For Immediate Release 9 March 2021

Ultra Electronics Holdings plc
("Ultra" or "the Group")
Preliminary Results for the year to 31 December 2020

ONE Ultra, delivering

Simon Pryce, Chief Executive, commented:

"2020 was a year which demonstrated the underlying strength of Ultra, and the capabilities and dedication of our outstanding people.

Through the extraordinary efforts of the whole Ultra team, we made good strategic progress and achieved our third consecutive year of strong organic growth. We made good progress on our ONE Ultra transformation and, as a result, we delivered or exceeded most of our stakeholder objectives. These would have been excellent outcomes in any year, but against a background of pandemic-driven disruption and turmoil, it was an exceptional performance.

We enter 2021 with a record order book giving us strong visibility, and we remain well positioned in key growth areas to support customers' evolving priorities. We continue to increase our technology investment, expanding the areas in which we can provide effective customer solutions. Our ONE Ultra transformation programme is having a positive impact on both growth opportunities and operational efficiency, and with strong 2020 delivery, we are confident enough to accelerate several of our transformation actions in 2021. This should see us begin to realise year-on-year benefits in 2022, a year ahead of plan.

This excellent performance gives us further confidence in Ultra's exciting potential and our ability to deliver exceptional value for all stakeholders over the longer term."

Group performance:

£m	**Year to 31 Dec 20**	Year to 31 Dec 19	Change % Reported	Change % Organic[2]
Order book	**1,064.2**	1,022.9	+4.0	+5.9
Revenue	**859.8**	825.4	+4.2	+5.2
Underlying[1]				
Operating profit	**126.1**	118.2	+6.7	+6.2
Profit before tax	**114.5**	105.3	+8.7	
EPS (p)	**130.6**	119.5	+9.3	
Statutory				
Operating profit	**106.3**	94.2	+12.8	
Profit before tax	**103.7**	91.0	+14.0	
EPS (p)	**118.0**	105.1	+12.3	
Total dividend per share (p)[5]	**56.9**	54.2	+5.0	
Net debt to EBITDA[3]	**1.05x**	1.58x		
ROIC[4]	**20.0%**	17.8%		

Highlights:

Further strategic progress

- Key programme wins

Delivering growth

- Third consecutive year of organic revenue growth
- Strong order book development
- Market outperformance

Robust performance

- Solid execution, despite Covid-19
- Margin progression and excellent ROIC
- Increased dividend

Transformation on track

- Good progress on Focus; Fix; Grow change programme

Exciting Potential

- Record order book, good visibility
- Stable markets with Ultra well positioned in growth segments
- Targeted technology investment
- Transformation benefits accelerating

Webcast

Ultra will host a live webinar with Q&A to analysts and investors on 9 March 2021 at 9.30am GMT. The webinar will be broadcast via the following link: http://bit.ly/ULE_FY20_results.

We recommend analysts/investors register before the webinar. Those who have not used GoToWebinar before, can download GotoWebinar before the event, via this link: https://support.goto.com/webinar/help/download-now-g2w010002

Alternatively, conference call details are: 0203-769-6819, code: 592967

A recording of the presentation and results materials will be available on Ultra's website later today.

Notes:

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

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

(3) Net debt to EBITDA: EBITDA is the underlying operating profit for the year, before depreciation charges and before amortisation arising on non-acquired intangible assets. Net debt in this metric comprises borrowings including pension obligations and lease liabilities, less cash and cash equivalents. On a covenant basis, the net debt to EBITDA ratio is 0.34x; net debt excludes pension obligations and lease liabilities, and EBITDA is adjusted to remove the EBITDA generated by businesses up to the date of their disposal.

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

(5) the 2019 total dividend per share of 54.2p quoted in this release is including the 2019 final dividend that was withdrawn as a precautionary measure due to the Covid-19 pandemic and paid on 18 September 2020 as an additional interim dividend.

Other terms used throughout this announcement are defined in note 23.

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About Ultra:

Ultra provides application-engineered solutions to customers' most difficult challenges in key elements of their mission critical and intelligent systems in the defence, security, critical detection & control markets.

www.ultra.group

STRATEGIC REVIEW

Financial summary

Ultra made good strategic progress during the year, winning new positions on key development and production programmes. These include:

- a $145m 10-year IDIQ for a new application of our next generation ORION radios for the US Navy;
- a $42m low-rate initial production contract for Next Generation Surface Search Radar (NGSSR);
- a $24m ER-DIFAR Sonobuoy development contract (our first outside the ERAPSCO joint venture);
- a new contract with the United States National Guard Bureau for Joint Interface Control Cell Extended Trainer solutions; and
- a development and production award for NIXIE torpedo countermeasures, potentially worth over $250m.

Defence spending in our core 'five-eyes' markets remained robust and Ultra continued to outperform, delivering 5.9% organic order book growth. This included new contract wins and orders under IDIQs on existing platforms such as a $31m order from the US Marines and $27m from the US Army for our next generation ORION radios, $162.8m of sonobuoy orders, and a $45m MK54 torpedo array order. We finished the year with another record order book of £1.1bn and entered 2021 with strong order cover of 71% (2020: 71%). Order intake in Q1 2021 continues to be strong, including the annual US sonobuoy award worth $80m to Ultra at the beginning of March.

Revenue grew by 4.2% in the year and 5.2% organically. Maritime grew organically by 12.3% with strong demand for radar and sonar products, including sonobuoys. Intelligence & Communications revenue grew organically by 8.6%, driven by sales of ORION radios and ADSI (Air Defence System Integrator) systems. This growth was partly offset by Covid-19 driven declines in our Critical Detection & Control Business Unit of 7.9%, with commercial aerospace orders down by nearly 20% and weak industrial sensor sales in our Energy business. We did however see resilient demand for forensic related support and maintenance services and strong demand in military aerospace, particularly on the F35 and Typhoon programmes.

Group statutory operating profit increased by 12.8% to £106.3m. Group underlying operating profit increased 6.7% on the prior year to £126.1m.

- In Maritime, underlying operating profit grew organically by 12.9%, underlying operating margins expanded slightly to 15.0% (2019: 14.9%), with the tailwind from the non-recurrence from last year's contract losses of £8.8m offset by increased investment in R&D and transformation, as well as some supply chain and engineering disruption. Statutory operating profit in Maritime grew by 27.3%, and statutory operating margin increased to 14.3% (2019: 12.4%).
- Underlying operating profit in Intelligence & Communications grew by 6.7% organically, reflecting increased sales in our Communications and C2I operating business units and good operational improvements particularly in Specialist RF. Underlying operating margins declined slightly to 13.9%,

with improved productivity in several businesses, offset by increased investment in transformation and R&D. Statutory operating profit in Intelligence & Communications grew by 18.5%, and statutory operating margin increased to 9.8% (2019: 8.9%).

- Underlying operating profit declined organically by 4.0% in Critical Detection & Control due to the previously mentioned Covid-19 impact on sales. Underlying operating margins in this business unit however grew to 15.0% (2019: 14.4%), reflecting good cost control, favourable transactional FX and good sales mix in our Forensics business. Statutory operating profit in Critical Detection & Control declined by 4.8%, and statutory operating margin increased to 13.2% (2019: 12.7%).

Overall, statutory operating margin was 12.4% (2019: 11.4%). The group underlying operating margin of 14.7% was better than we expected. As planned, we increased transformation investments by over £5m to £8.2m and we increased our investment in internal research and development organically by £2.8m to 3.7% of sales (2019: 3.6%). The cost increases in transformation and R&D were partly offset by lower-than-expected indirect costs due to Covid-19 related changes to travel and marketing spending. These costs are expected to normalise during 2021.

Underlying PBT increased by 8.7% to £114.5m. We made a net gain on the disposal of two small non-core businesses, partly offset by a legacy provision relating to one of the businesses sold. Statutory PBT increased by 14% to £103.7m, reflecting the underlying performance as well as decreased amortisation charges. Underlying EPS increased by 9.3% to 130.6p (2019: 119.5p), reflecting the increase in underlying profit and a slight reduction in the underlying tax rate. Statutory EPS increased 12.3% to 118.0p.

Underlying cash conversion was excellent at 92% (2019: 73%). This was partially due to the increasing order book, which led to customer advances. In addition, collection of receivables was strong, unbilled receivables decreased and capital expenditure was lower than planned due to our new ERP strategy.

Ultra's underlying profit growth, the amortisation of intangibles and low capital intensity meant that ROIC increased to 20.0% in 2020 (2019: 17.8%).

Covid-19 impact

Ultra's flexibility and performance through the pandemic demonstrates the strength of the business model, and the exceptional commitment and resilience of our people addressing numerous customer, production, supply chain and other challenges to continue to deliver for all our stakeholders. Whilst most facilities experienced some disruption; all remained open and productive throughout the year.

We have not sought to benefit from any material local or national Covid-19 stimulus (such as furlough or tax deferral) and although we continue to monitor and adapt to the changing situation in all our markets, we do not anticipate doing so.

We also provided immediate and much needed support to our local communities most impacted by the pandemic through our ONE Ultra Covid-19 fund. To date we have donated over $200,000 to our local communities across the world.

Transformation progress

During 2020 we moved firmly into the execution phase of Ultra's transformation, with good progress throughout the year across all workstreams in our Focus; Fix; Grow change programme.

Workstream	Goals	Progress in 2020
Operating Model	Improved customer alignment Better functional support Relevant data, improved decision making, disciplined	Our new strategy was launched at the beginning of 2020 and this now guides all prioritisation and resource allocation decisions. The operating model design work to best support strategy execution was completed during the year. This included a new organisation structure which was launched on January 1 2021, completing our migration from an aggregation of individual site-based businesses to a collaborative Group.

	allocation of scarce resources	We revised and relaunched delegated authorities and empowerment guidelines to improve the speed and quality of decision making whilst improving visibility and oversight. We introduced and enhanced a suite of standard operational metrics to better focus on actions and outcomes, and to better measure and monitor progress against our stakeholder goals. We also introduced a process for aligning individual and corporate objectives across the organisation, no longer just based on outcomes but also on how they are achieved, with behaviours measured against our ASPIRE values.
Site Excellence	Improved and optimised working environment Increased sustainability Better working practices	We made good progress in optimising our footprint, closing a production site in Rochester, New York, and beginning plant closures in Wake Forest, North Carolina and one of our facilities at Greenford in the UK. We also approved plans to invest in two of our existing sites in Canada in 2021 to support future growth. We introduced Group-wide changes in working practices to create greater agility and flexibility, whilst improving footprint utilisation, and ultimately efficiency, cost and our impact on the environment. All sites have been updated to reflect the Group re-branding, and the launch of our vision, mission, and values. We have also invested in shop floor layout improvements, partly in response to the pandemic but also to upgrade and improve the working environment.
Operational and Functional Excellence	Improved utilisation, efficiency, productivity, and delivery Better collaboration to improve customer outcomes Global standards where there is a benefit from having them Improved business partnering and decision support	We made excellent progress on projects focused on improving our HR, finance, IT, project management and sales processes. We have reviewed our marketing and sales processes and identified material opportunities to improve through better use of the Group's extensive customer knowledge. We also further enhanced and improved risk assessment and management in our bid processes. During the year, we piloted a standardised customer feedback process to get better, independent, and more immediate information on customer needs and support. We completed the redesign and standardisation of our HR processes across the Group during the year. We selected a new Global HRIS system to be implemented across the Group which will go live in Q2 2021. We made good progress expanding and standardising our chart of accounts and replacing our financial consolidation system, which will enhance our data quality and fidelity, improve control and performance management. We are also improving several local finance administrative processes in advance of developing standard finance processes in 2021.
Procurement	More reliable supply chain Better scale benefits Transparent data and standard procurement	A Group Head of Procurement was appointed and is creating a centralised procurement function, responsible for standardising procurement processes and practices and key category management.

	processes	In parallel, we have focused on aggregating demand in a small number of key categories to improve supplier collaboration and management as well as achieving economies of scale in 2021. Our internal capability to build high complexity, low volume printed circuit boards is also being enhanced to optimise design for manufacture and to improve supply chain risk management.
ONE Ultra Culture	Investing in people Innovation Working environment Continuous improvement	Our new common vision, mission and values were agreed, launched and embedded in 2020. A leadership capability assessment was also completed. Assessment tools, performance management processes and remuneration structures have now been aligned to our ONE Ultra strategy and values. Leadership training programmes commenced in 2020 to support our new ONE Ultra behaviours. We were particularly pleased with the result of our all-employee engagement score which increased to 75.5%. We were able to use feedback from this engagement survey and as a response to the pandemic have introduced new ways of working to support more flexible and agile working across Ultra. The new organisational structure has also created opportunities for us to enhance our bench strength and promote our best people. By the end of 2020, nearly 40% of Ultra's top talent were new or new in role. 1 in 3 of these are female, and women now make up over 25% of Ultra's top management.
Technology Enablement	Improved collaboration More efficient IT infrastructure Standard processes supported by standard applications	New foundational IT infrastructure was selected in 2020, and is currently being implemented globally. These technologies support data standardisation initiatives and the widespread process improvements taking place across the Group. This will enable more effective information exchange and collaborative working A group Chief Technology Officer was appointed during the year to monitor external technology trends, improve efficiency, and remove duplication from the Group's development efforts. We are already seeing better alignment of our internal R&D investments with our customers' future needs.

OPERATIONAL REVIEW

Maritime (46% of Group revenue)

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

£m	2020 as stated	2019 as stated	2019 for organic measure	Growth %	Organic[2] growth %
Order book	539.6	481.5	472.4	+12.1	+14.2
Revenue	391.8	353.0	348.9	+11.0	+12.3
Underlying operating profit[1]	58.6	52.5	51.9	+11.6	+12.9
Underlying operating margin[1]	15.0%	14.9%	14.9%		
Statutory operating profit	55.9	43.9		+27.3	
Statutory operating margin	14.3%	12.4%			

Market trends

Heightened levels of global submarine activity are driving demand growth in both anti-submarine warfare systems and broader underwater systems infrastructure. Additionally, 'five-eyes' customers have announced a number of naval renewal and recapitalisation programmes, including enlarging the US fleet, introducing the Type 32 frigate into the UK Royal Navy and the acquisition of up to 15 new vessels in Canada as part of the Canadian Surface Combatant programme. These, and other similar programmes, will continue to drive demand for anti-submarine warfare capabilities, sonar systems and sub-systems, signature management and power systems and surface radar technologies for the rest of this decade.

Maritime strategy developments

Ultra continues to win important positions in these growing markets, with notable recent successes including surface-ship anti-submarine warfare aboard the three variants of the UK Global Combat Ship: the UK RN Type 26, the Canadian Surface Combatant, and the Australian Hunter Class (SEA5000), with Ultra supporting each individual nation's unique requirements. Complementing the anti-submarine warfare capabilities of these vessels, Ultra has also significantly expanded our surface ship self-defence offerings with the multi-year award of the US–based towed torpedo countermeasure system, NIXIE. This is complementary to our existing UK-based S2170 torpedo detection system and our family of expendable torpedo countermeasures for both the five-eyes and international markets.

In addition to these successes in our domestic markets, Ultra is continuing to develop innovative capabilities in support of maritime missions for unmanned platforms, including in the application of artificial intelligence and machine learning for greater automation of functions such as sonar and radar signal detection and automation of winching operations. Additionally, Ultra is investing in innovations for sub-systems that will counter near-peer threats and advanced mission technology equipment that will have to operate in increasingly denied and contested environments, broadening our presence with increased capability in the rapidly evolving underwater battlespace.

Performance

Our Maritime Business Unit had a strong year, with the order book increasing 14.2% organically. This was driven by:

(i) MK54 and MK48 hull mounted sonar torpedo array awards for the US DoD;
(ii) initial production of the Next Generation Surface Search Radar (NGSSR) for the US Navy; and
(iii) robust US domestic sonobuoy orders under the ERAPSCO joint venture and good international orders for sonobuoys (including the UK).

Organic revenue increased by 12.3% to £391.8m, reflecting strong sonobuoy sales, NGSSR production for the US Navy, electronic warfare systems sales in Australia and torpedo defence system sales to the Indian Navy.

Underlying operating profit was up 12.9% organically to £58.6m reflecting the increased sales. Margins increased a little to 15.0% (2019: 14.9%), with increased investment into R&D and transformation and some pandemic driven supply chain and engineering disruption broadly offsetting the tailwind from the non-recurrence of 2019's contract losses of £8.8m.

We made a good start improving operational performance in this business unit with improved on time delivery and employee engagement.

Intelligence & Communications (28% of Group revenue)

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

£m	**2020** as stated	**2019** restated	**2019** for organic measure	Growth %	Organic[2] growth %
Order book	237.1	222.5	216.7	+6.6	+9.4
Revenue	241.0	224.8	222.0	+7.2	+8.6
Underlying operating profit[1]	33.5	30.2	31.4	+10.9	+6.7
Underlying operating margin[1]	13.9%	13.4%	14.1%		
Statutory operating profit	23.7	20.0		+18.5	
Statutory operating margin	9.8%	8.9%			

Market trends

The changing threat environment over the last few years has given rise to a dramatically different vision for the battlespace of the future, consisting of multi-domain, hyper enabled systems linked by secure and seamless communication architecture. Robotics, cloud computing and new weapons payloads are disrupting traditional ecosystems, and drone technology is playing an increasingly vital role in combat operations. In addition to new platforms, rapidly changing software handling infrastructure, enabled by greater accessibility to cloud computing, is impacting the way data is managed.

Investment by near-peer adversaries in technologically advanced threat capabilities are driving increased focus in a number of critical areas. These include rapid data acquisition, processing and communication systems that are capable supporting multi-domain warfare in denied and contested environments, ensuring an information advantage for the war-fighter.

Intelligence & Communications strategy developments

Ultra's continued success in Intelligence and Communications markets are a testament to our robust strategy to deliver information advantage to the customer, through the provision of interoperable solutions and products that solve complex problems in areas where we have significant domain knowledge and differentiation.

Ultra's ORION radio, which is now into its fourth generation in US Army service in support of the TRILOS program of record, has also been selected by both the US Marine Corps and US Navy, highlighting the strength and capability of the platform and the importance of interoperability across the services. Our customers' confidence in our ability to safely deliver information advantage to the war-fighter is further demonstrated by recent contract awards for tactical data links in support of the Joint Interface Control Cell Extended Trainer (JET) program, and high-integrity cryptographic management solutions enabling seamless and secure monitoring of crypto systems across the Alaskan air space.

Ultra continues to invest in innovative and disruptive technologies, in tandem with our customers, to ensure continued connectivity and security in a rapidly evolving battlespace. Our suite of capabilities is well suited to an environment where the prevalence of unmanned operations will increase and the importance of data processing and information delivery to the tactical edge will continue to grow.

Performance
Our Intelligence & Communications business unit won several new contracts and awards in 2020 with the order book increasing 9.4% organically to £237.1m. This was driven mostly by:

(i) a $31m ORION radio contract with US Marines;
(ii) a $28.6m ACTS ORION radio contract with the US Navy;
(iii) a new contract with the United States National Guard Bureau for three JET systems (Joint Interface Control Cell Extended Trainer solution); and
(iv) Airbus RSS8000 electronic warfare systems for German Defence.

Revenue grew organically by 8.6% to £241.0m, benefiting from strong sales from our Communications business and C2I ADSI (Air Defence Systems Integrator) tactical command and control systems to both from the US and Taiwan navies.

Underlying operating profit increased organically by 6.7% driven by improved productivity and strong execution. Like-for-like operating margins remained broadly flat at 13.9% vs 14.1% in 2019. Margin growth from improved operational gearing in our C2I and Communications businesses and improved operational efficiency in Specialist RF were offset by increased restructuring & transformation investments and accelerated strategic R&D programmes. R&D focused on advanced communication and networking, including artificial intelligence & machine learning, virtual ADSI and leveraging hardware to deploy specialised real-time C2 functionality.

Despite the pandemic, good strategic progress was also made in this business unit with a strengthened senior leadership team now in place and global sales and project management excellence projects gaining momentum.

Critical Detection & Control (26% of Group revenue)

Precision Control Systems (PCS) designs and supplies market-leading safety and mission-critical solutions, primarily to the military and commercial aerospace markets.

Forensic Technology is the world-leader in ballistic identification and forensic analysis solutions.

Energy, designs and supplies safety critical sensors and systems, and selected products for nuclear and industrial applications.

£m	**2020** as stated	**2019** restated	**2019** for organic measure	Growth %	Organic[2] growth %
Order book	287.5	318.9	316.2	-9.8	-9.1
Revenue	227.0	247.6	246.5	-8.3	-7.9
Underlying operating profit[1]	34.0	35.5	35.4	-4.2	-4.0
Underlying operating margin[1]	15.0%	14.3%	14.4%		
Statutory operating profit	30.0	31.5		-4.8	
Statutory operating margin	13.2%	12.7%			

Aerospace market trends
Civil aerospace has been severely impacted by the Covid-19 pandemic. However, long-term drivers of aerospace growth remain, with increasing global prosperity and globalisation driving greater demand for leisure and business travel. While recovery to 2019 traffic levels will take some time, recent clinical developments will gradually increase demand for, and accessibility to, air travel from its current low level.

The defence aerospace market continues to be robust, with ongoing fleet replacement programmes across a broad range of geographies continuing to drive growth for the foreseeable future.

The industry is moving towards more environmental, cost-effective solutions for both traditional and contemporary platforms, including urban air mobility, unmanned and electrified aircraft. These are areas where Ultra's focus on power efficiency and low size, weight and power is particularly compelling.

Forensic Technology market trends
Ultra's pioneering approach to gun crime intelligence and our unique ability to provide a robust, networkable solution to our many customers around the world leaves us exceptionally well placed to continue on our growth path in response to growing demand for investigative leads and investigative conclusions that are admissible as evidence. The market is transitioning from demanding a capital-intensive solution to a more remote, cloud-based software architecture. Ultra is pioneering this shift to improve affordability and increase accessibility to a broader customer base, which will expand the addressable market.

Energy market trends
Ultra Energy provides critical safety systems and specialist detector capabilities to nuclear facilities and selected industrial customers around the world, safeguarding nuclear workers, critical and high value assets and the public. Ultra is positioned at the forefront of emerging technologies being developed for increased efficiency and decreased cost of nuclear power generation, such as advanced Small Modular Reactor technologies (SMRs), hydrogen production and hydrogen cells. Medium-term market growth is underpinned by both baseload capacity growth requirements and the transition from fossil fuel powered facilities to cleaner alternatives.

Performance
Our Critical Detection & Control business unit suffered the most from the Covid-19 pandemic and as a result, order book declined organically by 9.1% to £287.5m. Commercial aerospace orders were impacted significantly, declining by nearly 20% due to the pandemic. Orders in our Forensic Technology business increased 35% year on year despite Covid-19 restricting our ability to visit customers, with a number of key contracts won in the year, for example, from the ATF (US Bureau of Alcohol, Tobacco, Firearms and Explosives) for additional IBIS (Integrated Ballistic Identification System) products and SafeGuard services. Our Energy business saw some Covid-19 related weakness in the market for industrial sensors, although made good strategic progress, adding more than 160 new customers in the year.

Revenues declined organically by 7.9% in the year due to:

(i) commercial aerospace volumes falling by around 20% as a result of Covid-19 (Commercial sales: £41.0m in 2020 versus c.£65.0m in 2019);
(ii) negative Covid-19 impact on global sales in Forensic Technology with delayed orders primarily in Asia; and
(iii) a challenging year in the nuclear and sensors markets for our Energy business.

These declines were partially offset by continued strong growth in military aerospace for HIPPAG (high pressure pure air generator) products, engine ice protection system controllers and harnesses, in particular on the F-35 and Typhoon, and good demand for Forensic Technology's core IBIS product systems and related support and maintenance services.

Underlying operating profit only declined 4.0% organically to £34.0m. The impact of reduced sales in all three businesses was partially offset by:

(i) lower indirect costs, mainly reduced travel during the Covid-19 pandemic;
(ii) transactional FX tailwinds;
(iii) good mix in our Forensics business with strong sales of support and maintenance services; and
(iv) tight control on all discretionary spend and R&D plus benefits from previous years' cost reduction initiatives, delivering operational efficiencies.

As a result, underlying operating margins increased from 14.4% to 15.0%.

FINANCIAL REVIEW

Order book and revenue

Ultra's order book grew by 4.0% to £1,064.2m (2019: £1,022.9m); this represents organic growth of 5.9%.

Revenue grew by 4.2% to £859.8m (2019: £825.4m). This represents organic growth of 5.2%, reflecting strong growth rates in Maritime and Intelligence & Communications, partly offset by organic decline in Critical Detection & Control.

	£m	% impact
2019	825.4	
Currency translation	(4.1)	-0.5
Disposals	(3.9)	-0.5
2019 (for organic measure)	817.4	
Organic growth	**42.4**	**+5.2**
2020	**859.8**	+4.2

Statutory operating profit and margin

£m	**2020**	2019
Statutory operating profit	**106.3**	94.2
Amortisation of intangibles arising on acquisition	**12.6**	21.7
Acquisition and disposal-related costs	**1.1**	0.9
Significant legal charges and expenses	**3.3**	1.4
Restructuring costs related to disposal	**2.8**	-
Underlying operating profit	**126.1**	118.2

Statutory operating profit increased by 12.8% to £106.3m (2019: £94.2m) and statutory operating margin increased to 12.4% (2019: 11.4%). This reflects the underlying operating performance, as described below, as well as reducing amortisation costs as assets created by historical acquisitions become fully amortised.

The restructuring costs of £2.8m and some of the legal charges and expenses of £3.3m followed the sale of our aircraft products business, described below. As a result of the sale, we moved the remaining manufacturing from our site in Rochester, New York to Fort Wayne, Indiana and Manhattan, Kansas.

Underlying operating profit and margins

Underlying operating profit	£m	% impact
2019	118.2	
Currency translation	(0.6)	-0.5
Disposals	1.1	+0.9
2019 (for organic measure)	118.7	
Organic growth	**7.4**	**+6.2**
2020	**126.1**	+6.7

Underlying operating profit was £126.1m (2019: £118.2m), an increase of 6.7% on the prior year. Organic profit growth was 6.2%, driven by the strong sales in Maritime and Intelligence & Communications and some margin expansion.

Ultra continued its programme of R&D, with total spend (from customers and internal investment) in the year of £144.2m (2019: £145.6m*). Company-funded investment increased organically by £2.8m to £31.8m (2019: £29.6m*) which represents 3.7% of revenue (2019: 3.6%), while customer funding decreased to £112.4m (2019: £116.0m*). The overall level of R&D investment in the year was 16.8% of revenue (2019: 17.5%). The company-funded spend was more modest than originally envisaged as investments relating to the commercial aerospace sector were reduced.

* The 2019 R&D spend has been restated following re-analysis of the development spend.

Finance charges
Net financing charges decreased by £1.3m to £11.6m (2019: £12.9m) driven by reduced pension scheme financing charges, lower average borrowings, and a decline in interest rates on floating rate borrowings. The interest payable on borrowings was covered 14.7 times (2019: 12.4 times) by underlying operational profit.

Profit before tax
Statutory profit before tax increased 14.0% to £103.7m (2019: £91.0m). Underlying profit before tax was £114.5m (2019: £105.3m), as set out below:

£m	**2020**	2019
Statutory profit before tax	**103.7**	91.0
Amortisation of intangibles arising on acquisition	**12.6**	21.7
Acquisition and disposal related costs	**1.1**	0.9
(Gain)/loss on disposals net of related restructuring costs	**(2.8)**	0.9
(Gain) on derivatives	**(3.4)**	(10.6)
Significant legal charges and expenses	**3.3**	1.4
Underlying profit before tax	**114.5**	105.3

Amortisation costs declined from £21.7m to £12.6m as the customer relationship and technology assets created by historical acquisitions became fully amortised. Acquisition and disposal related costs in the year were £1.1m (2019: £0.9m). A net £2.8m gain arose from the divestment of certain non-core aircraft product lines from the former Flightline business in the Maritime SBU, net of related closure and relocation costs for the remainder of the business and production lines (see note 18).

The net gain on forward foreign exchange contracts was £3.4m (2019: £10.6m gain). Significant legal charges and expenses of £3.3m (2019: £1.4m) primarily relate to conduct of business-related costs.

As in 2019, transformation costs are included in underlying profit.

Tax, EPS and dividends
The Group's underlying tax rate in the year decreased slightly to 19.0% (2019: 19.4%). The statutory tax rate applicable to profit before tax is 19.0% (2019: 19.0%).

Underlying EPS increased 9.3% to 130.6p (2019: 119.5p), reflecting the increase in underlying profit and slightly reduced underlying tax rate. The weighted average number of shares in issue was 71.0m (2019: 70.9m). Basic EPS increased to 118.0p (2019: 105.1p). At 31 December 2020 the number of shares in issue was 71.1m.

Ultra's dividend policy has a through-cycle target of circa two times normalised cash and earnings cover. The 2020 proposed final dividend of 41.5p (2019: 39.2p postponed final dividend paid in September 2020) per share is proposed to be paid on 14 May 2021 to shareholders on the register at 9 April 2021 subject to approval at the Annual General Meeting. This will result in a final full year dividend of 56.9p (2019: 54.2p), which will be covered 2.3 times by underlying EPS.

Operating cash flow and working capital
Statutory cash generated by operations was £142.6m (2019: £114.9m). Underlying operating cash flow was £116.1m (2019: £86.8m) resulting in underlying operating cash conversion of 92% (2019: 73%). Our focus on improving working capital turn has continued to be successful with the average working capital turn for the Group improving to 10.1x (December 2019: 7.3x). Working capital decreased by £4.2m, principally due to strong receivables collections and increases in advanced payments, partially offset by higher inventory levels. Capital expenditure was flat and lower than originally anticipated due to previously announced changes in ERP strategy, at £21.9m (2019: £21.8m).

Non-operating cash flow
The main non-operating and non-underlying cash items as set out in note 2 and in the statutory cash flow statement were:

- net cash inflow of £5.3m relating to disposals (see note 18);
- dividend payments of £38.7m (2019: £36.7m);
- tax paid of £5.4m (2019: £9.5m);
- a £1.5m (2019: £1.9m) outflow on significant legal charges and expenses, predominantly relating to legacy conduct of business matters

Various emergency Covid-19 tax reliefs were introduced around the world resulting in Ultra having to defer £6.1m of corporation tax and indirect tax payments and social security contributions. £5.6m of these deferrals had been paid at the balance sheet date. In addition, the US Coronavirus Aid, Relief, and Economic Security Act made temporary changes to the US Internal Revenue Code which allowed the Group to deduct previously deferred US interest expense resulting in a prior year tax credit of £3.7m.

Net debt
Ultra's net debt at the end of the year reduced to £85.8m (2019: £154.8m) including £37.7m (2019: £41.2m) of lease liability. Net debt/EBITDA when including pension obligations and lease liabilities was 1.05x (2019: 1.58x). On a covenant basis, which excludes pension obligations and lease liabilities, the figure is 0.34x (2019: 0.86x). Net interest payable on borrowings was covered 14.7x (2019: 12.4x) by underlying operating profit.

Conduct of business investigations
As previously announced, investigations associated with conduct of business issues in Algeria and the Philippines are ongoing, and Ultra continues to cooperate with the relevant authorities. See contingent liabilities note 19.

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

1. Organic investment for operational improvement and to deliver value-creative growth;
2. Inorganic M&A investment to accelerate strategy delivery, if it is value creative on a risk adjusted basis;
3. Sustainable through-cycle dividend growth. Our policy remains around 2x through cycle cash/earnings cover ratio; and
4. Any excess, through-cycle capital to be returned to shareholders if it can't be deployed within Ultra in the medium term to generate strong returns.

We aim to support these priorities by maintaining through-cycle gearing between 1.5 – 2.5x net debt (including pension and lease liabilities) to EBITDA.

2021 FINANCIAL GUIDANCE

Based on our strong order book, and whilst we continue to monitor and adapt to the changing situation in all our markets, we are planning for continued revenue growth in 2021, although we do not expect to see any improvement in commercial aerospace revenue until at least 2023.

We expect operating margins to reduce in 2021 for the reasons described below:

- We plan to accelerate our transformation investments to £11-13m, with increased investment in process efficiency, procurement category management and two major site consolidations. With the good progress made in 2020 and acceleration of certain projects into 2021, we now expect to begin to realise year-on-year benefits in 2022, a year ahead of plan. We continue to expect the Focus; Fix; Grow transformation to be broadly complete by the end of 2023.
- We intend to further increase internal R&D to between 3.8% and 4% of revenue in 2021, as we continue to invest in capabilities to support customer needs in pursuit of continued future growth.
- Indirect costs such as travel and marketing are expected to begin normalising over the course of 2021, following a period of lower expenses due to Covid-19 restrictions.

Capital expenditure will increase to around £35m in 2021. This is to support facility expansion in our Sonar OBU ahead of Canadian Surface Combatant production and our Communications OBU to support production of ORION radio systems. As a result, cash conversion is expected to be 75-85%.

Underlying tax rate is expected to remain stable at a little below 20% (with the cash tax rate is expected to be less than 10%).

BOARD CHANGES

In accordance with Listing Rule 9.6.11 the Company notifies that Martin Broadhurst will step down as Independent Non-Executive Director on 1 July 2021 following a nine-year tenure on the Board. Martin has made a significant contribution to our Board and, in later years, as Chairman of the Company's Remuneration Committee. Our Independent Non-Executive Director Geeta Gopalan, who has extensive financial experience, will Chair the Remuneration Committee with effect from 1 July 2021.

Tony Rice, Chairman, Commented:
"Martin has been a valued Board member throughout his tenure, and we have been extremely grateful for his knowledge and expertise, in addition to his historic knowledge of Ultra. It is unfortunate that we will lose him as a Non-Executive Director but we will adhere to the UK Corporate Governance Code 2018 and bring on at least one new Non-Executive Director later this year."

SUMMARY & OUTLOOK

2020 was a year which demonstrated the underlying strength and capabilities of Ultra and the commitment and dedication of our exceptional people.

Through the extraordinary efforts of the whole of the Ultra team, we made good strategic progress and achieved our third consecutive year of strong organic growth. We made good progress on our ONE Ultra transformation and as a result we delivered or exceeded most of our stakeholder objectives. These would have been excellent outcomes in any year, but against a background of pandemic driven disruption and turmoil, it was an exceptional performance.

We enter 2021 with a record order book giving us strong visibility and are very well positioned in key growth areas and to support customers' evolving priorities. We continue to increase our technology investment, expanding the areas in which we can provide effective customer solutions. Our ONE Ultra transformation programme is having a positive impact on both growth opportunities and operational efficiency, and with strong 2020 delivery, we are confident enough to accelerate several of our transformation actions in 2021. This should see us begin to realise year-on-year benefits in 2022, a year ahead of plan.

This excellent performance gives us further confidence in Ultra's exciting potential and our ability to deliver exceptional value for all stakeholders over the longer term.

Simon Pryce
Chief Executive

Jos Sclater
Chief Financial Officer

9 March 2021

RISKS AND UNCERTAINTIES

The Group faces a number of potential risks and uncertainties which may have a material impact on performance in 2021 and beyond. Consequently, actual results may differ materially from expected and/or historical results. The Group's principal risks are listed below. These risks are managed by the Executive Team and are key matters for the Board. An explanation of these risks, and the business strategies that Ultra uses to manage and mitigate such risks, can be found in the annual report which will be available for download at https://www.ultra.group/investors/results-centre/

Risks are identified, collated, assessed and managed at the most appropriate level of the business (Board, Executive or business level). Risks are regularly reviewed to ensure judgements and assumptions are unchanged, that effective risk indicators and controls are in place and that emerging risks are properly captured, evaluated and managed. Across our risk environment, Ultra places a high priority on compliance with all legislative and regulatory requirements and the maintenance of high ethical standards across the Group, which have been reflected in the development of our values framework in 2020 and its embedding into every aspect of how we work.

Principal Risks

In line with developing guidance on risk reporting, we have focused our statement on principal risks that are current and/or particular to Ultra, either through the nature of our sector or business model, or because factors or circumstances have elevated more generic risks in Ultra's current business environment. In addition to the principal risks identified below, Ultra actively manages risks assessed as a lower, but not to say insignificant, level, which include risks often common to listed businesses. These include risks which have been reported on externally in previous years such as business interruption risks (where in 2020 Ultra demonstrated very effective management of the Covid-19 outbreak), talent retention and recruitment risks (which has also been reducing for Ultra as our ONE Ultra HR programmes roll out) and Health, Safety and Environmental risks (which are seen as a priority for excellence rather than principal risk).

Our Principal risks:

- Defence sector cycle risk
- Geopolitical risk
- Bid and contract risks
- Programme risk
- Delivering change
- Security and cyber risks
- Governance, compliance, and internal controls
- Pensions

Specific Risk Factors and Initiatives

Specific risk incidents and developments in 2020 include:

- Covid-19. Proactive management to ensure Covid-safe workplaces, optimise remote working and effective stakeholder engagement with our suppliers and customers enabled continuity of operations and delivery of objectives for Ultra throughout 2020. We will continue to adapt and improve our approach to ensure we successfully manage the Covid challenge through 2021.
- Brexit. Brexit risk for Ultra was predominantly a logistics disruption risk with limited potential impact and was managed through proactive supply chain management. Actual impact was contained to very minor border delays which did not impair operations.
- Regulatory Incidents (Governance, Compliance and Internal Controls). As previously reported, Ultra is cooperating with authorities in relation to two conduct of business issues in Algeria and the Philippines.
- Climate Change. Direct risks to Ultra from climate change are limited, given the low intensity nature of our operations, the locations of our sites and markets in which we operate. In line with our values, we see climate change as an area of focus for positive change through our Corporate Social Responsibility Committee.

CONFIRMATION OF GOING CONCERN

The Directors have a reasonable expectation that the Group has adequate resources for a period of at least 12 months from the date of approval of the financial statements and have therefore assessed that the going concern basis of accounting is appropriate in preparing the financial statements and that there are no material uncertainties to disclose.

Ultra's net debt at 31 December 2020 was £85.8m (2019: £154.8m) including £37.7m (2019: £41.2m) of lease liability. The Group's committed lending facilities amount to £401.2m in total and comprise loan notes in issue to Pricoa of £50m and $70m, and a Revolving Credit Facility (RCF) of £300m that is denominated in Sterling, US Dollars, Canadian Dollars, Australian Dollars or Euros. The RCF is provided by a group of eight international banks and, in certain acquisition scenarios, permits an additional £150m "accordion" which is uncommitted and subject to lender consent. The Group also has access to a £5.0m and $2.5m net overdrafts. The financing facilities are used for balance sheet and operational needs, including the funding of day-to-day working capital requirements. The maturity profile for the Group's committed lending facilities is as follows:

Facility	Expiry
RCF £50m	November 2023
RCF £250m	November 2024
Pricoa £50m	October 2025
Pricoa $40m	January 2026
Pricoa $30m	January 2029

Though global macro-economic conditions remain uncertain with continued uncertainty arising from impacts of the Covid-19 pandemic, the Group's ability to continue trading successfully in 2020 during the pandemic, the long-term nature of Ultra's business and its positioning in attractive sectors of its markets, taken together with the Group's forward order book, provide a satisfactory level of confidence in respect of trading in the year to come.

NATURE OF ANNOUNCEMENT

This announcement has been prepared solely to provide additional information to enable shareholders to assess Ultra's strategies and the potential for those strategies to be fulfilled. It should not be relied upon by any other party or for any other purpose.

This announcement contains certain forward-looking statements. Such statements are made by the Directors in good faith based on the information available to them at the time of their approval of this report, and they should be treated with caution due to the inherent uncertainties underlying such forward-looking information.

This announcement has been prepared for the Group as a whole and therefore gives greatest emphasis to those matters which are significant to Ultra when viewed as a complete entity.

Ultra Electronics Holdings plc

Results for the Year Ended 31 December 2020

Consolidated Income Statement

	Note	**2020 £m**	2019 £m
Revenue	3	**859.8**	825.4
Cost of sales		**(609.0)**	(586.3)
Gross profit		**250.8**	239.1
Other operating income		**0.9**	1.0
Administrative expenses		**(140.6)**	(138.5)
Other operating expenses		**(1.5)**	(6.0)
Significant legal charges and expenses	2	**(3.3)**	(1.4)
Operating profit	1	**106.3**	94.2
Gain/(loss) on disposals	18	**5.6**	(0.9)
Investment income	4	**3.7**	11.3
Finance costs	5	**(11.9)**	(13.6)
Profit before tax	1	**103.7**	91.0
Tax	6	**(19.9)**	(16.4)
Profit for the year		**83.8**	74.6
Attributable to:			
Owners of the Company		**83.8**	74.5
Non-controlling interests		**-**	0.1
Earnings per ordinary share (pence)			
- basic	8	**118.0**	105.1
- diluted	8	**117.7**	104.9

All results are derived from continuing operations.

Ultra Electronics Holdings plc

Results for the Year Ended 31 December 2020

Consolidated Statement of Comprehensive Income

	2020	2019
	£m	£m
Profit for the year	**83.8**	74.6
Items that will not be reclassified to profit or loss:		
Actuarial loss on defined benefit pension schemes	**(9.3)**	(9.3)
Tax relating to items that will not be reclassified	**2.9**	1.6
Total items that will not be reclassified to profit or loss	**(6.4)**	(7.7)
Items that are or may be reclassified to profit or loss:		
Exchange differences on translation of foreign operations	**(11.2)**	(17.5)
Transfer from profit and loss on cash flow hedge	**-**	(0.3)
Gains on loans used in net investment hedges	**1.5**	3.1
Tax relating to items that are or may be reclassified	**-**	0.1
Total Items that are or may be reclassified to profit or loss	**(9.7)**	(14.6)
Other comprehensive expense for the year	**(16.1)**	(22.3)
Total comprehensive income for the year	**67.7**	52.3
Attributable to:		
Owners of the Company	**67.7**	52.2
Non-controlling interests	**-**	0.1

Ultra Electronics Holdings plc
Results for the Year Ended 31 December 2020
Consolidated Balance Sheet

	Note	**2020 £m**	2019* £m	2018* £m
Non-current assets				
Goodwill	9	**363.0**	365.9	377.8
Other intangible assets		**82.2**	92.7	113.9
Property, plant and equipment	10	**66.6**	64.2	62.6
Leased assets	11	**33.6**	36.1	-
Deferred tax assets		**13.6**	23.0	18.7
Derivative financial instruments		**2.1**	1.7	0.1
Trade and other receivables	13	**12.9**	13.7	22.6
		574.0	597.3	595.7
Current assets				
Inventories	12	**103.6**	90.7	88.6
Trade and other receivables	13	**188.5**	205.4	205.2
Current tax assets		**8.8**	6.5	8.1
Cash and cash equivalents*		**114.4**	110.5	135.1
Derivative financial instruments		**5.8**	3.2	0.3
Assets classified as held for sale		**-**	11.5	30.6
		421.1	427.8	467.9
Total assets		**995.1**	1,025.1	1,063.6
Current liabilities				
Trade and other payables	14	**(199.3)**	(192.3)	(212.2)
Current tax liabilities		**(5.9)**	(1.5)	(5.0)
Derivative financial instruments		**(0.2)**	(0.5)	(5.5)
Borrowings*		**(38.3)**	(36.5)	(214.6)
Liabilities classified as held for sale		**-**	(5.3)	(8.6)
Short-term provisions	15	**(19.6)**	(16.6)	(13.3)
		(263.3)	(252.7)	(459.2)
Non-current liabilities				
Retirement benefit obligations	16	**(73.1)**	(73.3)	(73.0)
Other payables	14	**(12.0)**	(11.8)	(14.9)
Deferred tax liabilities		**(15.0)**	(19.5)	(10.5)
Derivative financial instruments		**(0.1)**	(0.2)	(1.0)
Borrowings		**(161.9)**	(228.8)	(78.0)
Long-term provisions	15	**(5.0)**	(8.2)	(6.2)
		(267.1)	(341.8)	(183.6)
Total liabilities		**(530.4)**	(594.5)	(642.8)
Net assets		**464.7**	430.6	420.8
Equity				
Share capital		**3.6**	3.5	3.6
Share premium account		**205.5**	203.2	201.0
Capital redemption reserve		**0.4**	0.4	0.3
Reserve for own shares		**(1.4)**	(1.4)	(2.6)
Translation reserve*		**32.5**	42.2	56.8
Retained earnings		**224.1**	182.6	161.7
Equity attributable to owners of the Company		**464.7**	430.5	420.8
Non-controlling interests		**-**	0.1	-
Total equity		**464.7**	430.6	420.8

* 2019 and 2018 balances for cash and cash equivalents and borrowings have been restated to meet the presentational requirements of IAS 32 with respect to the Group's cash-pooling arrangements. The net debt and net assets position is unchanged. Certain 2019 deferred tax balances have been reclassified from current to non-current to meet the requirements of IAS 1. The previously disclosed separate hedging reserve and translation reserve have been combined and prior periods restated on a consistent basis. See note 20.

Ultra Electronics Holdings plc

Results for the Year Ended 31 December 2020

Consolidated Cash Flow Statement

	Note	**2020**	2019
		£m	£m
Net cash flow from operating activities	17	**130.0**	94.6
Investing activities			
Interest received		**0.3**	0.7
Purchase of property, plant and equipment		**(13.4)**	(14.9)
Proceeds from disposal of property, plant and equipment		**0.2**	0.1
Expenditure on product development and other intangibles		**(8.7)**	(8.0)
Disposal of subsidiary undertakings		**5.3**	22.4
Net cash (used in)/from investing activities		**(16.3)**	0.3
Financing activities			
Issue of share capital		**2.3**	3.3
Share buy-back (including transaction costs)		**-**	(8.6)
Dividends paid		**(38.7)**	(36.7)
Dividends paid to non-controlling interest		**(0.1)**	-
Loan syndication costs		**-**	(0.3)
Repayments of borrowings		**(76.2)**	(315.2)
Proceeds from borrowings		**11.1**	259.9
Principal payment on leases		**(9.0)**	(7.8)
Net cash used in financing activities		**(110.6)**	(105.4)
Net increase/(decrease) in cash and cash equivalents		**3.1**	(10.5)
Net cash and cash equivalents and bank overdrafts at beginning of year		**82.2**	96.3
Effect of foreign exchange rate changes		**(1.2)**	(3.6)
Net cash and cash equivalents and bank overdrafts at end of year		**84.1**	82.2

Bank overdrafts are netted with cash and cash equivalents because they form an integral part of the Group's cash management within the cash pooling arrangements.

Ultra Electronics Holdings plc

Results for the Year Ended 31 December 2020

Consolidated Statement of Changes in Equity

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Reserve for own shares £m	Translation reserve* £m	Retained earnings £m	Non-controlling interest £m	Total equity £m
Balance at 1 January 2019	**3.6**	**201.0**	**0.3**	**(2.6)**	**56.8**	**161.7**	-	**420.8**
Adoption of IFRS 16	-	-	-	-	-	(2.0)	-	(2.0)
Restated total equity at 1 January 2019	**3.6**	**201.0**	**0.3**	**(2.6)**	**56.8**	**159.7**	-	**418.8**
Profit for the year	-	-	-	-	-	74.5	0.1	74.6
Other comprehensive income for the year	-	-	-	-	(14.6)	(7.7)	-	(22.3)
Total comprehensive income for the year	-	-	-	-	**(14.6)**	**66.8**	**0.1**	**52.3**
Equity-settled employee share schemes	-	2.2	-	-	-	1.9	-	4.1
Transfer from own shares	-	-	-	1.2	-	(1.2)	-	-
Tax on share-based payment transactions	-	-	-	-	-	0.7	-	0.7
Shares purchased in buyback	(0.1)	-	0.1	-	-	(8.6)	-	(8.6)
Dividend to shareholders	-	-	-	-	-	(36.7)	-	(36.7)
Balance at 31 December 2019	**3.5**	**203.2**	**0.4**	**(1.4)**	**42.2**	**182.6**	**0.1**	**430.6**
Profit for the year	-	-	-	-	-	83.8	-	83.8
Other comprehensive income for the year	-	-	-	-	(9.7)	(6.4)	-	(16.1)
Total comprehensive income for the year	-	-	-	-	**(9.7)**	**77.4**		**67.7**
Equity-settled employee share schemes	0.1	2.3	-	-	-	2.6	-	5.0
Tax on share-based payment transactions	-	-	-	-	-	0.2	-	0.2
Minority interest distribution	-	-	-	-	-	-	(0.1)	(0.1)
Dividend to shareholders	-	-	-	-	-	(38.7)	-	(38.7)
Balance at 31 December 2020	**3.6**	**205.5**	**0.4**	**(1.4)**	**32.5**	**224.1**	-	**464.7**

*The previously disclosed separate hedging reserve and translation reserve have been combined and prior periods restated on a consistent basis.

1. Segment information

For management purposes, the Group is organised into three operating segments: Maritime, Intelligence & Communications and Critical Detection & Control. These segments were changed from 1 January 2020, consequently the prior year segmental information has been restated in accordance with IFRS 8. The operating segments are consistent with the internal reporting as reviewed by the CEO who is deemed to be the Chief Operating Decision-Maker. Each segment includes businesses with similar operating and market characteristics.

(i) Revenue by segment

	2020			2019		
	External revenue	**Inter-segment**	**Total**	External revenue	Inter-segment	Total
	£m	**£m**	**£m**	£m	£m	£m
Revenue						
Maritime	**391.8**	**18.9**	**410.7**	353.0	14.9	367.9
Intelligence & Communications	**241.0**	**3.5**	**244.5**	224.8	3.5	228.3
Critical Detection & Control	**227.0**	**9.0**	**236.0**	247.6	8.2	255.8
Eliminations	**-**	**(31.4)**	**(31.4)**	-	(26.6)	(26.6)
Consolidated revenue	**859.8**	**-**	**859.8**	825.4	-	825.4

All inter-segment trading is at arm's length.

(ii) Profit by segment

	2020				
	Maritime £m	**Intelligence & Communications £m**	**Critical Detection & Control £m**	**Unallocated £m**	**Total £m**
Underlying operating profit	**58.6**	**33.5**	**34.0**	**-**	**126.1**
Amortisation of intangibles arising on acquisition	**(0.5)**	**(8.9)**	**(3.2)**	**-**	**(12.6)**
Significant legal charges and expenses	**-**	**-**	**-**	**(3.3)**	**(3.3)**
Acquisition and disposal-related costs	**(0.2)**	**(0.9)**	**-**	**-**	**(1.1)**
Restructuring costs related to disposal	**(2.0)**	**-**	**(0.8)**	**-**	**(2.8)**
Operating profit/(loss)	**55.9**	**23.7**	**30.0**	**(3.3)**	**106.3**
Gain on disposals					**5.6**
Investment income					**3.7**
Finance costs					**(11.9)**
Profit before tax					**103.7**
Tax					**(19.9)**
Profit after tax					**83.8**

Significant legal charges and expenses are the charges arising from investigations and settlements of litigation that are not in the normal course of business; unallocated items are specific corporate level costs that cannot be allocated to a specific division.

1. Segment information (continued)

	Maritime £m	Intelligence & Communications £m	2019 Critical Detection & Control £m	Unallocated £m	Total £m
Underlying operating profit	52.5	30.2	35.5	-	118.2
Amortisation of intangibles arising on acquisition	(8.2)	(10.0)	(3.5)	-	(21.7)
Significant legal charges and expenses	-	-	(0.2)	(1.2)	(1.4)
Acquisition and disposal-related costs	(0.4)	(0.2)	(0.3)	-	(0.9)
Operating profit/(loss)	43.9	20.0	31.5	(1.2)	94.2
Loss on disposals and held for sale					(0.9)
Investment income					11.3
Finance costs					(13.6)
Profit before tax					91.0
Tax					(16.4)
Profit after tax					74.6

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

	Capital expenditure and additions to leased assets and intangibles (excluding goodwill and acquired intangibles)		Depreciation and amortisation	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Maritime	**15.0**	13.9	**10.6**	17.9
Intelligence & Communications	**8.4**	14.9	**17.8**	19.8
Critical Detection & Control	**5.0**	7.0	**9.1**	9.9
Total	**28.4**	35.8	**37.5**	47.6

The 2020 depreciation and amortisation expense includes £18.6m of amortisation charges (2019: £28.6m), £10.4m of property, plant and equipment depreciation charges (2019: £9.7m) and £8.5m of leased asset depreciation charges (2019: £9.3m).

(iv) Total assets by segment

	2020 £m	2019* £m
Maritime	**260.2**	262.0
Intelligence & Communications	**336.2**	357.6
Critical Detection & Control	**254.0**	260.6
	850.4	880.2
Unallocated*	**144.7**	144.9
Consolidated total assets*	**995.1**	1,025.1

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

*2019 balances for cash and cash equivalents and borrowings have been restated to meet the presentational requirements of IAS 32 with respect to the Group's cash-pooling arrangements. Separately, certain 2019 deferred tax balances have been reclassified from current to non-current to meet the requirements of IAS 1. See note 20.

1. Segment information (continued)

(v) Total liabilities by segment

	2020 £m	2019* £m
Maritime	**126.8**	122.8
Intelligence & Communications	**92.3**	93.6
Critical Detection & Control	**66.9**	68.5
	286.0	284.9
Unallocated*	**244.4**	309.6
Consolidated total liabilities*	**530.4**	594.5

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

(vi) Revenue by destination

	2020 £m	2019 £m
North America	**546.5**	502.5
United Kingdom	**158.4**	171.1
Rest of World	**89.9**	95.9
Mainland Europe	**65.0**	55.9
	859.8	825.4

During the year, there was one direct customer (2019: one) that individually accounted for greater than 10% of the Group's total turnover. Sales to this customer in 2020 were £203.2m (2019: £182.4m) across all segments.

(vii) Other information (by geographic location)

	Non-current assets		Total assets		Capital expenditure and additions to leased assets and intangibles (excluding goodwill and acquired intangibles)	
	2020 £m	2019* £m	2020 £m	2019* £m	2020 £m	2019 £m
United Kingdom	**159.2**	157.8	**298.7**	315.6	**10.5**	11.8
USA	**309.1**	320.9	**412.0**	425.5	**14.5**	16.6
Canada	**84.3**	88.5	**131.8**	129.9	**3.1**	7.1
Rest of World	**5.7**	5.5	**7.9**	9.2	**0.3**	0.3
	558.3	572.7	**850.4**	880.2	**28.4**	35.8
Unallocated*	**15.7**	24.6	**144.7**	144.9	**-**	-
	574.0	597.3	**995.1**	1,025.1	**28.4**	35.8

*2019 balances for cash and cash equivalents and borrowings have been restated to meet the presentational requirements of IAS 32 with respect to the Group's cash-pooling arrangements. Separately, certain 2019 deferred tax balances have been reclassified from current to non-current to meet the requirements of IAS 1. See note 20

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:

	2020	2019
	£m	£m
Operating profit	**106.3**	94.2
Amortisation of intangibles arising on acquisition	**12.6**	21.7
Significant legal charges and expenses*	**3.3**	1.4
Acquisition and disposal-related costs	**1.1**	0.9
Restructuring costs related to disposal	**2.8**	-
Underlying operating profit	**126.1**	118.2
Depreciation of property, plant and equipment	10.4	9.7
Depreciation of leased assets	8.5	9.3
Amortisation of internally generated intangible assets	1.4	2.9
Amortisation of software, patents and trademarks	4.6	4.0
EBITDA	**151.0**	144.1
Profit before tax	**103.7**	91.0
Amortisation of intangibles arising on acquisition	**12.6**	21.7
Acquisition and disposal related costs	**1.1**	0.9
Gain on fair value movements of derivatives	**(3.4)**	(10.6)
(Gain)/Loss on disposals net of related restructuring costs	**(2.8)**	0.9
Significant legal charges and expenses*	**3.3**	1.4
Underlying profit before tax	**114.5**	105.3
Cash generated by operations (see note 17)	**142.6**	114.9
Principal payments on finance leases	**(9.0)**	(7.8)
Purchase of property, plant and equipment	**(13.4)**	(14.9)
Proceeds on disposal of property, plant and equipment	**0.2**	0.1
Expenditure on product development and other intangibles	**(8.7)**	(8.0)
Significant legal charges and expenses*	**1.5**	1.9
Disposal-related restructuring costs	**1.6**	-
Acquisition and disposal related payments	**1.3**	0.6
Underlying operating cash flow	**116.1**	86.8
Underlying operating cash conversion	**92%**	73%
Net cash flow from operating activities (see note 17)	**130.0**	94.6
Interest received	**0.3**	0.7
Purchase of property, plant and equipment	**(13.4)**	(14.9)
Proceeds on disposal of property, plant and equipment	**0.2**	0.1
Expenditure on product development and other intangibles	**(8.7)**	(8.0)
Principal payments on finance leases†	**(9.0)**	(7.8)
Free cash flow	**99.4**	64.7

* Significant legal charges and expenses are the charges arising from investigations and settlement of litigation that are not in the normal course of business.

† The free cash flow definition has been revised to deduct the principal payments on leases, the 2019 comparative has been restated.

2. Additional non-statutory performance measures (continued)

	2020 £m	2019 £m
Net assets	**464.7**	430.6
Net debt	**85.8**	154.8
Retirement benefit obligations	**73.1**	73.3
Net derivative financial instruments	**(7.6)**	(4.2)
Net tax assets	**(1.5)**	(8.5)
Total invested capital	**614.5**	646.0
Average invested capital	**630.3**	665.0
Underlying operating profit	**126.1**	118.2
ROIC	**20.0%**	17.8%

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

	Order book		Revenue		Underlying operating profit	
	£m	% impact	£m	% impact	£m	% impact
2019	1,022.9		825.4		118.2	
Currency translation	(16.9)	-1.7	(4.1)	-0.5	(0.6)	-0.5
Disposals	(0.7)	-0.1	(3.9)	-0.5	1.1	+0.9
2019 (for organic measure)	1,005.3		817.4		118.7	
Organic growth	**58.9**	**+5.9**	**42.4**	**+5.2**	**7.4**	**+6.2**
2020	**1,064.2**	+4.0	**859.8**	+4.2	**126.1**	+6.7

Management monitors the underlying financial performance of the Group using alternative performance measures. These measures are not defined in IFRS and are considered to be non-statutory. This additional information is not uniformly defined by all companies and may not be comparable with similarly titled measures and disclosures by other organisations. The non-statutory disclosures should not be viewed in isolation or as an alternative to the equivalent statutory measure.

The underlying presentation is regularly reviewed by management to identify items that are unusual, due to their materiality and nature, and other items relevant to an understanding of the long-term trends of the Group's performance. The non-statutory performance measures are consistent with how business performance is planned and reported within the internal management reporting to the divisional management teams, Executive Committee and to the Board. Some of the measures are used for setting remuneration targets.

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

Underlying profit is used by the Board to monitor and measure the underlying trading performance of the business using a measure that is comparable over time. Items excluded from underlying profit are treated consistently with covenant requirements defined in the Group's committed financing facilities. Underlying profit excludes:

- costs associated with mergers & acquisitions (M&A), disposals or closures: delivery of the Group's strategy has included investment in acquisitions that enhance Ultra's portfolio of capabilities, as well as disposal or closure of non-core businesses, facilities or product lines. The exclusion of significant items arising from this activity is to align short-term operational decisions with this longer-term strategy. Items excluded are directly attributable external legal and adviser costs, adjustments to the fair value of contingent consideration and acquired inventory, payment of retention bonuses, restructuring costs related to disposals and closures, and gains or losses made upon the disposal or closures. Similarly, amortisation and impairment of goodwill or intangible assets arising on acquisition are excluded from underlying profit because they are not related to the in-year operational performance of the business, being driven by the timing and amount of historical investment in acquired businesses.

1. Additional non-statutory performance measures (continued)

- significant legal charges and expenses: these are the charges arising from investigations and settlement of litigation that are not in the normal course of business. These costs are not related to the in-year operational performance of the business and are excluded.
- mark to market gains or losses from foreign exchange financial instruments: there is volatility in the valuation of outstanding instruments as exchange rates move over time. This has minimal impact on profit over the full term of the instruments, but can cause significant income statement volatility in particular periods. These gains or losses are excluded to ensure appropriate and timely commercial decisions are made regarding mitigating the Group's foreign currency exposures.

Underlying operating cash flow is used by the Board to monitor and measure the underlying cash performance of the business using a measure that is comparable over time. The Group is cash-generative and reinvests funds to meet its strategic objectives. Management believes that using cash generated by operations, after principal payments on leases, net expenditure on property, plant and equipment, outflows for capitalised product development and other intangibles, and adding back the operating cash impacts arising from M&A, disposals & closures, and significant legal charges & expenses is the appropriate underlying metric of the cash cost of sustaining a growing business.

Underlying operating cash conversion is the ratio of underlying operating cash flow to underlying operating profit.

Organic growth (of revenue, profit or orders) excludes the impact of currency translation, acquisitions, disposals and closures of businesses. It is calculated as the annual rate of increase that was achieved at constant currency exchange rates, assuming that acquisitions made during the prior-year were only included for the same proportion of the current year, and adjusted for closures or disposals to reflect the comparable period of operation or ownership. The constant exchange comparison retranslates the prior year reported results from the prior year's average exchange rates into the current year's average exchange rates. See note 2 for reconciliations between absolute growth and organic growth.

See note 23 for details of other metrics and definitions.

3. Revenue

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

	2020			
	Maritime £m	**Intelligence & Communications £m**	**Critical Detection & Control £m**	**Total £m**
Point in time	**100.4**	**119.0**	**136.7**	**356.1**
Over time	**291.4**	**122.0**	**90.3**	**503.7**
	391.8	**241.0**	**227.0**	**859.8**

	2019			
	Maritime £m	Intelligence & Communications £m	Critical Detection & Control £m	Total £m
Point in time	85.6	96.3	155.0	336.9
Over time	267.4	128.5	92.6	488.5
	353.0	224.8	247.6	825.4

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

	2021 £m	**2022 £m**	**2023 and beyond £m**	**Total £m**
Point in time revenue	**212.7**	**62.4**	**35.0**	**310.1**
Over time revenue	**409.2**	**196.1**	**148.8**	**754.1**

4. Investment income

	2020 £m	2019 £m
Bank interest	**0.3**	0.7
Fair value movement on derivatives	**3.4**	10.6
	3.7	11.3

5. Finance costs

	2020 £m	2019 £m
Amortisation of finance costs of debt	**0.6**	0.7
Interest on bank loans, overdrafts and other loans	**8.3**	9.5
Finance charge on leases	**1.7**	1.5
Total borrowing costs	**10.6**	11.7
Retirement benefit scheme finance cost	**1.3**	1.9
	11.9	13.6

6. Tax

	2020 £m	2019 £m
Current tax		
United Kingdom	**4.7**	0.8
Overseas	**6.7**	8.4
	11.4	9.2
Deferred tax		
Origination and reversal of temporary differences	**7.5**	7.0
Derecognition of deferred tax assets	**-**	0.2
Recognition of deferred tax liability on overseas retained earnings	**0.8**	-
UK tax rate change	**0.2**	-
	8.5	7.2
Total tax charge	**19.9**	16.4

The UK Government has recently announced that the rate of UK corporation tax will rise from 19% to 25% with effect from 1 April 2023; we will provide further details of the expected impacts in future announcements.

7. Dividends

	2020 £m	2019 £m
Additional interim dividend of 39.2p per share (equivalent to the postponed final dividend), and final dividend for the year ended 31 December 2018 of 37.0p per share	**27.8**	26.1
Interim dividend for the year ended 31 December 2020 of 15.4p (2019: 15.0p) per share	**10.9**	10.6
	38.7	36.7
Proposed final dividend for the year ended 31 December 2020 of 41.5p (2019: 39.2p) per share	**29.5**	27.8

The 2020 proposed final dividend of 41.5p per share is proposed to be paid on 14 May 2021 to shareholders on the register at 9 April 2021. It was approved by the Board after 31 December 2020 and has not been included as a liability as at 31 December 2020.

8. Earnings per share

	2020 Pence	2019 Pence
Basic underlying (see below)	**130.6**	119.5
Diluted underlying (see below)	**130.3**	119.4
Basic	**118.0**	105.1
Diluted	**117.7**	104.9

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

	2020 £m	2019 £m
Earnings		
Earnings for the purposes of earnings per share being profit for the year	**83.8**	74.5
Underlying earnings		
Profit for the year	**83.8**	74.5
Amortisation of intangibles arising on acquisition (net of tax)	**9.8**	16.9
Acquisition and disposal-related costs (net of tax)	**0.7**	0.1
Profit on fair value movements on derivatives (net of tax)	**(2.8)**	(8.8)
(Gain)/loss on disposals net of related restructuring costs (net of tax)	**(1.7)**	0.9
Significant legal charges and expenses (net of tax)	**3.0**	1.1
Earnings for the purposes of underlying earnings per share	**92.8**	84.7

The adjustments to profit are explained in note 2.

The weighted average number of shares is given below:	**2020 Number of shares**	2019 Number of shares
Number of shares used for basic earnings per share	**71,026,681**	70,893,867
Effect of dilutive potential ordinary shares – share options	**179,001**	93,523
Number of shares used for fully diluted earnings per share	**71,205,682**	70,987,390

	2020 £m	2019 £m
Underlying profit before tax (see note 2)	**114.5**	105.3
Tax rate applied for the purposes of underlying earnings per share	**19.0%**	19.4%

During 2020, the company purchased and cancelled nil shares (2019: 634,996).

9. Goodwill

	2020 £m	2019 £m
Cost		
At 1 January	**424.3**	438.5
Exchange differences	**(7.9)**	(10.6)
Disposals	**(8.9)**	(0.3)
Reclassified from/(to) held for sale	**3.3**	(3.3)
At 31 December	**410.8**	424.3
Accumulated impairment losses		
At 1 January	**(58.4)**	(60.7)
Disposals	**8.9**	-
Exchange differences	**1.7**	2.3
At 31 December	**(47.8)**	(58.4)
Carrying amount at 31 December	**363.0**	365.9

The Group's SBUs, which represent cash generating unit (CGU) groupings, are: Aerospace, Energy, Forensic Technology, Intelligence & Communications and Maritime. These represent the lowest level at which the goodwill is monitored for internal management purposes. Goodwill is allocated to CGU groupings as set out below:

	2020 Pre-tax Discount rate	2019 Pre-tax Discount Rate	2020 £m	2019 £m
Aerospace	**10.2 - 11.2**	10.9 - 12.1	**32.5**	32.6
Energy	**10.2 - 11.2**	10.9 - 12.1	**17.9**	18.3
Forensic Technology	**10.7**	12.4	**25.6**	25.9
Intelligence & Communications	**10.2 - 11.2**	10.9 - 12.4	**178.2**	178.3
Maritime	**10.2 - 11.2**	10.9 - 12.9	**108.8**	110.8
Total – Ultra Electronics			**363.0**	365.9

10. Property, plant and equipment

During 2020, the Group spent £13.4m on the acquisition of property, plant and equipment. The Group did not make any significant disposals during the year.

11. Leased assets

During 2020, the Group recognised an additional £6.3m of leased assets. The Group did not make any significant disposals during the year.

12. Inventories

	2020 £m	2019 £m
Raw materials and consumables	**58.3**	51.9
Work in progress	**35.0**	31.4
Finished goods and goods for resale	**10.3**	7.4
	103.6	90.7

13. Trade and other receivables

	2020 £m	2019 £m
Non-current:		
Amounts receivable from over time contract customers	**12.9**	13.7
	12.9	13.7

	2020 £m	2019 £m
Current:		
Trade receivables	**101.5**	108.4
Loss allowance against receivables	**(1.4)**	(1.8)
Net trade receivables	**100.1**	106.6
Amounts receivable from over time contract customers	**66.5**	77.0
Other receivables	**6.2**	7.7
Prepayments	**10.6**	10.1
Accrued income	**5.1**	4.0
	188.5	205.4

14. Trade and other payables

	2020 £m	2019 £m
Current:		
Trade payables	**44.4**	49.9
Amounts due to over-time contract customers	**68.2**	57.5
Other payables	**19.9**	22.2
Accruals	**46.2**	37.8
Deferred income	**20.6**	24.9
	199.3	192.3

	2020 £m	2019 £m
Non-current:		
Amounts due to over-time contract customers	**8.2**	9.8
Deferred income	**3.8**	2.0
	12.0	11.8

15. Provisions

	Warranties £m	Contract related provisions £m	Other £m	Total £m
At 1 January 2020	4.8	13.9	6.1	24.8
Created	4.4	4.4	3.9	12.7
Reversed	(0.8)	(2.4)	(0.3)	(3.5)
Utilised	(1.0)	(5.7)	(2.5)	(9.2)
Exchange differences	-	(0.3)	(0.1)	(0.4)
Reclassified from held for sale	0.1	-	0.1	0.2
At 31 December 2020	**7.5**	**9.9**	**7.2**	**24.6**
Included in current liabilities	6.0	9.1	4.5	19.6
Included in non-current liabilities	1.5	0.8	2.7	5.0
	7.5	**9.9**	**7.2**	**24.6**

Warranty provisions are based on an assessment of future claims with reference to past experience. Such costs are generally incurred within two years after delivery. Contract-related provisions – for example, including provisions for agent fees and provisions relating to contract execution and delivery – are utilised over the period as stated in the contract to which the specific provision relates. Other provisions include reorganisation costs, contingent consideration and dilapidation costs. Reorganisation costs will be incurred over the period of the reorganisation, which is typically up to two years. Contingent consideration is payable when earnings targets are met. Dilapidations will be payable at the end of the contracted life, which is up to 15 years.

16. Retirement benefit schemes

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

	2020 £m	2019 £m
Fair value of scheme assets	**369.5**	329.7
Present value of scheme liabilities	**(442.6)**	(403.0)
Retirement benefit obligations	**(73.1)**	(73.3)
Related deferred tax asset	**14.0**	12.5
Net pension liability	**(59.1)**	(60.8)

A full actuarial assessment of the UK defined benefit scheme was carried out as of April 2019; Ultra reached agreement with the pension scheme trustee board to maintain the £11m per annum payment to eliminate the deficit over the period to March 2025. The next valuation will take place as of April 2022.

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

The discount rate used in the actuarial assessment of the UK defined benefit scheme at 31 December 2020 was 1.45% (2019: 1.95%).

17. Cash flow information

	2020 £m	2019 £m
Operating profit	**106.3**	94.2
Adjustments for:		
Depreciation of property, plant and equipment	**10.4**	9.7
Amortisation of intangible assets	**18.6**	28.6
Amortisation of leased assets	**8.5**	9.3
Cost of equity-settled employee share schemes	**2.5**	0.8
Defined benefit pension scheme funding	**(11.0)**	(10.8)
Loss on disposal of property, plant and equipment	**0.1**	0.1
(Decrease)/increase in provisions	**0.2**	5.5
Operating cash flow before movements in working capital	**135.6**	137.4
Increase in inventories	**(13.8)**	(5.7)
Decrease/(increase) in receivables	**19.3**	(2.9)
Increase/(decrease) in payables	**1.5**	(13.9)
Cash generated by operations	**142.6**	114.9
Income taxes paid	**(5.4)**	(9.5)
Interest paid	**(5.5)**	(9.3)
Lease liability interest paid	**(1.7)**	(1.5)
Net cash from operating activities	**130.0**	94.6

The total cash outflow in 2020 relating to leases was £10.7m (2019: £9.2m), of which £0.2m (2019: £0.2m) related to low-value or short-term leases not recognised on the balance sheet.

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

	2020 £m	2019 £m
Net increase/(decrease) in cash and cash equivalents	**3.1**	(10.5)
Cash inflow from movement in debt and finance leasing	**65.1**	55.3
Change in net debt arising from cash flows	**68.2**	44.8
Loan syndication costs	**-**	0.3
Lease liability movement	**3.5**	(41.2)
Other non-cash movements	**(2.7)**	-
Amortisation of finance costs of debt	**(0.6)**	(0.7)
Translation differences	**0.6**	(0.5)
Movement in net debt in the year	**69.0**	2.7
Net debt at start of year	**(154.8)**	(157.5)
Net debt at end of year	**(85.8)**	(154.8)

17. Cash flow information (continued)

Net cash and cash equivalents and overdrafts comprised the following:

	2020 £m	2019* £m
Cash and cash equivalents	**114.4**	110.5
Overdrafts	**(30.3)**	(28.3)
	84.1	82.2

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

Net debt comprised the following:	2020 £m	2019* £m
Cash and cash equivalents	**114.4**	110.5
Borrowings	**(200.2)**	(265.3)
	(85.8)	(154.8)

Reconciliation of changes in financing liabilities:	2020 £m	2019* £m
Borrowings at start of year	**(265.3)**	(292.6)
Repayments of borrowings	**76.2**	315.3
Proceeds from borrowings	**(11.1)**	(259.9)
(Increase)/decrease in overdraft	**(2.0)**	10.5
Loan syndication costs	**-**	0.3
Other non-cash movements	**(2.7)**	-
Amortisation of finance costs of debt	**(0.6)**	(0.7)
Principal payment on leases	**9.0**	7.8
Lease liability non-cash movements	**(5.5)**	(49.0)
Translation differences	**1.8**	3.0
Borrowings at end of year	**(200.2)**	(265.3)

*2019 balances for cash and cash equivalents and borrowings have been restated to meet the presentational requirements of IAS 32 with respect to the Group's cash-pooling arrangements. See note 20.

18. Disposals

Former Flightline Business

Agreement was reached in April 2020 to dispose of certain non-core aircraft product lines from the former Flightline business, within the Maritime SBU, to Ontic Engineering and Manufacturing Inc. The disposal completed in November 2020. Consideration received in the year totalled $9.5m (£7.5m), the net assets disposed of were £1.7m and the directly attributable costs of disposal were £0.2m; consequently the gain on disposal was £5.6m.

Non-underlying restructuring costs of £2.8m were incurred closing, relocating and re-certifying the remainder of the former Flightline business and product lines that had not been divested. However, these costs are not 'directly' attributable to the divestment as required by IFRS 5 and consequently cannot form part of the IFRS 5 gain on disposal calculation. However, to fully understand the net income statement impact of the divestment, restructuring, closure, relocation and re-certification activity, the table below sets out the net impact:

18. Disposals (continued)

	2020 £m
Inventories	**1.5**
Trade and other receivables	**0.2**
Total	**1.7**
Proceeds received	**7.5**
Directly attributable costs of disposal	**(0.2)**
Gain on disposal	**5.6**
Restructuring costs	**(2.8)**
Gain on disposal net of related restructuring costs	**2.8**

Further consideration of \$0.5m (£0.4m) could be received dependent on the number of certain aircraft sold by a third party; no receivable or profit has been recognised in the year for this deferred consideration due to the uncertainty over this being achieved.

Other

In October 2019, agreement was reached to dispose of the Intelligence & Communications SBU's small Ottawa-based electronic intelligence business to private investors. A loss of £1.5m was recognised in the 2019 income statement when the assets were written down to their recoverable amount. The disposal completed in January 2020; there was no residual gain or loss to recognise in 2020. The cash outflow in 2020 was £1.9m.

	2020 £m
Property, plant and equipment	-
Trade and other receivables	0.7
Trade and other payables	(1.1)
Cash	1.9
Total	1.5
Proceeds received	-
Loss on disposal in 2019	1.5

As disclosed in the prior year, certain assets from the Intelligence & Communications SBU were classified as held for sale at 31 December 2019. During 2020, the decision was taken to cease classifying these assets as held for sale due to uncertainty over the likelihood of disposal; there was no impact to the current period or prior year financial results.

19. Contingent liabilities

Contingent liabilities are potential future cash outflows which are either not probable or cannot be measured reliably.

The Group has entered into a number of guarantee and performance bond arrangements in the normal course of business, totalling £37.3m (2019: £55.1m).

As previously announced, investigations associated with conduct of business issues in Algeria and the Philippines are ongoing, and Ultra continues to cooperate with the relevant authorities. It is not yet possible to estimate the time scale in which these investigations might be resolved, or to reliably predict their outcomes. As at 31 December 2020, taking account of all available evidence, Ultra concluded that, for the above matters, it is not deemed probable that a present obligation existed which would result in a probable outflow of economic resources. Consequently, the timing and amount, if any, of financial effects (such as fines, penalties or damages, which could be material) or other consequences, including external costs, from any of the investigations is not possible to predict or estimate.

19. Contingent liabilities (continued)

The Oman Airport IT contract between the Sultanate of Oman, Ministry of Transport & Communications and Ithra (Ultra Electronics in collaboration with Oman Investment Corporation LLC, the legal entity established with the sole purpose of delivering that contract and which was placed into voluntary liquidation in March 2015) was terminated in February 2015 and there were various proceedings in relation to that contract and its termination, which have now all been concluded with no liability arising out of these proceedings for Ultra.

We have previously reported that Ultra was potentially affected by the European Commission decision that the group financing partial exemption ("FCPE"), in the UK controlled foreign company ("CFC") rules as they applied up to 31 December 2018, could constitute illegal State Aid. On 26 February 2021, HMRC notified Ultra of their view that Ultra is not a beneficiary of State Aid, as defined in the EC decision and we believe this concludes the matter.

20. Prior year restatement

Cash pooling

During the year it was determined that the Group's cash and overdrafts within its cash-pooling arrangements did not meet the requirements for offsetting in accordance with IAS 32: 'Financial Instruments: Presentation'. For presentational purposes, cash and cash equivalents and borrowings in the prior year have been restated in accordance with IAS 8: 'Accounting Policies, Change in Accounting Policies and Errors' resulting in an additional £28.3m within borrowings, and cash balances increased by an equal and opposite amount. There is no impact on net assets or net debt.

Deferred tax balances

In 2019, we set out to improve clarity for readers over our deferred tax balances and classified elements of deferred tax asset and deferred tax liabilities to current from non-current. However, we erroneously did not take into consideration a requirement of IAS 1.56, which requires deferred tax assets and liabilities to not be presented as current. For presentational purposes, in accordance with IAS 8: 'Accounting Policies, Change in Accounting Policies and Errors', we have therefore restated the prior year Group balance sheet to reflect a reclassification of £13.0m deferred tax asset from current assets to non-current assets and a reclassification of £(3.2)m deferred tax liability from current liabilities to non-current liabilities.

Reserves

The previously disclosed separate hedging reserve and translation reserve have been combined. The amounts in the hedging reserve incorrectly related to net investment hedges of foreign operations. Prior periods have been restated on a consistent basis.

20. Prior year restatement (continued)

	2019 As previously reported	Reserves combination	Deferred tax re-classification adjustment	Cash offsetting adjustment	2019 As restated
	£m	£m	£m	£m	£m
Non-current assets					
Goodwill	365.9				365.9
Other intangible assets	92.7				92.7
Property, plant and equipment	64.2				64.2
Leased assets	36.1				36.1
Deferred tax assets	10.0		13.0		23.0
Derivative financial instruments	1.7				1.7
Trade and other receivables	13.7				13.7
	584.3		13.0	-	597.3
Current assets					
Inventories	90.7				90.7
Trade and other receivables	205.4				205.4
Current tax assets	19.5		(13.0)		6.5
Cash and cash equivalents	82.2			28.3	110.5
Derivative financial instruments	3.2				3.2
Assets classified as held for sale	11.5				11.5
	412.5		(13.0)	28.3	427.8
Total assets	996.8		-	28.3	1,025.1
Current liabilities					
Trade and other payables	(192.3)				(192.3)
Current tax liabilities	(4.7)		3.2		(1.5)
Derivative financial instruments	(0.5)				(0.5)
Borrowings	(8.2)			(28.3)	(36.5)
Liabilities classified as held for sale	(5.3)				(5.3)
Short-term provisions	(16.6)				(16.6)
	(227.6)		3.2	(28.3)	(252.7)
Non-current liabilities					
Retirement benefit obligations	(73.3)				(73.3)
Other payables	(11.8)				(11.8)
Deferred tax liabilities	(16.3)		(3.2)		(19.5)
Derivative financial instruments	(0.2)				(0.2)
Borrowings	(228.8)				(228.8)
Long-term provisions	(8.2)				(8.2)
	(338.6)		(3.2)	-	(341.8)
Total liabilities	(566.2)		-	(28.3)	(594.5)
Net assets	430.6		-	-	430.6
Equity					
Share capital	3.5				3.5
Share premium account	203.2				203.2
Capital redemption reserve	0.4				0.4
Reserve for own shares	(1.4)				(1.4)
Hedging reserve	(56.8)	56.8			-
Translation reserve	99.0	(56.8)			42.2
Retained earnings	182.6				182.6
Equity attributable to owners of the Company	430.5	-	-	-	430.5
Non-controlling interests	0.1				0.1
Total equity	430.6		-	-	430.6

21. Five-year review

	2016*† £m	2017*† £m	2018† £m	2019 £m	**2020 £m**
Revenue					
Maritime	322.1	329.5	317.9	353.0	**391.8**
Intelligence & Communications	221.2	200.5	211.1	224.8	**241.0**
Critical Detection & Control	242.5	245.4	237.7	247.6	**227.0**
Total revenue	785.8	775.4	766.7	825.4	**859.8**
Underlying operating profit[a]					
Maritime	59.0	59.3	52.8	52.5	**58.6**
Intelligence & Communications	30.5	18.8	21.6	30.2	**33.5**
Critical Detection & Control	41.6	42.0	38.3	35.5	**34.0**
Total underlying operating profit[1]	131.1	120.1	112.7	118.2	**126.1**
Underlying operating margin[1]	16.7%	15.5%	14.7%	14.3%	**14.7%**
Profit before tax	67.6	60.6	42.6	91.0	**103.7**
Profit after tax	58.3	48.9	32.4	74.6	**83.8**
Underlying operating cash flow[2]	120.4	116.5	89.3	86.8	**116.1**
Free cash flow[3]	86.0	65.3	67.6	64.7	**99.4**
Net debt at year-end[4]	(256.7)	(74.5)	(157.5)	(154.8)	**(85.8)**
Underlying earnings per share (p)[5]	134.6	116.7	109.5	119.5	**130.6**
Dividends per share (p)	47.8	49.6	51.6	54.2^	**56.9**
Average employee numbers	4,466	4,172	4,119	4,089	**4,253**

Notes:

The operating segment split for 2016 to 2019 has been restated to reflect the new segments that became effective from 1 January 2020.

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

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

3 Free cash flow is before dividends paid, acquisitions, disposals and financing. The definition has been revised to deduct the principal payments on leases, the 2019 comparative has been restated.

4 Net debt is loans, overdrafts and finance lease liabilities less cash and cash equivalents.

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

^ the 2019 total dividend per share of 54.2p includes the 2019 final dividend that was withdrawn as a precautionary measure due to the Covid-19 pandemic and paid on 18 September 2020 as an additional interim dividend.

* Not prepared under IFRS 15 † Not prepared under IFRS 16

22. Financial information

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2020 or 2019, but is derived from those accounts. Statutory accounts for 2019 have been delivered to the Registrar of Companies and those for 2020 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.

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

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

23. Other metrics and definitions

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

Return on Invested Capital (ROIC) is calculated as underlying operating profit as a percentage of invested capital (average of opening and closing balance sheets). Invested capital is defined as net assets of the Group, excluding net debt and lease liability, pension obligations, tax and derivatives. This allows ROIC to be calculated on the operating assets of the business within the control of management. The calculation for ROIC is shown in note 2.

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

Free cash flow is net cash flow from operating activities, after interest received, purchase of property, plant and equipment, proceeds on disposal of property, plant and equipment, expenditure on product development and other intangibles, and principal payments on leases.

Interest cover is the ratio of underlying operating profit to finance charges associated with borrowings (excluding lease finance charges).

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.

Net finance charges exclude fair value movements on derivatives.

Order intake is the value of new contractually committed customer orders (and amendments to existing orders) booked in the year.

Order book is the value of partially satisfied and unsatisfied performance obligations from contractually committed customer orders.

Order cover is the ratio of the 31 December 2020 closing order book due for execution in 2021, to consensus revenue for 2021.

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