impairment charge of £44,239,000 (2012: £nil) reflects the write-down of the acquired goodwill in Prologic.

	2012 As restated*			
	Aircraft & Vehicle Systems £'000	Information & Power Systems £'000	Tactical & Sonar Systems £'000	Total £'000
Underlying operating profit	30,645	44,905	46,294	121,844
Amortisation of intangibles arising on acquisition	(3,571)	(14,005)	(14,503)	(32,079)
Adjustments to deferred consideration net of acquisition costs	(315)	(518)	(661)	(1,494)
Operating profit	26,759	30,382	31,130	88,271
Investment revenue				1,583
Finance costs				(10,036)
Profit before tax				79,818
Tax				(18,552)
Profit after tax				61,266

*see note 16

Ultra Electronics Holdings plc
Preliminary Results for the Year Ended 31 December 2013
Notes (continued)

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

	Capital expenditure and additions to intangibles (excluding goodwill and acquired intangibles)		Depreciation and amortisation	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Aircraft & Vehicle Systems	10,356	7,511	7,182	6,784
Information & Power Systems	5,434	7,088	15,037	18,770
Tactical & Sonar Systems	5,724	10,530	21,113	20,570
Total	21,514	25,129	43,332	46,124

The 2013 depreciation and amortisation expense includes £31,967,000 of amortisation charges (2012: £35,242,000) and £11,365,000 of property, plant and equipment depreciation charges (2012: £10,882,000).

(d) Total assets by segment

	2013	2012
	£'000	£'000
Aircraft & Vehicle Systems	180,941	146,872
Information & Power Systems	276,097	296,411
Tactical & Sonar Systems	294,297	311,803
	751,335	755,086
Unallocated	45,704	37,584
Consolidated total assets	797,039	792,670

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

(e) Total liabilities by segment

	2013	2012
	£'000	£'000
Aircraft & Vehicle Systems	39,755	42,594
Information & Power Systems	145,802	121,273
Tactical & Sonar Systems	117,702	139,547
	303,259	303,414
Unallocated	172,601	175,031
Consolidated total liabilities	475,860	478,445

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

(f) Revenue by destination

	2013	2012
	£'000	£'000
United Kingdom	243,650	225,671
Continental Europe	61,860	55,769
Canada	17,130	19,038
USA	313,352	349,145
Rest of World	109,162	111,203
	745,154	760,826

Ultra Electronics Holdings plc
Preliminary Results for the Year Ended 31 December 2013
Notes (continued)

(g) Other information (by geographic location)

	Non current assets		Total assets		Additions to property, plant & equipment and intangible assets (excluding acquisitions)	
	2013	2012	2013	2012	2013	2012
	£'000	£'000	£'000	£'000	£'000	£'000
United Kingdom	221,362	200,453	375,315	339,855	14,607	16,404
USA	159,927	216,746	229,563	292,022	3,852	4,227
Canada	47,960	55,831	62,983	71,191	2,719	2,795
Rest of World	24,396	28,831	83,474	69,477	336	1,703
	453,645	501,861	751,335	772,545	21,514	25,129
Unallocated	9,373	4,291	45,704	20,125	-	-
	463,018	506,152	797,039	792,670	21,514	25,129

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:

	2013	2012
	£'000	£'000
		As restated*
Operating profit	57,398	88,271
Amortisation of intangibles arising on acquisition	29,083	32,079
Impairment of goodwill	44,239	-
Adjustments to contingent consideration net of acquisition costs	(9,003)	1,494
Underlying operating profit	121,717	121,844
Profit before tax	49,281	79,818
Amortisation of intangibles arising on acquisition	29,083	32,079
Impairment of goodwill	44,239	-
Adjustments to contingent consideration net of acquisition costs	(9,003)	1,494
Unwinding of discount on provisions	1,268	577
Profit on fair value movements of derivatives	(1,470)	(1,390)
Net interest charge on defined benefit pensions	3,408	3,924
Underlying profit before tax	116,806	116,502
Cash generated by operations	93,476	112,387
Purchase of property, plant and equipment	(13,857)	(20,470)
Proceeds on disposal of property, plant and equipment	1,280	67
Expenditure on product development and other intangibles	(7,657)	(4,659)
Dividend from equity accounted investment	2,825	765
Acquisition related payments	2,973	1,494
Underlying operating cash flow	79,040	89,584

Underlying operating profit has been shown before adjustments to contingent consideration net of acquisition related costs, the amortisation of intangible assets arising on acquisitions and impairment of goodwill. To maintain a consistent presentation of financial performance over the longer term, these charges have been excluded from underlying operating profit. Underlying profit before tax and underlying earnings per share (see note 7) are also presented before these adjustments.

*see note 16

Ultra Electronics Holdings plc
Preliminary Results for the Year Ended 31 December 2013
Notes (continued)

2. Additional non-statutory performance measures (continued)

IAS 37 requires the Group to discount provisions using a pre-tax discount rate that reflects the current assessment of the time value of money and the risks specific to the liability. In the case of the provision relating to the acquisition contingent consideration, to maintain a consistent presentation of financial performance over the longer term, underlying profit before tax and underlying earnings per share (see note 7) are stated before the unwinding of discount on the provision.

IAS 39 requires the Group to 'fair value' the derivative instruments used to manage Ultra's foreign exchange exposures. This creates volatility in the valuation of the outstanding instruments as exchange rates move over time. This will have minimal impact on profit over the full term of the instruments, but can cause significant volatility on particular balance sheet dates. Underlying profit before tax and underlying earnings per share (see note 7) are stated before changes in the valuation of foreign currency derivative instruments.

Following the adoption of IAS 19 (revised 2011), the Group has decided to present underlying profit before tax and underlying earnings per share (see note 7) before the net interest charge on defined benefit pensions in order that the underlying operating performance of the Group can be seen more clearly. The comparatives for the year ended 31 December 2012 have been restated as set out in note 16.

The Group is cash-generative and reinvests funds to support the continuing growth of the business. It seeks to use an accurate and appropriate measure of the funds generated internally while sustaining this growth. For this, Ultra uses 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. The Group 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.

3. Investment revenue

	2013	2012
	£'000	£'000
Bank interest	136	193
Fair value movement on derivatives	1,470	1,390
	<u>1,606</u>	<u>1,583</u>

4. Finance costs

	2013	2012
	£'000	£'000
		As restated*
Amortisation of finance costs of debt	616	591
Interest payable on bank loans, overdrafts and other loans	4,430	4,943
Interest payable on finance leases	1	1
Total borrowing costs	<u>5,047</u>	<u>5,535</u>
Retirement benefit scheme finance cost	3,408	3,924
Unwinding of discount on provisions	1,268	577
	<u>9,723</u>	<u>10,036</u>

*see note 16

Ultra Electronics Holdings plc
Preliminary Results for the Year Ended 31 December 2013
Notes (continued)

5. Tax

	2013	2012
	£'000	£'000
		As restated*
Current tax		
United Kingdom	17,306	13,023
Overseas	7,652	9,905
	24,958	22,928
Deferred tax		
United Kingdom	(3,711)	(8)
Overseas	(10,123)	(4,368)
	(13,834)	(4,376)
Total	11,124	18,552

6. Dividends

	2013	2012
	£'000	£'000
Final dividend for the year ended 31 December 2012 of 27.8p (2011: 26.8p) per share	19,259	18,466
Interim dividend for the year ended 31 December 2013 of 12.7p (2012:12.2p) per share	8,812	8,411
	28,071	26,877
Proposed final dividend for the year ended 31 December 2013 of 29.5p (2012: 27.8p) per share	20,523	19,230

The 2013 proposed final dividend of 29.5p per share is proposed to be paid on 2 May 2014 to shareholders on the register at 11 April 2014. It was approved by the Board after 31 December 2013 and has not been included as a liability as at 31 December 2013.

*see note 16

Ultra Electronics Holdings plc
Preliminary Results for the Year Ended 31 December 2013
Notes (continued)

7. Earnings per share

	2013 Pence	2012 Pence As restated*
Basic underlying (see below)	127.1	125.5
Diluted underlying (see below)	126.7	125.1
Basic	54.8	88.1
Diluted	54.7	87.9

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

	2013 £'000	2012 £'000 As restated*
Earnings Earnings for the purposes of earnings per share being profit for the year	38,157	60,957

Underlying earnings

Profit for the year	38,157	60,957
Profit on fair value movements on derivatives (net of tax)	(1,322)	(1,155)
Amortisation of intangibles arising on acquisition (net of tax)	20,727	22,271
Unwinding of discount on provisions (net of tax)	973	436
Acquisition related costs net of contingent consideration (net of tax)	(9,061)	1,273
Net interest charge on defined benefit pensions (net of tax)	2,609	3,021
Impairment of goodwill (net of tax)	36,394	-
Earnings for the purposes of underlying earnings per share	88,477	86,803

See note 2 for an explanation of the adjustments to earnings

	2013 Number of shares	2012 Number of shares
The weighted average number of shares is given below:		
Number of shares used for basic earnings per share	69,588,526	69,165,099
Effect of dilutive potential ordinary shares – share options	218,397	215,138
Number of shares used for fully diluted earnings per share	69,806,923	69,380,237

	2013 £'000	2012 £'000 As restated*
Underlying profit before tax	116,806	116,502
Tax rate applied for the purposes of underlying earnings per share	24.25%	25.28%

*see note 16

Ultra Electronics Holdings plc
Preliminary Results for the Year Ended 31 December 2013
Notes (continued)

8. Goodwill

	2013 £'000	2012 £'000
Cost		
At 1 January	291,824	278,125
Exchange differences	(3,670)	(6,416)
Recognised on acquisition of subsidiaries	9,790	19,478
Reclassifications	-	372
Other changes	(3,956)	265
As 31 December	293,988	291,824
Accumulated impairment loss		
At 1 January	-	-
Exchange differences	2,366	-
Impairment of goodwill	(44,239)	-
Carrying amount at 31 December	252,115	291,824

Other changes in 2013 relate to the release of an earn-out provision of £4,276,000 relating to a 2008 acquisition which was credited to goodwill, and other adjustments relating to the re-assessment of initial fair values. Other changes and reclassifications in 2012 relate to the re-assessment of initial fair values.

Goodwill acquired in a business combination is allocated, at acquisition, to the Cash-Generating Units (CGUs) that are expected to benefit from that business combination. These consist of the Group's operating businesses. Goodwill has been allocated to CGUs as set out below:

	2013 Discount rate	2012 Discount rate	2013 £'000	2012 £'000
Blue Sky Group	12.3%	13.3%	7,333	7,496
Precision Air & Land Systems	12.3%	12.3%	10,317	10,317
Adaptive Materials Inc	13.3%	13.3%	6,235	6,375
Controls	12.3%	-	7,876	-
Other	12.3-13.3%	12.3-13.3%	13,074	13,074
Aircraft & Vehicle Systems			44,835	37,262
Airport Systems	13.3%	13.3%	28,064	27,996
Command & Control Systems	12.3%	12.3%	15,587	14,015
NSPI	13.3%	13.3%	10,518	10,752
Prologic	13.8%	12.3%	-	47,176
SOTECH	12.3%	12.3%	8,652	8,844
Other	12.3-13.3%	12.3-13.3%	13,813	13,813
Information & Power Systems			76,634	122,596
3eTI	12.3%	12.3%	18,817	19,236
AEP	13.3%	13.3%	24,908	24,640
Flightline	12.3%	12.3%	9,519	2,165
GigaSat	13.3%	16.0%	9,544	9,544
Maritime Systems	12.3%	12.3%	1,615	9,331
Tactical Communication Systems	12.3%	12.3%	36,054	36,435
UnderSea Sensor Systems Inc	12.3%	12.3%	18,252	18,342
Other	12.3%	12.3%	11,937	12,273
Tactical & Sonar Systems			130,646	131,966
Total – Ultra Electronics			252,115	291,824

Ultra Electronics Holdings plc
Preliminary Results for the Year Ended 31 December 2013
Notes (continued)

8. Goodwill (continued)

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% 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 and forecast gross margins. 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). The WACC is then risk-adjusted to reflect risks specific to each business. The pre-tax discount rate used during 2013 varied between 12.3% and 13.8% (2012: 12.3% to 16.0%). 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 has been performed on the value-in-use calculations to:

- (i) reduce the post-2018 growth assumption from 2.5% to nil.
- (ii) apply a 10% reduction to forecast operating profits in each year of the modelled cash inflows.
- (iii) consider specific market factors as noted above.

Certain of these sensitivity scenarios give rise to potential impairments at GigaSat, Adaptive Materials Inc and Tactical Communications Systems. Headroom for these businesses, which represents the value derived from the key growth assumptions in the value-in-use calculations, is as follows: GigaSat £1.6m, Adaptive Materials Inc £5.1m and Tactical Communication Systems £23.2m. Sensitivity assumptions (i) and (ii) would result in a headroom shortfall at GigaSat of £0.3m and £1.3m respectively. Sensitivity (iii) is particularly relevant for Adaptive Materials Inc and accordingly if assumption (ii) was extended further, a 28% reduction to forecast operating profits, representing a key programme, would indicate impairment. Similarly, the Tactical Communication Systems CGU is also sensitive to specific market factors: a material delay in bringing a key programme to market, combined with failure to secure sufficient business with new and existing customers would result in impairment.

The reduction in placement of US service contracts has particularly impacted the Prologic business during 2013. The value-in-use of the Prologic CGU was lower than the carrying value of the CGU's net operating assets and consequently an impairment charge of £44.2m has been recorded in the year. The pre-tax discount rate used during this assessment was 13.8%. Following the impairment charge, the carrying value of goodwill for the Prologic CGU as at 31 December 2013 is £nil. As set out in note 2, the £44.2m impairment charge has been included as part of the non-underlying operating results of the Group. Prologic is within the Information & Power Systems operating segment.

For all other CGUs, the value-in-use calculations comfortably exceed the CGU carrying values in the sensitivity scenarios.

Ultra Electronics Holdings plc
Preliminary Results for the Year Ended 31 December 2013
Notes (continued)

9. Inventories

	2013	2012
	£'000	£'000
Raw materials and consumables	36,888	32,850
Work in progress	13,774	11,621
Finished goods and goods for resale	7,112	7,714
	57,774	52,185

10. Trade and other receivables

	2013	2012
	£'000	£'000
Non-current:		
Trade receivables	5,296	4,133
Amounts due from contract customers	4,326	-
	9,622	4,133
Current:		
Trade receivables	87,174	96,355
Provisions against receivables	(1,605)	(1,445)
Net trade receivables	85,569	94,910
Amounts due from contract customers	129,042	87,727
Other receivables	17,150	11,402
Prepayments and accrued income	8,155	7,000
	239,916	201,039

11. Trade and other payables

	2013	2012
	£'000	£'000
Amounts included in current liabilities:		
Trade payables	85,709	75,773
Amounts due to contract customers	122,856	96,620
Other payables	19,505	22,943
Accruals and deferred income	41,837	47,522
	269,907	242,858
Amounts included in non-current liabilities:		
Amounts due to contract customers	1,266	11,333
Other payables	1,174	5,578
Accruals and deferred income	2,333	4,076
	4,773	20,987

Ultra Electronics Holdings plc
Preliminary Results for the Year Ended 31 December 2013
Notes (continued)

12. Provisions

	Warranties £'000	Contract related provisions £'000	Total £'000
At 1 January 2013	8,681	27,887	36,568
Created	608	6,127	6,735
Reversed	(1,852)	(11,870)	(13,722)
Utilised	(1,105)	(5,414)	(6,519)
Unwinding of discount	-	1,268	1,268
Exchange differences	(58)	(92)	(150)
At 31 December 2013	6,274	17,906	24,180
Included in current liabilities	3,773	14,367	18,140
Included in non-current liabilities	2,501	3,539	6,040
	6,274	17,906	24,180

13. 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:

	2013 £'000	2012 £'000
Fair value of scheme assets	194,340	163,397
Present value of scheme liabilities	(280,418)	(246,493)
Scheme deficit	(86,078)	(83,096)
Related deferred tax asset	17,324	19,227
Net pension liability	(68,754)	(63,869)

14. Cash flow information

	2013 £'000	2012 £'000 As restated*
Operating profit	57,398	88,271
Adjustments for:		
Depreciation of property, plant and equipment	11,365	10,882
Amortisation of intangible assets	31,967	35,242
Impairment of goodwill	44,239	-
Cost of equity-settled employee share schemes	1,859	1,974
Adjustment for pension funding	(6,103)	(6,809)
Loss on disposal of property, plant and equipment	130	137
Share of profit from associate	(1,424)	(3,487)
Decrease in provisions	(13,508)	(3,088)
Operating cash flow before movements in working capital	125,923	123,122
Increase in inventories	(4,197)	(2,719)
Increase in receivables	(43,144)	(5,969)
Increase/(decrease) in payables	14,894	(2,047)
Cash generated by operations	93,476	112,387
Income taxes paid	(25,591)	(25,589)
Interest paid	(3,953)	(4,555)
Net cash from operating activities	63,932	82,243

*see note 16

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Notes (continued)

14. Cash flow information (continued)

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

	2013 £'000	2012 £'000
Net increase/(decrease) in cash and cash equivalents	773	(8,330)
Cash outflow from decrease in debt and finance leasing	521	8,898
Change in net debt arising from cash flows	1,294	568
Loan syndication costs	-	903
Amortisation of finance costs of debt	(616)	(551)
Translation differences	165	2,228
Movement in net debt in the year	843	3,148
Net debt at start of year	(43,000)	(46,148)
Net debt at end of year	(42,157)	(43,000)

Net debt comprised the following:

	2013 £'000	2012 £'000
Cash and cash equivalents	30,570	30,840
Borrowings	(72,664)	(73,753)
Obligations under finance leases included in current liabilities	(44)	(37)
Obligations under finance leases included in non-current liabilities	(19)	(50)
	(42,157)	(43,000)

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

15. Post balance sheet events

On 2 January 2014 the Group agreed an amendment to extend the existing Prudential Investment Management, Inc (Pricoa) private shelf agreement for a three year period. Consequently loan notes can now be issued up until 2 January 2017. The amendment also increased the size of the shelf agreement so \$125 million of notes remain available for issue.

Acquisition of 3 Phoenix Inc

On 18 February 2014, the Group acquired the entire share capital of 3 Phoenix Inc ("3Pi") headquartered in Chantilly, Virginia, for an initial cash consideration of \$70.0m. Additional payments of up to \$17.0m will be due subject to earnings growth over the next three years.

3Pi is a leading supplier of specialist sonar, radar, intelligence, surveillance and reconnaissance products and solutions. The company has a 10 year track record of delivering critical real-time sensor and processing systems, primarily to the US Navy, but also to commercial customers. 3Pi is a bolt-on acquisition to Ultra's existing Tactical & Sonar Systems Division, with which there are a significant number of internal and external synergies.

The fair values of the net assets are currently being calculated and have not been finalised due to the proximity of the acquisition to the publication of the 2013 financial statements. The proximity to the financial statements publication also makes it impractical to disclose any further information with respect to this acquisition. Full disclosure will be made in the next published financial statements.

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16. Prior period restatement

IAS 19 (revised 2011) has impacted the accounting for the Group's defined benefit pension scheme by (i) replacing the interest cost and expected return on plan assets with a net interest charge on the net defined benefit liability, and (ii) reclassifying administration costs of the defined benefit scheme from finance costs to administration expenses. There is no change to the net pension liability or to net assets as a result of the change. The comparative profit and loss account has been restated for the year ended 31 December 2012; the effect of adopting IAS 19 (revised 2011) is to reduce previously reported profit before tax by £3.0m. Subsequent to the adoption of IAS19 (revised 2011), the Group has also elected to disclose the finance expense on the net defined benefit pension liability as a specific adjusting item within the calculation of underlying profit before tax as set out in note 2. Consequently, the comparative figures have been restated for the year ended 31 December 2012 and previously reported underlying profit before tax has increased by £0.9m.

The impact on the income statement is set out in the table below:

	Year to 31 December 2012		
	As reported £'000	Adjusting item £'000	As restated £'000
Operating profit	88,671	(400)	88,271
Investment revenue	1,583	-	1,583
Finance costs	(7,448)	(2,588)	(10,036)
Profit before tax	82,806	(2,988)	79,818
Tax	(19,240)	688	(18,552)
Profit after tax	63,566	(2,300)	61,266
Profit attributable to owners of the company	63,257	(2,300)	60,957
EPS – basic	91.5p	(3.4)p	88.1p
EPS – diluted	91.2p	(3.3)p	87.9p

The impact on the statement of comprehensive income is set out in the table below:

	Year to 31 December 2012		
	As reported £'000	Adjusting item £'000	As restated £'000
Profit for the period	63,566	(2,300)	61,266
Other comprehensive income for the period	(14,889)	2,300	(12,589)
Total comprehensive income for the period	48,677	-	48,677
Attributable to owners of the company	48,368	-	48,368

The impact on underlying results (see note 2 & 7) is set out in the table below:

	Year to 31 December 2012		
	As reported £'000	Adjusting item £'000	As restated £'000
Underlying operating profit	122,244	(400)	121,844
Underlying profit before tax	115,566	936	116,502
Underlying EPS – basic	124.5p	1.0p	125.5p
Underlying EPS – diluted	124.1p	1.0p	125.1p

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17. Five-year review

	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m
Revenue					
Aircraft & Vehicle Systems	180.0	174.1	166.1	147.0	155.5
Information & Power Systems	193.5	224.0	257.0	315.8	305.0
Tactical & Sonar Systems	277.5	311.9	308.6	298.0	284.7
Total revenue	<u>651.0</u>	<u>710.0</u>	<u>731.7</u>	<u>760.8</u>	<u>745.2</u>
Underlying operating profit⁽¹⁾					
Aircraft & Vehicle Systems	22.4	23.3	30.9	30.6	32.4
Information & Power Systems	23.5	27.4	30.4	44.9	41.2
Tactical & Sonar Systems	51.0	59.3	60.4	46.3	48.1
Total underlying operating profit ⁽¹⁾	<u>96.9</u>	<u>110.0</u>	<u>121.7</u>	<u>121.8</u>	<u>121.7</u>
Margin ⁽¹⁾	<u>14.9%</u>	<u>15.5%</u>	<u>16.6%</u>	<u>16.0%</u>	<u>16.3%</u>
Profit before tax					
Profit after tax	<u>107.1</u>	<u>89.8</u>	<u>89.1</u>	<u>79.8</u>	<u>49.3</u>
Profit after tax	<u>77.9</u>	<u>65.2</u>	<u>64.6</u>	<u>61.3</u>	<u>38.2</u>
Operating cash flow⁽²⁾					
Free cash before dividends, acquisitions and financing ⁽³⁾	111.6	106.4	133.7	89.6	79.0
Net (debt)/cash at year-end ⁽⁴⁾	93.3	83.4	100.1	57.4	43.8
	<u>(28.7)</u>	<u>17.8</u>	<u>(46.1)</u>	<u>(43.0)</u>	<u>(42.2)</u>
Underlying earnings per share (p)⁽⁵⁾					
	96.7	108.5	121.1	125.5	127.1
Dividend per share (p)	31.2	34.6	38.5	40.0	42.2
Average employee numbers	<u>3,961</u>	<u>4,006</u>	<u>4,206</u>	<u>4,430</u>	<u>4,274</u>

Notes:

1. Before acquisition-related costs and amortisation of intangibles arising on acquisition, impairment of goodwill and profit on disposal of property, plant and equipment net of property related provisions.
2. Cash generated by operations and dividends from associates, less net capital expenditure, R&D and LTIP share purchases.
3. Free cash flow before dividends, acquisitions and financing has been adjusted to include the purchase of LTIP shares, which are included in financing activities.
4. Loans and overdrafts less cash and cash equivalents.
5. Before acquisition-related costs, amortisation of intangibles arising on acquisition, impairment of goodwill, defined benefit pension interest charges, fair value movement on derivative financial instruments, profit on disposal of property, plant and equipment net of property-related provisions, loss on closing out foreign currency hedging contracts and unwinding of discount on provisions.

Comparatives have been restated following the introduction of IAS19 (revised 2011).

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18. The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2013 or 2012, but is derived from those accounts. Statutory accounts for 2012 have been delivered to the Registrar of Companies and those for 2013 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 2013. The company expects to publish full financial statements on 26 March 2014.
- 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.