

Ultra Electronics Holdings plc
Results for the Six Months Ended 2 July 2021
Consolidated Unaudited Statement of Comprehensive Income

	Note	Six months to 2 July 2021 £m	Six months to 30 June 2020 £m	Year to 31 December 2020 £m
Revenue	3, 5	404.5	413.1	859.8
Cost of sales		(285.8)	(301.4)	(609.0)
Gross profit		118.7	111.7	250.8
Other operating income		4.3	1.6	0.9
Administrative expenses		(64.6)	(65.0)	(140.6)
Other operating expenses		(1.2)	(2.3)	(1.5)
Significant legal charges and expenses	3	(0.7)	(0.7)	(3.3)
Operating profit	3	56.5	45.3	106.3
(Loss)/gain on disposal and held for sale	18	(2.4)	-	5.6
Investment revenue	6	0.1	0.1	3.7
Finance costs	7	(8.0)	(15.6)	(11.9)
Profit before tax		46.2	29.8	103.7
Tax	8	(8.6)	(5.5)	(19.9)
Profit for the period		37.6	24.3	83.8
Attributable to:				
Owners of the Company		37.6	24.3	83.8
Non-controlling interests		-	-	-
Earnings per ordinary share (pence)				
- basic	10	52.9	34.2	118.0
- diluted	10	52.8	34.1	117.7

All results are derived from continuing operations.

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Consolidated Unaudited Statement of Comprehensive Income

	Six months to 2 July 2021 £m	Six months to 30 June 2020 £m	Year to 31 December 2020 £m
Profit for the period	37.6	24.3	83.8
Items that will not be reclassified to profit or loss:			
Actuarial profit/(loss) on defined benefit pension schemes	25.3	-	(9.3)
Tax relating to items that will not be reclassified	(4.4)	-	2.9
Total items that will not be reclassified to profit or loss	20.9	-	(6.4)
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations	0.3	24.7	(11.2)
Profit on loans used in net investment hedges	0.2	4.5	1.5
Total items that may be reclassified to profit or loss	0.5	29.2	(9.7)
Other comprehensive income/(expense) for the period	21.4	29.2	(16.1)
Total comprehensive income for the period	59.0	53.5	67.7
Attributable to:			
Owners of the Company	59.0	53.5	67.7
Non-controlling interests	-	-	-

Ultra Electronics Holdings plc
Results for the Six Months Ended 2 July 2021
Consolidated Unaudited Balance Sheet

		At 2 July 2021	At 30 June 2020 Restated	At 31 December 2020
	Note	£m	£m	£m
Non-current assets				
Goodwill		361.6	385.8	363.0
Other intangible assets		79.4	93.3	82.2
Property, plant and equipment	11	63.4	67.3	66.6
Leased assets	12	31.0	40.0	33.6
Deferred tax assets		9.4	10.0	13.6
Derivative financial instruments	20	1.5	0.2	2.1
Trade and other receivables	13	14.5	14.1	12.9
		<u>560.8</u>	<u>610.7</u>	<u>574.0</u>
Current assets				
Inventories		104.2	110.0	103.6
Trade and other receivables	13	200.2	210.2	188.5
Tax assets		6.9	20.4	8.8
Cash and cash equivalents*		120.6	141.0	114.4
Derivative financial instruments	20	4.6	0.2	5.8
Assets classified as held for sale	18	4.6	2.2	-
		<u>441.1</u>	<u>484.0</u>	<u>421.1</u>
Total assets	3	<u>1,001.9</u>	<u>1,094.7</u>	<u>995.1</u>
Current liabilities				
Trade and other payables	14	(221.6)	(225.9)	(199.3)
Tax liabilities		(6.2)	(8.5)	(5.9)
Derivative financial instruments	20	(0.2)	(4.0)	(0.2)
Borrowings*		(13.8)	(57.2)	(38.3)
Liabilities classified as held for sale	18	(4.1)	(0.5)	-
Short-term provisions	15	(18.0)	(18.7)	(19.6)
		<u>(263.9)</u>	<u>(314.8)</u>	<u>(263.3)</u>
Non-current liabilities				
Retirement benefit obligations	19	(40.3)	(68.7)	(73.1)
Other payables	14	(10.1)	(11.8)	(12.0)
Deferred tax liabilities		(15.0)	(17.3)	(15.0)
Derivative financial instruments	20	(0.5)	(2.2)	(0.1)
Borrowings		(171.5)	(191.2)	(161.9)
Long-term provisions	15	(2.8)	(3.5)	(5.0)
		<u>(240.2)</u>	<u>(294.7)</u>	<u>(267.1)</u>
Total liabilities	3	<u>(504.1)</u>	<u>(609.5)</u>	<u>(530.4)</u>
Net assets		<u>497.8</u>	<u>485.2</u>	<u>464.7</u>
Equity				
Share capital	16	3.6	3.6	3.6
Share premium account		206.4	203.5	205.5
Capital redemption reserve		0.4	0.4	0.4
Reserve for own shares		(1.4)	(1.4)	(1.4)
Translation reserve*		33.0	71.4	32.5
Retained earnings		255.8	207.6	224.1
Equity attributable to owners of the company		<u>497.8</u>	<u>485.1</u>	<u>464.7</u>
Non-controlling interest		-	0.1	-
Total equity		<u>497.8</u>	<u>485.2</u>	<u>464.7</u>

* June 2020 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. The previously disclosed separate hedging reserve and translation reserve have been combined for June 2020 on a consistent basis.

Ultra Electronics Holdings plc
Results for the Six Months Ended 2 July 2021
Consolidated Unaudited Cash Flow Statement

	Note	Six months to 2 July 2021 £m	Six months to 30 June 2020 £m	Year to 31 December 2020 £m
Net cash inflow from operating activities	17	65.3	61.3	130.0
Investing activities				
Interest received		0.1	0.1	0.3
Purchase of property, plant and equipment		(7.6)	(5.0)	(13.4)
Proceeds from disposal of property, plant and equipment		2.1	-	0.2
Expenditure on product development and other intangibles		(6.0)	(4.9)	(8.7)
Disposal of subsidiary undertakings		0.7	4.8	5.3
Net cash used in investing activities		(10.7)	(5.0)	(16.3)
Financing activities				
Issue of share capital		0.9	0.4	2.3
Dividends paid		(29.5)	-	(38.7)
Dividends paid to non-controlling interest		-	-	(0.1)
Repayments of borrowings		(25.4)	(64.5)	(76.2)
Proceeds from borrowings		35.6	21.0	11.1
Principal payment on leases		(4.4)	(5.4)	(9.0)
Net cash used in financing activities		(22.8)	(48.5)	(110.6)
Net increase in cash and cash equivalents		31.8	7.8	3.1
Net cash and cash equivalents and bank overdrafts at beginning of period		84.1	82.2	82.2
Effect of foreign exchange rate changes		(0.6)	3.1	(1.2)
Net cash and cash equivalents and bank overdrafts at end of period		115.3	93.1	84.1

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 Six Months Ended 2 July 2021
Consolidated Unaudited Statement of Changes in Equity

Equity attributable to equity holders of the parent	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 31 December 2020 as originally presented	3.6	205.5	0.4	(1.4)	32.5	224.1	-	464.7
Profit for the period	-	-	-	-	-	37.6	-	37.6
Other comprehensive income for the period	-	-	-	-	0.5	20.9	-	21.4
Total comprehensive income for the period	-	-	-	-	0.5	58.5	-	59.0
Equity-settled employee share schemes	-	0.9	-	-	-	2.7	-	3.6
Dividend to shareholders	-	-	-	-	-	(29.5)	-	(29.5)
Balance at 2 July 2021	3.6	206.4	0.4	(1.4)	33.0	255.8	-	497.8

Ultra Electronics Holdings plc
Results for the Six Months Ended 30 June 2020
Consolidated Unaudited Statement of Changes in Equity

Equity attributable to equity holders of the parent	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 31 December 2019 as originally presented	3.5	203.2	0.4	(1.4)	42.2	182.6	0.1	430.6
Profit for the period	-	-	-	-	-	24.3	-	24.3
Other comprehensive income for the period	-	-	-	-	29.2	-	-	29.2
Total comprehensive income for the period	-	-	-	-	29.2	24.3	-	53.5
Equity-settled employee share schemes	0.1	0.3	-	-	-	0.7	-	1.1
Dividend to shareholders	-	-	-	-	-	-	-	-
Balance at 30 June 2020	3.6	203.5	0.4	(1.4)	71.4	207.6	0.1	485.2

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

Ultra Electronics Holdings plc

Results for the Twelve Months Ended 31 December 2020
Consolidated Statement of Changes in Equity

Equity attributable to equity holders of the parent

	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 31 December 2019 as originally presented	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
Non-controlling 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

Ultra Electronics Holdings plc
Results for the Six Months Ended 2 July 2021
Notes to the Consolidated Unaudited Interim Financial Statements

1. General information

The information for the year ended 31 December 2020 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report and did not contain statements under section 498 (2) or (3) of the Companies Act 2006.

These interim financial statements, which were approved by the Board of Directors on 19 July 2021, have not been audited or reviewed by the Auditor.

2. Accounting policies

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

The same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the Group's latest annual audited financial statements

3. Segment information

(i) Revenue by segment

	Six months to 2 July 2021			Six months to 30 June 2020		
	External revenue £m	Internal revenue £m	Total £m	External revenue £m	Internal revenue* £m	Total £m
Revenue						
Maritime	183.1	0.9	184.0	184.3	0.3	184.6
Intelligence & Communications	116.0	1.4	117.4	114.1	1.5	115.6
Critical Detection & Control	105.4	0.2	105.6	114.7	0.1	114.8
Eliminations	-	(2.5)	(2.5)	-	(1.9)	(1.9)
Consolidated revenue	404.5	-	404.5	413.1	-	413.1

*June 2020 balances for internal revenue have been restated to only present inter-segment revenue and not internal revenue within a segment.

3. Segment information (continued)

(ii) Profit by segment

	Maritime	Intelligence & Communications	Critical Detection & Control	Unallocated	Six months to 2 July 2021 Total
	£m	£m	£m	£m	£m
Underlying operating profit	26.9	19.0	16.3	-	62.2
Amortisation of intangibles arising on acquisition	(0.2)	(3.5)	(1.2)	-	(4.9)
Significant legal charges and expenses	-	-	-	(0.7)	(0.7)
Acquisition & disposal related costs	(0.1)	-	-	-	(0.1)
Operating profit/(loss)	26.6	15.5	15.1	(0.7)	56.5
Loss on disposal and held for sale					(2.4)
Investment revenue					0.1
Finance costs					(8.0)
Profit before tax					46.2
Tax					(8.6)
Profit after tax					37.6

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 Strategic Business Unit.

3. Segment information (continued)

(iii) Total assets by segment

	At 2 July 2021 £m	At 30 June 2020 £m <small>as restated</small>	At 31 December 2020 £m
Maritime	284.8	287.3	260.2
Intelligence & Communications	320.8	381.4	336.2
Critical Detection & Control	253.3	252.1	254.0
	<u>858.9</u>	<u>920.8</u>	<u>850.4</u>
Unallocated	143.0	173.9	144.7
Consolidated total assets	<u>1,001.9</u>	<u>1,094.7</u>	<u>995.1</u>

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

(iv) Total liabilities by segment

	At 2 July 2021 £m	At 30 June 2020 £m <small>as restated</small>	At 31 December 2020 £m
Maritime	137.1	148.1	126.8
Intelligence & Communications	95.9	93.8	92.3
Critical Detection & Control	73.4	70.5	66.9
	<u>306.4</u>	<u>312.4</u>	<u>286.0</u>
Unallocated	197.7	297.1	244.4
Consolidated total liabilities	<u>504.1</u>	<u>609.5</u>	<u>530.4</u>

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

(v) Revenue by destination

	Six months to 2 July 2021 £m	Six months to 30 June 2020 £m	Year to 31 December 2020 £m
North America	252.4	264.3	546.5
United Kingdom	84.6	82.8	158.4
Rest of World	45.6	39.4	89.9
Continental Europe	21.9	26.6	65.0
	<u>404.5</u>	<u>413.1</u>	<u>859.8</u>

4. Additional 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:

	Six months to 2 July 2021 £m	Six months to 30 June 2020 £m	Year to 31 December 2020 £m
Operating profit	56.5	45.3	106.3
Amortisation of intangibles arising on acquisition	4.9	6.6	12.6
Significant legal charges and expenses	0.7	0.7	3.3
Acquisition and disposal related costs	0.1	0.8	1.1
Restructuring costs related to disposal	-	-	2.8
Underlying operating profit	62.2	53.4	126.1
Profit before tax	46.2	29.8	103.7
Amortisation of intangibles arising on acquisition	4.9	6.6	12.6
Acquisition and disposal related costs	0.1	0.8	1.1
Loss/(gain) on fair value movements on derivatives	2.2	10.0	(3.4)
Loss/(gain) on disposal and held for sale	2.4	-	(2.8)
Significant legal charges and expenses	0.7	0.7	3.3
Underlying profit before tax	56.5	47.9	114.5
Cash generated by operations	74.4	65.8	142.6
Principal payments on finance leases	(4.4)	(5.4)	(9.0)
Purchase of property, plant and equipment	(7.6)	(5.0)	(13.4)
Disposal of property, plant and equipment	2.1	-	0.2
Expenditure on product development and other intangibles	(6.0)	(4.9)	(8.7)
Significant legal charges and expenses	0.5	1.0	1.5
Disposal-related restructuring costs	0.5	-	1.6
Acquisition and disposal related payments	0.3	0.9	1.3
Underlying operating cash flow	59.8	52.4	116.1
Underlying operating cash conversion	96%	98%	92%
Net cash flow from operating activities	65.3	61.3	130.0
Interest received	0.1	0.1	0.3
Purchase of property, plant and equipment	(7.6)	(5.0)	(13.4)
Disposal of property, plant and equipment	2.1	-	0.2
Expenditure on product development and other intangibles	(6.0)	(4.9)	(8.7)
Principal payments on finance leases	(4.4)	(5.4)	(9.0)
Free cash flow†	49.5	46.1	99.4

† The free cash flow definition has been revised to deduct the principal payments on leases, the June 2020 comparative has been restated to be presented on a comparable basis.

4. Additional performance measures (continued)

	Rolling twelve months to 2 July 2021 £m	Rolling twelve months to 30 June 2020 £m	Year to 31 December 2020 £m
Underlying operating profit (preceding 12 months)	134.9	118.7	126.1
Depreciation of property, plant and equipment	10.9	10.2	10.4
Depreciation of leased assets	8.3	8.6	8.5
Amortisation of internally generated intangible assets	1.4	2.9	1.4
Amortisation of software, patents and trademarks	4.7	4.7	4.6
EBITDA (preceding 12 months)	160.2	145.1	151.0

	2 July 2021 £m	30 June 2020 £m
Net assets	497.8	485.2
Net debt	64.7	107.4
Retirement benefit obligations	40.3	68.7
Net derivative financial instruments	(5.4)	5.8
Net tax assets	4.9	(4.6)
Total invested capital	602.3	662.5
Average invested capital	632.4	
Underlying operating profit (preceding 12 months)	134.9	
ROIC	21.3%	

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
Six months to June 2020	1,173.2		413.1		53.4	
Currency translation	(58.2)	-5.0	(24.7)	-6.0	(3.1)	-5.8
Disposals	(3.6)	-0.3	(2.0)	-0.5	(0.7)	-1.3
Six months to June 2020 (for organic measure)	1,111.4	-5.3	386.4	-6.5	49.6	-7.1
Organic growth	158.8	+14.3	18.1	+4.7	12.6	+25.4
Six months to 2 July 2021	1,270.2	+8.3	404.5	-2.1	62.2	+16.5

4. Additional performance measures (continued)

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 10.

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.
- 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.

Other terms used throughout this announcement are defined in note 24.

5. Revenue

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

H1 2021	Maritime £m	Intelligence & Communications £m	Critical Detection & Control £m	Six months to 2 July 2021 Total £m
Point in time	39.5	46.5	69.0	155.0
Over time	143.6	69.5	36.4	249.5
	<u>183.1</u>	<u>116.0</u>	<u>105.4</u>	<u>404.5</u>

H1 2020	Maritime £m	Intelligence & Communications £m	Critical Detection & Control £m	Six months to 30 June 2020 Total £m
Point in time	55.4	49.2	56.7	161.3
Over time	128.9	64.9	58.0	251.8
	<u>184.3</u>	<u>114.1</u>	<u>114.7</u>	<u>413.1</u>

6. Investment revenue

	Six months to 2 July 2021 £m	Six months to 30 June 2020 £m	Year to 31 December 2020 £m
Bank interest	0.1	0.1	0.3
Fair value movement on derivatives	-	-	3.4
	<u>0.1</u>	<u>0.1</u>	<u>3.7</u>

7. Finance costs

	Six months to 2 July 2021 £m	Six months to 30 June 2020 £m	Year to 31 December 2020 £m
Amortisation of finance costs of debt	0.3	0.3	0.6
Interest payable on loans and overdrafts	4.3	3.5	8.3
Finance charge on leases	0.7	0.8	1.7
Total borrowing costs	<u>5.3</u>	<u>4.6</u>	<u>10.6</u>
Retirement benefit scheme finance cost	0.5	1.0	1.3
Fair value movement on derivatives	2.2	10.0	-
	<u>8.0</u>	<u>15.6</u>	<u>11.9</u>

8. Tax

	Six months to 2 July 2021 £m	Six months to 30 June 2020 £m	Year to 31 December 2020 £m
Current tax			
United Kingdom	0.5	1.5	4.7
Overseas	8.5	3.0	6.7
	<u>9.0</u>	<u>4.5</u>	<u>11.4</u>
Deferred tax	<u>(0.4)</u>	<u>1.0</u>	<u>8.5</u>
Total tax charge	<u><u>8.6</u></u>	<u><u>5.5</u></u>	<u><u>19.9</u></u>

The main rate of UK corporation tax was 19.0% at 1 April 2021.

9. Ordinary dividends

	Six months to 2 July 2021 £m	Six months to 30 June 2020 £m
Final dividend for the year ended 31 December 2020 of 41.5p (2019: 39.2p) per share	<u><u>29.5</u></u>	<u><u>27.8</u></u>
Proposed interim dividend for the year ended 31 December 2021 of 16.2p (2020: 15.4p) per share	<u><u>11.5</u></u>	<u><u>10.9</u></u>

The interim 2021 dividend of 16.2 pence per share will be paid on 17 September 2021 to shareholders on the register at 27 August 2021. It was approved by the Board after 2 July 2021 and has not been included as a liability as at 2 July 2021.

10. Earnings per share

	Six months to 2 July 2021 Pence	Six months to 30 June 2020 Pence	Year to 31 December 2020 Pence
From continuing operations			
Basic underlying (see below)	65.2	54.7	130.6
Diluted underlying (see below)	65.0	54.5	130.3
Basic	52.9	34.2	118.0
Diluted	52.8	34.1	117.7

10. Earnings per share (continued)

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

	Six months to 2 July 2021 £m	Six months to 30 June 2020 £m	Year to 31 December 2020 £m
Earnings			
Earnings for the purposes of earnings per share being profit for the period	<u>37.6</u>	<u>24.3</u>	<u>83.8</u>
Underlying earnings			
Profit for the period	37.6	24.3	83.8
Amortisation of intangibles arising on acquisition (net of tax)	3.8	5.0	9.8
Acquisition and disposal related costs (net of tax)	0.2	0.8	0.7
Loss/(profit) on fair value movements on derivatives (net of tax)	1.7	8.1	(2.8)
Loss/(gain) on disposal (net of tax)	0.4	-	(1.7)
Impairment on assets held for sale (net of tax)	1.9	-	-
Significant legal charges and expenses (net of tax)	<u>0.7</u>	<u>0.6</u>	<u>3.0</u>
Earnings for the purposes of underlying earnings per share	<u>46.3</u>	<u>38.8</u>	<u>92.8</u>

The adjustments to profit are explained in note 4.

The weighted average number of shares is given below:

	Six months to 2 July 2021	Six months to 30 June 2020	Year to 31 December 2020
Number of shares used for basic earnings per share	71,112,855	70,981,130	71,026,681
Effect of dilutive potential ordinary shares – share options	<u>147,331</u>	<u>175,585</u>	<u>179,001</u>
Number of shares used for fully diluted earnings per share	<u>71,260,186</u>	<u>71,156,715</u>	<u>71,205,682</u>
	Six months to 2 July 2021 £m	Six months to 30 June 2020 £m	Year to 31 December 2020 £m
Underlying profit before tax	56.5	47.9	114.5
Tax rate applied for the purposes of underlying earnings per share	<u>18.0%</u>	<u>19.0%</u>	<u>19.0%</u>

10. Earnings per share (continued)

During the first six months of 2021, no shares have been purchased and cancelled by the company. In 2020, no shares were purchased and cancelled in the first six months. No further shares were purchased and cancelled in the full year. See note 16.

11. Property, plant and equipment

During the period, the Group spent £7.6m on the acquisition of property, plant and equipment. £2.4m of assets, primarily unutilised land, were disposed of.

12. Leased assets

During the period, the Group acquired £2.1m of new right of use assets. The Group did not make any significant disposals during the period.

13. Trade and other receivables

	At 2 July 2021 £m	At 30 June 2020 £m	At 31 December 2020 £m
Non-current:			
Amounts receivable from over time contract customers	14.5	14.1	12.9
	<u>14.5</u>	<u>14.1</u>	<u>12.9</u>

	At 2 July 2021 £m	At 30 June 2020 £m	At 31 December 2020 £m
Current:			
Trade receivables	97.6	92.0	101.5
Provisions against receivables	(1.6)	(1.7)	(1.4)
Net trade receivables	96.0	90.3	100.1
Amounts receivable from over time contract customers	78.8	93.2	66.5
Prepayments and other receivables	25.4	26.7	21.9
	<u>200.2</u>	<u>210.2</u>	<u>188.5</u>

14. Trade and other payables

	At 2 July 2021 £m	At 30 June 2020 £m	At 31 December 2020 £m
Amounts included in current liabilities:			
Trade payables	25.4	49.4	44.4
Amounts due to over time contract customers	104.0	74.0	68.2
Other payables	92.2	102.5	86.7
	<u>221.6</u>	<u>225.9</u>	<u>199.3</u>
Amounts included in non-current liabilities:			
Amounts due to over time contract customers	5.4	7.1	8.2
Other payables	4.7	4.7	3.8
	<u>10.1</u>	<u>11.8</u>	<u>12.0</u>

15. Provisions

	Warranties £m	Contract related provisions £m	Other £m	Total £m
At 30 June 2020*	4.9	9.1	8.2	22.2
At 31 December 2020	7.5	9.9	7.2	24.6
At 2 July 2021	6.3	4.9	9.6	20.8
Included in current liabilities	6.0	4.0	8.0	18.0
Included in non-current liabilities	0.3	0.9	1.6	2.8
	6.3	4.9	9.6	20.8

*The 30 June 2020 provisions have been re-analysed and £2.5m reclassified from contract related to other.

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. Share capital

112,158 shares, with a nominal value of £5,608 have been allotted in the first six months of 2021 under the terms of the Group's various share option schemes. The aggregate consideration received by the Company was £938,000.

During the first six months of 2021 no shares have been purchased and cancelled by the Company.

17. Cash flow information

	Six months to 2 July 2021 £m	Six months to 30 June 2020 £m	Year to 31 December 2020 £m
Operating profit	54.6	45.3	106.3
Adjustments for:			
Depreciation of property, plant and equipment	5.3	5.0	10.4
Amortisation of intangible assets	7.8	9.2	18.6
Amortisation of leased assets	4.0	4.1	8.5
Cost of equity-settled employee share schemes	2.7	0.7	2.5
Adjustment for pension funding	(5.7)	(5.6)	(11.0)
Loss on disposal of property, plant and equipment	0.3	-	0.1
(Decrease)/increase in provisions	(3.8)	(3.8)	0.2
Operating cash flow before movements in working capital	65.2	54.9	135.6
Increase in inventories	(4.0)	(14.8)	(13.8)
(Increase)/decrease in receivables	(12.6)	5.4	19.3
Increase/(decrease) in payables	25.8	20.3	1.5
Cash generated by operations	74.4	65.8	142.6
Income taxes paid	(4.7)	(0.2)	(5.4)
Interest paid	(3.7)	(3.5)	(5.5)
Finance lease interest paid	(0.7)	(0.8)	(1.7)
Net cash inflow from operating activities	65.3	61.3	130.0

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

	Six months to 2 July 2021 £m	Six months to 30 June 2020 £m	Year to 31 December 2020 £m
Net increase in cash and cash equivalents	31.8	7.8	3.1
Cash (outflow)/inflow from movement in debt and finance leasing	(10.2)	43.5	65.1
Change in net debt arising from cash flows	21.6	51.3	68.2
Lease liability movement	2.0	(2.5)	3.5
Other non-cash movements	(2.0)	-	(2.7)
Amortisation of finance costs of debt	(0.3)	(0.3)	(0.6)
Reclassified to held for sale	0.2	-	-
Translation differences	(0.4)	(1.1)	0.6
Movement in net debt in the period	21.1	47.4	69.0
Net debt at start of period	(85.8)	(154.8)	(154.8)
Net debt at end of period	(64.7)	(107.4)	(85.8)

17. Cash flow information (continued)

Net cash and cash equivalents and overdrafts comprised the following:	At 2 July 2021 £m	At 30 June 2020 £m	At 31 December 2020 £m
Cash and cash equivalents*	120.6	141.0	114.4
Overdrafts*	(5.3)	(47.9)	(30.3)
	<u>115.3</u>	<u>93.1</u>	<u>84.1</u>

Net debt comprised the following:	At 2 July 2021 £m	At 30 June 2020 Restated £m	At 31 December 2020 £m
Cash and cash equivalents*	120.6	141.0	114.4
Borrowings*	(185.3)	(248.4)	(200.2)
	<u>(64.7)</u>	<u>(107.4)</u>	<u>(85.8)</u>

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

Reconciliation of changes in financing liabilities:

	At 2 July 2021 £m	At 30 June 2020 Restated £m	At 31 December 2020 £m
Borrowings at start of period*	(200.2)	(265.3)	(265.3)
Repayments of borrowings	25.4	64.5	76.3
Proceeds from borrowings	(35.6)	(21.0)	(11.1)
Decrease/(increase) in overdraft	25.0	(19.6)	(2.0)
Other non-cash movements	(2.0)	-	(2.7)
Amortisation of finance costs of debt	(0.3)	(0.3)	(0.6)
Principal payment on leases	4.4	5.4	9.0
Lease liability movement	(2.4)	(7.9)	(5.5)
Reclassified to held for sale	0.2	-	-
Translation differences	0.2	(4.2)	1.8
Borrowings at end of period*	(185.3)	(248.4)	(200.2)

* June 2020 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.

18. Disposals and assets classified as held for sale

In June 2021 certain non-core assets from our contract electronics manufacturing business in the Critical Detection & Control SBU were disposed of. Consideration received in the period totalled US\$1m (£0.7m); the net assets disposed of, primarily comprising inventory, totalled £1.2m. The loss on disposal recognised in the income statement was £0.5m.

As at 2 July 2021, certain other non-core assets and liabilities from the Critical Detection & Control SBU have been classified as held for sale as they are planned to be disposed of in the following 12 months. In accordance with IFRS 5 the assets were written down to their recoverable amount resulting in a loss of £1.9m recognised in the income statement. The assets and liabilities classified as held for sale are as follows:

	At 2 July 2021 £m
Property, plant and equipment	1.8
Inventories	1.7
Trade and other receivables	1.1
Total assets classified as held for sale	4.6
Trade and other payables	(1.7)
Retirement obligation	(2.4)
Total liabilities classified as held for sale	(4.1)
Net assets classified as held for sale	0.5

19. Retirement benefit schemes

The UK defined benefit scheme was actuarially assessed as at 2 July 2021 using the projected unit method. The UK scheme deficit reduced by £30.3m since 31 December 2020 to £39.6m as a result of the increase in discount rate, partially offset by an increase in the inflation assumption. The Swiss scheme has been reclassified to liabilities classified as held for sale. The Canadian scheme, which is not material to the Group, has not been re-assessed since the 31 December 2020 valuation.

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

	At 2 July 2021 £m	At 31 December 2020 £m
Fair value of scheme assets	361.8	369.5
Present value of scheme liabilities	(402.1)	(442.6)
Retirement benefit obligations	(40.3)	(73.1)
Related deferred tax asset	9.2	14.0
Net pension liability	(31.1)	(59.1)

19. Retirement benefit schemes (continued)

The main assumptions used in the UK actuarial assessment were as follows:

	At 2 July 2021	At 31 December 2020
Discount rate	1.95%	1.45%
Inflation (RPI)	3.25%	2.95%
Inflation (CPI)	2.65%	2.35%
Future pension increases (pre 6/4/08)	3.05%	2.85%
Future pension increases (post 6/4/08)	2.10%	1.95%

Please refer to the 30 December 2020 annual report and accounts for further information relating to the Group's pension schemes.

20. Financial instruments

Exposure to currency and interest rate risks arises in the normal course of the Group's business. Derivative financial instruments are used to hedge exposure to all significant fluctuations in foreign exchange rates and interest rates.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted (unadjusted) active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All of Ultra's financial instruments have been assessed as Level 2 or Level 3 and comprise foreign exchange forward contracts and interest rate swaps as Level 2 and the Strategic Aerospace and Defence Initiative ("SADI") loan as Level 3. For further information refer to notes 22 and 23 of our 2020 Annual Report.

During the period, a mark to market loss on forward foreign exchange contracts of £2.2m (2020 H1 loss: £10.0m) was incurred.

Fair value measurements as at 2 July 2021 are set out in the table below. These forward exchange contracts have been fair valued using forward exchange rates that are quoted in an active market.

20. Financial instruments (continued)

	At 2 July 2021 £m	At 30 June 2020 £m	At 31 December 2020 £m
Financial assets:			
Foreign exchange derivative financial instruments (through profit and loss, level 2)	6.1	0.4	7.9
Total	<u>6.1</u>	<u>0.4</u>	<u>7.9</u>
Financial liabilities:			
Foreign exchange derivative financial instruments (through profit and loss, level 2)	0.7	6.2	0.3
SADI loan (level 3)	14.8	8.7	12.2
Total	<u>15.5</u>	<u>14.9</u>	<u>12.5</u>

21. Going concern

The liquidity of the Group is strong, with significant cash balances plus our committed £300m Revolving Credit Facility ("RCF"), of which £270m is undrawn. The majority of the facility is committed to November 2024. The Group also holds long-term committed Private Placement debt of £50m and \$70m, as well as other smaller uncommitted short-term overdraft facilities. Net debt to EBITDA (on a covenant basis when excluding pension liabilities and lease liabilities) is x0.19, well below the maximum permitted of x3.00.

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

The Board has made appropriate enquiries to support this view, looking forward for a period of at least twelve months. Salient points taken into consideration were:

- the risks as discussed in detail in the Risks and Uncertainties section, including consideration of Covid-19.
- the reverse stress tests and sensitivity analysis applied to the forecasts;
- the nature and impact of mitigating actions that could be taken to conserve cash;
- the adequacy of Ultra's existing committed financing facilities, and availability of alternative sources of funding if necessary;
- the forecast financial covenant headroom over the assessment period;
- the impact to the Group of paying dividends;
- the Group's long-term record of delivering profits and generating cash;
- Ultra's positions in growth sectors of its markets; and
- the long-term nature of Ultra's markets, the Group's customer base and long-term contracts.

22. Contingent liabilities

As noted in note 33 of our 2020 Annual Report, 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.

23. Other matters

Seasonality

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

Related party transactions

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

24. Other metrics and definitions

EBITA is underlying operating profit.

EBITDA is the underlying operating profit for the preceding 12 months, 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 leases 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 4.

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.

24. Other metrics and definitions (continued)

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

Order cover is the ratio of H1 revenue plus the 2 July 2021 closing order book, due for execution in 2021, vs consensus revenue for 2021. All at constant currencies.

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

Organic performance measures: the SBU management teams, the Executive Team and the Board review and compare current and prior period divisional and group order book, revenue and underlying operating profit at constant exchange rates and adjusted for any acquisitions or disposals to reflect the comparable period of ownership from the organic performance measures. The constant exchange comparison retranslates the prior period results from the prior period's average exchange rates into the current period's average exchange rates.