press release

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# 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 a 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 -

Enquiries:

**Ultra Electronics Holdings plc** 020 8813 4307
Rakesh Sharma, Chief Executive www.ultra-electronics.com
Mary Waldner, Group Finance Director

**Media enquiries:**
Susan Ellis, Corporate Affairs Adviser 07836 522722
James White, MHP Communications 020 3128 8756

***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 | | **(523,687)** | (534,622) |
| **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 | **(44,239)** | - |
| **Operating profit** | | **57,398** | 88,271 |
| Investment revenue | 3 | **1,606** | 1,583 |
| Finance costs | 4 | **(9,723)** | (10,036) |
| **Profit before tax** | 1 | **49,281** | 79,818 |
| Tax | 5 | **(11,124)** | (18,552) |
| **Profit for the year** | | **38,157** | 61,266 |
| Attributable to: | | | |
| Owners of the Company | | **38,157** | 60,957 |
| Non-controlling interests | | **-** | 309 |
| | | | |
| **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 £'000 | 2012 £'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 | | **4,623** | 5,445 |
| **Net cash used in investing activities** | | **(39,024)** | (59,563) |
| **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** | | **(24,135)** | (31,010) |
| **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** | | **30,570** | 30,840 |

*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** |

## 1. Segment information

### (a) Revenue by segment

| | **2013** External revenue £'000 | **2013** Inter segment £'000 | **2013** Total £'000 | 2012 External revenue £'000 | 2012 Inter segment £'000 | 2012 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

### (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 |

### (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

## 2. Additional 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 £'000** | 2012 £'000 |
|---|---|---|
| Bank interest | **136** | 193 |
| Fair value movement on derivatives | **1,470** | 1,390 |
| | **1,606** | 1,583 |

## 4. Finance costs

| | **2013 £'000** | 2012 £'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 | **5,047** | 5,535 |
| Retirement benefit scheme finance cost | **3,408** | 3,924 |
| Unwinding of discount on provisions | **1,268** | 577 |
| | **9,723** | 10,036 |

*see note 16

## 5. Tax

| | **2013 £'000** | 2012 £'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 £'000** | 2012 £'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

## 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

## 8. Goodwill

| | **2013** | 2012 |
|---|---|---|
| | **£'000** | £'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 | 2012 | **2013** | 2012 |
|---|---|---|---|---|
| | Discount rate | Discount rate | **£'000** | £'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 |

## 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.

## 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 |

| | **2013** | 2012 |
|---|---|---|
| | **£'000** | £'000 |
| 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 |

| | **2013** | 2012 |
|---|---|---|
| | **£'000** | £'000 |
| 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 |

## 12. Provisions

| | Warranties | Contract related provisions | Total |
|---|---|---|---|
| | £'000 | £'000 | £'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 | 2012 |
|---|---|---|
| | £'000 | £'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 | 2012 |
|---|---|---|
| | £'000 | £'000<br>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

## 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.

## 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 |

## 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 | 651.0 | 710.0 | 731.7 | 760.8 | **745.2** |
| **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) | 96.9 | 110.0 | 121.7 | 121.8 | **121.7** |
| Margin(1) | 14.9% | 15.5% | 16.6% | 16.0% | **16.3%** |
| **Profit before tax** | 107.1 | 89.8 | 89.1 | 79.8 | **49.3** |
| Profit after tax | 77.9 | 65.2 | 64.6 | 61.3 | **38.2** |
| Operating cash flow(2) | 111.6 | 106.4 | 133.7 | 89.6 | **79.0** |
| Free cash before dividends, acquisitions and financing(3) | 93.3 | 83.4 | 100.1 | 57.4 | **43.8** |
| Net (debt)/cash at year-end(4) | (28.7) | 17.8 | (46.1) | (43.0) | **(42.2)** |
| **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 | 3,961 | 4,006 | 4,206 | 4,430 | **4,274** |

**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).

**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.