Ultra Electronics Holdings PLC - ULE Final Results
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Ultra Electronics Holdings plc
("Ultra" or "the Group")
Preliminary Results for the Year Ended 31 December 2016

FINANCIAL HIGHLIGHTS

	Year ended 31 Dec 2016	Year ended 31 Dec 2015	**Change**
Revenue	**£785.8m**	£726.3m	**+8.2%**
Underlying operating profit*(1)	**£131.1m**	£120.0m	**+9.3%**
Underlying profit before tax*(2)	**£120.1m**	£112.4m	**+6.9%**
IFRS profit before tax	**£67.6m**	£34.8m	**+94.3%**
Underlying earnings per share(2)	**134.6p**	123.9p	**+8.6%**
Dividend per share - final	**33.6p**	32.3p	**+4.0%**
- total	**47.8p**	46.1p	**+3.7%**

- Full year in line with expectations
- 92% Cash conversion - highest since 2011
- Net debt/EBITDA reduced to 1.76x
- Net debt at £256.7m - significantly improved compared to the prior year
- Operating margin increased to 16.7%
- Order intake increased by 22.0%, with organic order intake up 10.4%

Rakesh Sharma, Chief Executive, commented:

"2016 was a better year for Ultra. Our focus on the execution and delivery of the goals we had set for ourselves has resulted in a positive momentum, enabling us to report good progress against our KPIs. Strong performances in cash generation and order intake demonstrate the underlying robustness of the business. Delays to the award of a small number of expected export contracts affected short-term organic revenue. Organic profit growth reflects our disciplined approach to cost control.

Market analysis suggests a return to growth in the global defence sector, fuelled by expected higher defence spending under the new US Administration and increasing global tensions. However, the current six-month Continuing Resolution to US Federal funding will mean that some contract awards will move into the second half of 2017. Our commercial aerospace sector will benefit from increased revenues as it transitions into the production phase on a number of contracts during the year. We are committed to expanding our selected export markets through considered partnerships, although the timing of revenue will continue to be hard to forecast. The Group will remain focused on delivering cost efficiencies within its businesses. This, together with the S3 initiative, will ensure the Group is lean and ready to exploit the opportunities within its markets. The Board remains confident that further progress can be made in 2017."

(1) before Oman contract termination and liquidation related costs, the S3 programme, amortisation of intangibles arising on acquisitions, impairment charges and adjustments to contingent consideration net of acquisition and disposal related costs. IFRS operating profit was £89.7m (2015: £66.4m). See Note 2 for reconciliation.

(2) before Oman contract termination and liquidation related costs, the S3 programme, amortisation of intangibles arising on acquisitions, impairment charges, fair value movements on derivatives, unwinding of discount on provisions, defined benefit pension curtailment gain and interest charges and adjustments to contingent consideration net of acquisition and disposal related costs and, in the case of underlying earnings per share, before related taxation. Basic EPS 82.8p (2015: 35.7p). See Note 9 for reconciliation.

* see notes on page 2

FINANCIAL RESULTS

	Year ended 31 December 2016 £m	Year ended 31 December 2015 £m	Growth
Order book			
- Aerospace & Infrastructure	**267.8**	265.4	+0.9%
- Communications & Security	**227.0**	213.7	+6.2%
- Maritime & Land	**304.5**	274.7	+10.8%
Total order book	**799.3**	753.8	+6.0%
Revenue			
- Aerospace & Infrastructure	**204.7**	193.2	+6.0%
- Communications & Security	**259.0**	239.3	+8.2%
- Maritime & Land	**322.1**	293.8	+9.6%
Total revenue	**785.8**	726.3	+8.2%
Organic underlying revenue movement			-4.1%
Underlying operating profit*			
- Aerospace & Infrastructure	**32.4**	28.7	+12.9%
- Communications & Security	**39.7**	40.4	-1.7%
- Maritime & Land	**59.0**	50.9	+15.9%
Total underlying operating profit*	**131.1**	120.0	+9.3%
Organic underlying operating profit movement			+0.2%
Underlying operating margin*			
- Aerospace & Infrastructure	**15.8%**	14.9%	
- Communications & Security	**15.3%**	16.9%	
- Maritime & Land	**18.3%**	17.3%	
Total underlying operating margin*	**16.7%**	16.5%	-
Finance charges*	**(11.0)**	(7.6)	
Underlying profit before tax	**120.1**	112.4	+6.9%
Underlying operating cash flow*	**120.4**	81.3	+48.1%
Operating cash conversion*	**92%**	68%	
Net debt/EBITDA	**1.8x**	2.2x	
Net debt* at year-end	**256.7**	295.6	
Bank interest cover*	**11.9x**	15.9x	
Underlying earnings per share	**134.6p**	123.9p	+8.6%

**** see notes below***

underlying operating profit *before Oman contract termination and liquidation related costs, the S3 programme, amortisation of intangibles arising on acquisition, impairment charges and adjustments to contingent consideration net of acquisition and disposal related costs. IFRS operating profit was £89.7m (2015: £66.4m). See Note 2 for reconciliation.*
organic growth *(of revenue or profit) is the annual rate of increase in revenue or profit that was achieved, assuming that acquisitions made during the prior year were only included for the same proportion of the current year at constant currencies.*
underlying operating margin *is the underlying operating profit as a percentage of revenue.*
finance charges *exclude fair value movements on derivatives, defined benefit pension interest charges and discount on provisions.*
underlying profit before tax *before Oman contract termination and liquidation related costs, the S3 programme, amortisation of intangibles arising on acquisition, impairment charges, fair value movements on derivatives, unwinding of discount on provisions, defined benefit pension*

curtailment gain and interest charges and adjustments to contingent consideration net of acquisition and disposal related costs. Basic EPS 82.8p (2015: 35.7p). See Note 9 for reconciliation.
***underlying tax** is the tax charge on underlying profit before tax. The underlying tax rate is underlying tax expressed as a percentage of underlying profit before tax.*
***underlying operating cash flow** is cash generated by operations and dividends from associates, less net capital expenditure, R&D, LTIP share purchases and excluding cash outflows from the S3 programme, acquisition and disposal related payments and the Oman performance bond.*
***EBITDA** is the underlying operating profit before depreciation charges and before amortisation arising on internally generated intangible assets and on other, non-acquired, intangible assets. The figure is adjusted to remove the EBITDA generated by businesses up to the date of their disposal in the period.*
***net debt** comprises borrowings, less cash and cash equivalents.*
***bank interest cover** is the ratio of underlying operating profit to finance costs associated with borrowings.*
***underlying order intake** includes orders from acquisitions since acquisition date.*
***underlying order book growth** excludes the impact of foreign exchange and the order book arising on acquisition.*

Order intake for the year was £778.3m, a 22% increase over £638.1m achieved in 2015. After adjusting for foreign exchange, acquisitions and disposals, the underlying increase was 10.4%. At the end of 2016 the order book was 6.0% higher at £799.3m (2015: £753.8m). Foreign exchange contributed 7.3% to this increase whilst order book from prior year acquisitions reduced by 1.7%. The value of the underlying order book was unchanged. Order cover for 2017 is at its customary levels.

Revenues of £785.8m represented an increase of 8.2%, or £59.5m, on the prior year (2015: £726.3m). Prior year acquisitions contributed 5.8% to the increase, offset by an organic decline of 4.1% arising from delayed export opportunities, including the India torpedo defence contract and the completion of the End Cryptographic Unit Replacement Programme (ECU RP). The weakening of Sterling during the year meant there was a positive impact of 7.5% from the translation of overseas revenues. The average US dollar rate in 2016 was $1.35 compared to $1.53 in 2015. The disposal of the ID business in August 2016 resulted in a year on year revenue reduction of 1.0% as it was only included within the Group results for 8 months.

Underlying operating profit* was £131.1m (2015: £120.0m), an increase of 9.3%. Acquisition growth contributed 4.4% and foreign exchange 6.2%, whilst the disposal of the ID business in August resulted in a profit reduction of 1.5% relative to a full year's contribution from that business in 2015. Organic growth was therefore positive at 0.2%. A number of factors contributed to the increased underlying operating margin of 16.7% (2015: 16.5%), notably the continued focus by the Group's businesses on restructuring their cost bases and the strong margin performance in the Maritime & Land division.

The integration of Herley is ahead of schedule with $2.3m of the cost synergies already realised in 2016, $1.5m ahead of the $0.8m planned for 2016 in the acquisition case.

The Group's S3 programme is on track with the UK Global Business Service (GBS) centre now open. A number of the activities of the Group's UK businesses, including indirect sourcing, have started to be transferred across to the GBS centre. The location of the second GBS centre will be in the US co-located with the Group's Flightline business in Rochester, New York.

Underlying profit before tax* was £120.1m (2015: £112.4m), after net financing charges* of £11.0m (2015: £7.6m). The latter reflects a full year of interest charges on the Herley related debt.

The Group's underlying tax rate* in the year improved to 21.1% (2015: 22.8%) owing to the full year tax benefit from the acquisition of Herley and patent box claims. Underlying earnings per share increased as a result to 134.6p (2015: 123.9p).

Reported (IFRS) profit before tax was £67.6m (2015: £34.8m) and reflected the combined effects of the elements detailed below:

All £m	**2016**	2015
Underlying profit before tax	**120.1**	112.4
Amortisation of intangibles arising on acquisition	**(32.7)**	(30.8)
Net interest charge on defined benefit pensions	**(3.0)**	(3.0)
Loss on fair value movements on derivatives	**(19.1)**	(4.0)
Unwinding of discount on provisions	**(0.4)**	(0.6)
Acquisition and disposal related costs & adjustments	**(2.2)**	(9.4)
Disposal loss (after intangible and goodwill eliminations)	**(4.1)**	-
Deemed disposal of Ithra	**-**	(16.5)
S3 programme	**(6.5)**	(4.9)
Pension scheme curtailment gain	**15.5**	-
Impairment charges	**-**	(8.4)
Reported IFRS profit before tax	**67.6**	34.8

* see notes on page 2

The Group's UK Defined Benefit pension scheme was closed to future accrual on 5 April 2016. This resulted in a one-off curtailment gain of £15.5m, which was recognised during the year.

The loss on the mark-to-market valuation of our forward foreign exchange contracts and interest rate swaps was £19.1m in 2016 (2015: £4.0m loss). This was primarily caused by the significant weakening of sterling against the US dollar.

The cost of the S3 programme totalled £6.5m (2015: £4.9m), and includes property lease write-offs and associated costs relating to facility consolidations. Other costs included are business consolidation costs, project management costs, set up costs of the UK GBS centre as well as costs incurred on the initial phases of developing an ERP implementation plan.

The £4.1m disposal loss represents the legal intercept assets disposed of in December 2016, offset by the gain on the divestment of the ID business.

The Group's balance sheet strengthened with the net debt/EBITDA ratio improving to 1.76x (2015: 2.19x) and net interest payable on borrowings covered around 12x by underlying operating profit.

Underlying operating cash flow* was £120.4m (2015: £81.3m) and the ratio of cash to underlying operating profit increased significantly to 92% (2015: 68%). This represents the highest cash inflow and cash conversion percentage achieved since 2011.

The divestment of the ID business generated £22m, whilst earn out payments relating to previous acquisitions were £5.8m. A non-underlying operating cash outflow of £8.2m, relating to a one-off calling of the performance bond associated with Oman Airport IT contract, was incurred in 2016.

Ultra's net debt* at the end of the year improved to £256.7m compared to £295.6m at the end of 2015.

The proposed final dividend is 33.6p, bringing the total dividend for the year to 47.8p (2015: 46.1p). This represents an annual increase of 3.7%, with the dividend being covered 2.8x (2015: 2.7x) by underlying earnings per share. If approved, the dividend will be paid on 4 May 2017 to shareholders on the register at 7 April 2017.

INVESTING FOR GROWTH

Ultra continued its programme of investment to position for medium to long-term growth, with total spending in 2016 of £39.9m (2015: £215.1m), comprising £5.8m (2015: £179.1m) on acquisitions and £34.1m (2015: £36.0m) on new capabilities; the latter representing 4.3% of Group turnover in 2016. The lower spend in 2016 reflects the end of a period of investment in our aerospace segment and the timing of our investment in the underwater warfare segment. Customer-funding for new product development was £112.8m (2015: £110.6m). We continue to progress a wide-range of long-term growth opportunities across all eight segments.

* see notes on page 2

OPERATIONAL REVIEW

Aerospace & Infrastructure

- Revenue increased by 6.0% to £204.7m (2015: £193.2m)
- Underlying operating profit was up by 12.9% to £32.4m (2015: £28.7m)
- Order book increased by 0.9% to £267.8m (2015: £265.4m)

Aerospace & Infrastructure revenues benefited from growth in license sales of propeller electronic controllers at the Precision Control Systems business, as well as greater demand for nuclear sensor products at Nuclear Control Systems and a full year of revenues from Furnace Parts acquired in 2015. These gains were offset by customer delays to a number of land vehicle programmes and the timing of the JSF programme. The civil aerospace industry is largely denominated in US dollars, so the weakening of sterling provided much of the growth for this division.

The division's margins improved to 15.8% (2015: 14.9%). This was helped by the increased revenues from higher margin sales in the period and an improved operational performance at CEMS arising from site rationalisation in early 2016.

The order book was broadly flat compared to the end of 2015 when adjusting for acquisitions and foreign exchange.

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

- Entering into a partnership with a Chinese company to provide the Nose Wheel Steering System for the MA700. This is the first partnership of its kind in Aerospace for Ultra.

- Secured orders for cockpit, lighting and HiPPAG equipment on the Typhoon aircraft amounting to £12.3m, largely due to the new export order for 28 aircraft for Kuwait.

- Continuing strategic partnership with NuScale to provide a suite of instrumentation in support of their Small Modular Reactor (SMR).

Communications & Security

- Revenue increased by 8.2% to £259.0m (2015: £239.3m)
- Underlying operating profit decreased by 1.7% to £39.7m (2015: £40.4m)
- Order book increased by 6.2% to £227.0m (2015: £213.7m)

Communications & Security's results included a full year of revenues from Herley and a part year for the ID business. The division was impacted by the timing of overseas export orders, which caused revenue declines at GigaSat and the legal intercept business. As the ECU RP programme reached completion, revenue reduced significantly as expected, although this was partially mitigated by the follow-on End Cryptographic Unit Contracts Logistic Support (ECU CLS) contract. TCS, our military radio and Electronic Warfare (EW) business based in Canada, grew in 2016 as a result of its activity on the Electronic Intelligence (ELINT) contract won during the year.

Encouragingly, the division's order book increased on an underlying basis to £227.0m. This was due to a number of contract wins, notably the ECU CLS contract and the TCS ELINT contract.

The divisional margin was 15.3% compared to 16.9% in 2015. A strong performance from Herley, particularly over the last quarter was offset by the ECU RP programme completion and the sale of the ID business.

* see notes on page 2

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

- Securing a £16m programme for the continued support of our world-leading, software defined crypto device (ECU RP) for the UK Ministry of Defence.

- A $34.6m contract awarded by the US DoD to continue providing critical infrastructure protection solutions.

- A substantial contract to supply Ultra Orion radios, through a strategic collaboration with a major systems integrator, for a large military communications programme in the Middle East.

Maritime & Land

- Revenue increased by 9.6% to £322.1m (2015: £293.8m)
- Underlying operating profit increased by 15.9% to £59.0m (2015: £50.9m)
- Order book increased by 10.8% to £304.5m (2015: £274.7m)

The Maritime & Land division achieved growth, driven by an increase in sales of US and international sonobuoys. This reflects the continued global focus on underwater warfare, particularly in the US. Increased sales of sonobuoy receivers at Flightline on the MH-60 programme and data switching products also contributed to this year's growth. This was partially offset by Astute Class Submarine-related programmes coming to an end at our PMES business, and a slight decline in revenues at Ocean Systems relative to a particularly strong 2015. The order book was largely flat at constant currencies.

Within Maritime & Land, margins improved to 18.3% (2015: 17.3%) owing to increased revenues and the production phase of a number of US sonobuoy contracts, although this was partly offset by the completion of some Astute Class Submarine programmes at PMES.

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

- Successful delivery of the first of three Air Warfare Destroyer (AWD) integrated sonar suites (ISS) to the Royal Australian Navy.

- The provision of seamless power and data transfer technology to solve the problems of soldier-to-platform interfacing. This expansion in capability into soldier wearable technology has positioned Ultra to participate in the UK Dismounted Soldier Awareness programme as well as the US Army's Nett Warrior system.

- A strategic memorandum of agreement with Northrop Grumman (NG) Corporation to deliver new Maritime Domain Awareness (MDA) and ASW capabilities for NG's family of autonomous vehicles and systems.

* see notes on page 2

MARKET ENVIRONMENT

Against the backdrop of continuing regional tensions and conflicts, the US Presidential Election has provided a further impetus to the defence sector, with global defence revenue growth forecast to reach 3% in 2017 (Source: Deloitte Aerospace & Defence), reversing a multi-year decline. While the current Continuing Resolution and budget negotiations will delay spending into the second half of 2017, there are now strong indications of an increase in the US defence budget in excess of current budgetary controls. Elsewhere, regional competition and pressures to contribute more fully to collective defence are leading to increases in planned defence expenditure. In the UK, the decision to exit the European Union (BREXIT) continues to dominate headlines and cause uncertainty in currency markets. With just 7% of Group revenue resulting from export from the UK to Europe, Ultra is largely sheltered from the direct impacts of BREXIT.

Aerospace (17% of 2016 Group revenue, 2015: 17%‡) - While commercial aerospace order intake has peaked, the sector continues to work up to a manufacturing highpoint, with a backlog of ~13,500 aircraft representing more than nine and half years of production. Pressure will now fall on the supply chain to deliver. Underpinning travel demand has been increasing at 4.7% CAGR over the last ten years, with growth now firmly shifted to the Middle East and Asia Pacific. The regional aircraft market remains crowded and orders here will be hard won. Military aircraft continues to be dominated by the F-35 JSF programme, on which the Group enjoys a life of platform agreement. Additionally there are now also emerging opportunities on new regional fighter aircraft.

Infrastructure (4% of 2016 Group revenue, 2015: 4%) - High passenger demand is driving airport investment but passenger processing is becoming increasingly commoditised and passenger self-management more common. Major capital projects in the Middle East, Asia and South America reflect regional competition for hub status. UK national rail investment has now switched from DC to major AC upgrades but opportunities continue on the London Underground and Metro systems.

Nuclear (8% of 2016 Group revenue, 2015: 8%‡) - With an installed base of 437 commercial nuclear reactors in 31 countries and a further 65 reactors under construction, this is a large and highly-regulated market with strong barriers to entry. At the national level the investment required for new nuclear plants is a significant challenge. Available access to foreign investment for major projects and alternative technologies, such as Small Modular Reactors, will shape the future market.

Communications (15% of 2016 Group revenue, 2015: 14%‡) - Military communications is forecast to grow at over 7% CAGR, as programmes reset after the pause following long deployed operations. Growing demand is for small form factor, high throughput systems, with proven interoperability and secure data access that deliver IP enabled integration. Encryption programmes in the US and UK are resetting around software programmable solutions that Ultra understands well, with additional export potential to close allies. Increasingly, security programmes require robust, secure communications networks. Commercial communications sees a growing demand for machine-to-machine solutions to enable new smart initiatives.

C2ISR[1] (21% of 2016 Group revenue, 2015: 22%‡) - Regional tensions and conflicts drive demand for the ability to detect threats at distance and then operate forces within range of anti-access/area denial (AAAD) systems. This provides strong opportunities in ISTAR[2] and electronic warfare equipment. The border security market is projected to grow at 8% CAGR over the next five years, reflecting concerns over regional tensions and porous, open borders. However, this is a highly competitive market.

Increased security demands are also driving demand for protection of fixed critical infrastructures and utilities, including cyber protection.

Underwater Warfare (25% of 2016 Group revenue, 2015: 24%) - Globally there is a trend to upgrade existing conventional submarine forces with modern, quiet and highly capable platforms. This trend, together with a resurgent Russian submarine capability and the high Chinese nuclear submarine build rate, is fuelling an increased demand for advanced Anti-Submarine Warfare (ASW) capabilities, including ship sonars, torpedo defence and countermeasures, integrated wide-area search capabilities and airborne ASW. Consideration of airborne platforms must now include a new generation of maritime patrol aircraft and unmanned air vehicles.

Maritime (7% of 2016 Group revenue, 2015: 7%[‡]) - Strong political commitment to replace current ballistic missile submarine platforms provides Ultra with a solid, multi-year programme on both sides of the Atlantic. More widely, escort ship refurbishment and replacement programmes in Canada, Australia, the UK and a number of other navies, provide upgrade and refurbishment opportunities for a wide variety of ships. Increased underwater risks result in greater interest in platform signature measurement and control.

Land (3% of 2016 Group revenue, 2015: 4%[‡]) - Increased investment in land forces, after a post-engagement pause, is now evident. Upgrade of armoured fighting vehicles (AFVs) still dominates but a number of new build programmes are now being initiated. An emerging demand for integrated soldier-worn power management and worn-device integration systems is providing new opportunities for the Group.

[‡] 2015 allocation has been restated owing to reassessment of Herley revenue
[1] Command & Control, Intelligence, Surveillance & Reconnaissance
[2] Intelligence, Surveillance, Target Acquisition and Reconnaissance

RISKS AND UNCERTAINTIES

A number of potential risks and uncertainties exist which could have a material impact on the Group's performance in 2017 and beyond and which could cause actual results to differ materially from expected and historical levels. During the year the Board has reviewed its approach to risk management resulting in the principal risks listed below. An explanation of these risks, and the robust business strategies that Ultra uses to manage and mitigate risks and uncertainties, can be found in the annual report which is available for download at www.ultra-electronics.com/investors/annual-reports.aspx.

Key risks identified by the Board include:

- Managing organic and acquisitive growth
- Delivering major change programmes
- Attracting, developing and retaining the right people and preserving Ultra's culture
- Protection of intellectual property and information security
- Effectiveness of supply chain
- Legislation and regulation compliance
- Maintaining governance and internal control
- Health, safety and the environment
- Pension management

There are strong indications of a return to growth in the defence market. This change has contributed to a reduction in the overall rating of the 'Growth' risk despite continuing challenges in export markets. Programme delays or cancellations continue to present a risk to Ultra.

As part of Ultra's continuous drive for operational improvements there are a number of major change management programmes being implemented across the Group. The scale and complexity of these programmes has resulted in an increase in the rating of the 'Delivering Change' risk aligned to the change programmes not realising the expected benefits.

Movements in foreign currency exchange rates result in both transaction and translation effects on the Group's results. Ultra's projected net transaction exposure is mitigated by the use of forward hedging contracts. By their nature, currency translation risks cannot be mitigated.

Risks are identified, collated, assessed and managed at the most appropriate level of the business (Board, Executive or Business level). Risks are reviewed regularly to ensure judgements and assumptions are unchanged, that appropriate mitigations are in place and that emerging risks are captured.

‡ 2015 allocation has been restated owing to reassessment of Herley revenue

CONFIRMATION OF GOING CONCERN

The Directors have considered the guidance issued by the Financial Reporting Council and hereby confirm that the Group continues to adopt the 'going concern' basis in preparing its accounts.

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

- the Group's long record of delivering high quality profits
- the adequacy of Ultra's financing facilities
- Ultra's positions in growth sectors of its markets
- the long-term nature of Ultra's markets and contracts
- the risks as discussed above

The Directors' long-term viability statement is included in the annual report and accounts.

PERFORMANCE & PROSPECTS

2016 was a better year for Ultra. Our focus on the execution and delivery of the goals we had set for ourselves has resulted in a positive momentum, enabling us to report good progress against our KPIs. Strong performances in cash generation and order intake demonstrate the underlying robustness of the business. Delays to the award of a small number of expected export contracts affected short-term organic revenue. Organic profit growth reflects our disciplined approach to cost control.

Market analysis suggests a return to growth in the global defence sector, fuelled by expected higher defence spending under the new US Administration and increasing global tensions. However, the current six-month Continuing Resolution to US Federal funding will mean that some contract awards will move into the second half of 2017. Our commercial aerospace sector will benefit from increased revenues as it transitions into the production phase on a number of contracts during the year. We are committed to expanding our selected export markets through considered partnerships, although the timing of revenue will continue to be hard to forecast. The Group will remain focused on delivering cost efficiencies within its businesses. This, together with the S3 initiative, will ensure the Group is lean and ready to exploit the opportunities within its markets. The Board remains confident that further progress can be made in 2017.

- End -

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NATURE OF ANNOUNCEMENT

This preliminary announcement of Ultra's audited results for the year ended 31 December 2016 does not serve as the dissemination announcement as required by Rule 6.3 of the Disclosure and

Transparency Rules ('DTR'). A separate dissemination announcement will be made when the annual financial report is made public in accordance with DTR requirements.

This preliminary announcement has been prepared solely to provide additional information to enable shareholders to assess Ultra's strategies and the potential for those strategies to be fulfilled. It should not be relied upon by any other party or for any other purpose. This preliminary announcement contains certain forward-looking statements. Such statements are made by the directors in good faith based on the information available to them at the time of their approval of this report, and they should be treated with caution due to the inherent uncertainties underlying such forward-looking information. This preliminary announcement has been prepared for the Group as a whole and therefore gives greatest emphasis to those matters which are significant to Ultra when viewed as a complete entity.

Further information about Ultra:

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

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

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

Across the Group's three divisions, Ultra operates in the following eight market segments:

- *Aerospace*
- *Communications*
- *C2ISR*
- *Infrastructure*
- *Land*
- *Maritime*
- *Nuclear*
- *Underwater Warfare*

Consolidated Income Statement

	Note	**2016** **£'000**	2015 £'000
Revenue	1	**785,764**	726,286
Cost of sales		**(536,561)**	(499,510)
Gross profit		**249,203**	226,776
Other operating income		**1,770**	2,198
Distribution costs		**(1,081)**	(1,604)
Administrative expenses		**(144,893)**	(143,007)
Share of loss from associate		**-**	(581)
Other operating expenses		**(8,777)**	(2,931)
Contingent consideration charge		**-**	(1,101)
Impairment charges	2	**-**	(8,462)
S3 programme		**(6,497)**	(4,863)
Operating profit		**89,725**	66,425
Loss on disposals (net)	3	**(4,076)**	-

Deemed disposal of Ithra	4	**-**	(16,447)
Retirement benefit scheme curtailment gain	15	**15,500**	-
Investment revenue	5	**197**	190
Finance costs	6	**(33,725)**	(15,407)
Profit before tax	1	**67,621**	34,761
Tax	7	**(9,363)**	(9,772)
Profit for the year		**58,258**	24,989
Attributable to:			
Owners of the Company		**58,260**	24,989
Non-controlling interests		**(2)**	-
Earnings per ordinary share (pence)			
- basic	9	**82.8**	35.7
- diluted	9	**82.8**	35.6

All results are derived from continuing operations.

Consolidated Statement of Comprehensive Income

	2016	2015
	£'000	£'000
Profit for the year	**58,258**	24,989
Items that will not be reclassified to profit or loss:		
Actuarial loss on defined benefit pension schemes	**(49,343)**	(2,530)
Tax relating to items that will not be reclassified	**9,973**	478
Total items that will not be reclassified to profit or loss	**(39,370)**	(2,052)
Items that may be reclassified to profit or loss:		
Exchange differences on translation of foreign operations	**99,349**	11,995
Reclassification of exchange differences on disposals	**(1,895)**	2,696
Loss on loans used in net investment hedges	**(43,078)**	(12,578)
Tax relating to items that may be reclassified	**43**	12
Total Items that may be reclassified to profit or loss	**54,419**	2,125
Other comprehensive income for the year	**15,049**	73
Total comprehensive income for the year	**73,307**	25,062
Attributable to:		
Owners of the Company	**73,309**	25,190
Non-controlling interests	**(2)**	(128)

Consolidated Balance Sheet

	Note	2016 £'000	2015 £'000
Non-current assets			
Goodwill	10	**415,593**	375,885
Other intangible assets		**173,637**	193,123
Property, plant and equipment		**66,195**	68,183
Deferred tax assets		**21,377**	5,935
Derivative financial instruments		**3**	426
Trade and other receivables	12	**16,352**	15,239
		693,157	658,791
Current assets			
Inventories	11	**78,177**	81,816
Trade and other receivables	12	**215,731**	197,387
Tax assets		**9,444**	9,169
Cash and cash equivalents		**74,625**	45,474
Derivative financial instruments		**251**	921
Assets classified as held for sale		**-**	8,795
		378,228	343,562
Total assets		**1,071,385**	1,002,353
Current liabilities			
Trade and other payables	13	**(193,243)**	(199,942)
Tax liabilities		**(7,339)**	(7,149)
Derivative financial instruments		**(12,507)**	(3,530)
Liabilities classified as held for sale		**-**	(3,011)
Short-term provisions	14	**(16,633)**	(24,363)
		(229,722)	(237,995)
Non-current liabilities			
Retirement benefit obligations	15	**(113,177)**	(84,819)
Other payables	13	**(9,972)**	(6,996)
Deferred tax liabilities		**(6,555)**	(7,168)
Derivative financial instruments		**(11,594)**	(2,561)
Borrowings		**(331,325)**	(341,046)
Long-term provisions	14	**(5,469)**	(4,925)
		(478,092)	(447,515)
Total liabilities		**(707,814)**	(685,510)
Net assets		**363,571**	316,843
Equity			
Share capital		**3,523**	3,514
Share premium account		**64,020**	61,052
Own shares		**(2,581)**	(2,581)
Hedging reserve		**(68,986)**	(25,908)
Translation reserve		**139,492**	42,038
Retained earnings		**228,034**	238,728
Equity attributable to owners of the Company		**363,502**	316,843
Non-controlling interest		**69**	-
Total equity		**363,571**	316,843

Consolidated Cash Flow Statement

	Note	2016	2015

		£'000	£'000
Net cash flow from operating activities	16	**92,834**	47,778
Investing activities			
Interest received		**197**	190
Dividends received from equity accounted investments		**-**	5,343
Purchase of property, plant and equipment		**(4,645)**	(4,597)
Proceeds from disposal of property, plant and equipment		**293**	1,466
Expenditure on product development and other intangibles		**(2,728)**	(1,761)
Disposal of subsidiary undertakings		**22,040**	-
Acquisition of subsidiary undertakings		**(5,199)**	(172,539)
Net cash acquired with subsidiary undertakings		**-**	724
Net cash from/(used in) investing activities		**9,958**	(171,174)
Financing activities			
Issue of share capital		**2,976**	4,937
Dividends paid		**(32,583)**	(31,332)
Loan syndication costs		**-**	(1,347)
Repayments of borrowings		**(114,419)**	(160,532)
Proceeds from borrowings		**60,000**	317,586
Minority investment		**2,000**	-
Net cash (used in)/from financing activities		**(82,026)**	129,312
Net increase in cash and cash equivalents		**20,766**	5,916
Cash and cash equivalents at beginning of year		**45,474**	41,259
Effect of foreign exchange rate changes		**8,385**	(1,701)
Cash and cash equivalents at end of year		**74,625**	45,474

Consolidated Statement of Changes in Equity

	Equity attributable to equity holders of the parent							
	Share capital £'000	**Share premium account £'000**	**Reserve for own shares £'000**	**Hedging reserve £'000**	**Translation reserve £'000**	**Retained earnings £'000**	**Non controlling interest £'000**	**Total equity £'000**
Balance at 1 January 2015	**3,498**	**56,131**	**(2,581)**	**(13,330)**	**27,219**	**246,132**	**(13,623)**	**303,446**
Profit for the year	-	-	-	-	-	24,989	-	24,989
Other comprehensive income for the year	-	-	-	(12,578)	14,819	(2,040)	(128)	73
Total comprehensive income for the year	**-**	**-**	**-**	**(12,578)**	**14,819**	**22,949**	**(128)**	**25,062**
Deemed disposal of Ithra	-	-	-	-	-	-	13,751	13,751
Equity-settled employee share	16	4,921	-	-	-	967	-	5,904

schemes								
Dividend to shareholders	-	-	-	-	-	(31,332)	-	(31,332)
Tax on share-based payment transactions	-	-	-	-	-	12	-	12
Balance at 31 December 2015	**3,514**	**61,052**	**(2,581)**	**(25,908)**	**42,038**	**238,728**	**-**	**316,843**
Balance at 1 January 2016	**3,514**	**61,052**	**(2,581)**	**(25,908)**	**42,038**	**238,728**	**-**	**316,843**
Profit for the year	-	-	-	-	-	58,260	(2)	58,258
Other comprehensive income for the year	-	-	-	(43,078)	97,454	(39,327)	-	15,049
Total comprehensive income for the year	**-**	**-**	**-**	**(43,078)**	**97,454**	**18,933**	**(2)**	**73,307**
Non-controlling interest's investment made in subsidiary	-	-	-	-	-	1,929	71	2,000
Equity-settled employee share schemes	9	2,968	-	-	-	984	-	3,961
Dividend to shareholders	-	-	-	-	-	(32,583)	-	(32,583)
Tax on share-based payment transactions	-	-	-	-	-	43	-	43
Balance at 31 December 2016	**3,523**	**64,020**	**(2,581)**	**(68,986)**	**139,492**	**228,034**	**69**	**363,571**

Notes

1. Segment information

(a) Revenue by segment

	2016			2015		
	External revenue £'000	**Inter segment £'000**	**Total £'000**	External revenue £'000	Inter segment £'000	Total £'000
Aerospace & Infrastructure	**204,685**	**8,114**	**212,799**	193,224	8,880	202,104
Communications & Security	**258,975**	**2,807**	**261,782**	239,261	5,692	244,953
Maritime & Land	**322,104**	**21,869**	**343,973**	293,801	21,351	315,152
Eliminations	**-**	**(32,790)**	**(32,790)**	-	(35,923)	(35,923)
Consolidated revenue	**785,764**	**-**	**785,764**	726,286	-	726,286

(b) Profit by segment

2016

	Aerospace & Infrastructure £'000	Communications & Security £'000	Maritime & Land £'000	Total £'000
Underlying operating profit	**32,378**	**39,703**	**59,053**	**131,134**
Amortisation of intangibles arising on acquisition	**(1,604)**	**(26,964)**	**(4,087)**	**(32,655)**
Adjustments to contingent consideration net of acquisition and disposal related costs	**(337)**	**(1,457)**	**(463)**	**(2,257)**
S3 programme	**(2,594)**	**(2,406)**	**(1,497)**	**(6,497)**
Operating profit	**27,843**	**8,876**	**53,006**	**89,725**
Loss on disposals (net)				**(4,076)**
Retirement benefit scheme curtailment gain				**15,500**
Investment revenue				**197**
Finance costs				**(33,725)**
Profit before tax				**67,621**
Tax				**(9,363)**
Profit after tax				**58,258**

The S3 programme is the Group's Standardisation & Shared Service Programme.

2015

	Aerospace & Infrastructure £'000	Communications & Security £'000	Maritime & Land £'000	Total £'000
Underlying operating profit	28,641	40,424	50,907	119,972
Amortisation of intangibles arising on acquisition	(3,129)	(22,130)	(5,547)	(30,806)
Adjustments to contingent consideration net of acquisition costs	(91)	(9,306)	(19)	(9,416)
S3 programme	(460)	(3,895)	(508)	(4,863)
Impairment charges	(2,693)	(5,769)	-	(8,462)
Operating profit/(loss)	22,268	(676)	44,833	66,425
Deemed disposal of Ithra				(16,447)
Investment revenue				190
Finance costs				(15,407)
Profit before tax				34,761
Tax				(9,772)
Profit after tax				24,989

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

	Capital expenditure and additions to intangibles (excluding goodwill and acquired intangibles)		Depreciation and amortisation	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Aerospace & Infrastructure	**1,647**	2,498	**5,894**	7,074
Communications & Security	**3,460**	1,915	**34,127**	27,815
Maritime & Land	**2,266**	1,945	**9,512**	10,697
Total	**7,373**	6,358	**49,533**	45,586

The 2016 depreciation and amortisation expense includes £38,034,000 of amortisation charges (2015: £34,627,000) and £11,499,000 of property, plant and equipment depreciation charges (2015: £10,959,000).

(d) Total assets by segment

	2016 £'000	2015 £'000
Aerospace & Infrastructure	**233,110**	233,949
Communications & Security	**463,713**	460,980
Maritime & Land	**268,862**	245,499
	965,685	940,428
Unallocated	**105,700**	61,925
Consolidated total assets	**1,071,385**	1,002,353

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

(e) Total liabilities by segment

	2016 £'000	2015 £'000
Aerospace & Infrastructure	**55,751**	79,791
Communications & Security	**71,832**	71,162
Maritime & Land	**104,042**	92,573
	231,625	243,526
Unallocated	**476,189**	441,984
Consolidated total liabilities	**707,814**	685,510

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

(f) Revenue by destination

	2016 £'000	2015 £'000
United Kingdom	**185,135**	211,641
Continental Europe	**82,818**	74,592
Canada	**18,617**	16,690
USA	**391,754**	323,883
Rest of World	**107,440**	99,480
	785,764	726,286

(g) Other information (by geographic location)

	Non-current assets		Total assets		Additions to property, plant & equipment and intangible assets (excluding acquisitions)	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000
United Kingdom	**205,253**	223,076	**344,157**	373,408	**3,213**	4,031
USA	**362,313**	341,943	**478,083**	453,780	**3,356**	1,834
Canada	**96,449**	84,238	**126,995**	105,755	**767**	413
Rest of World	**7,762**	3,173	**16,450**	7,485	**37**	80
	671,777	652,430	**965,685**	940,428	**7,373**	6,358
Unallocated	**21,380**	6,361	**105,700**	61,925	**-**	-
	693,157	658,791	**1,071,385**	1,002,353	**7,373**	6,358

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:

	2016 £'000	2015 £'000
Operating profit	**89,725**	66,425
Amortisation of intangibles arising on acquisition	**32,655**	30,806
Impairment charges	**-**	8,462
Adjustments to contingent consideration net of acquisition and disposal related costs	**2,257**	9,416
S3 programme	**6,497**	4,863
Underlying operating profit	**131,134**	119,972
Profit before tax	**67,621**	34,761
Amortisation of intangibles arising on acquisition	**32,655**	30,806
Impairment charges	**-**	8,462
Adjustments to contingent consideration net of acquisition and disposal related costs	**2,257**	9,416
Unwinding of discount on provisions	**367**	641
Loss on fair value movements of derivatives	**19,103**	3,988
Net interest charge on defined benefit pensions	**2,983**	3,041
Retirement benefit scheme curtailment gain	**(15,500)**	-
S3 programme	**6,497**	4,863
Loss on disposals (net)	**4,076**	-
Deemed disposal of Ithra	**-**	16,447
Underlying profit before tax	**120,059**	112,425
Cash generated by operations	**112,002**	71,339
Purchase of property, plant and equipment	**(4,645)**	(4,597)
Proceeds on disposal of property, plant and equipment	**293**	1,466
Expenditure on product development and other intangibles	**(2,728)**	(1,761)
Dividend from equity accounted investment	**-**	5,343
Ithra performance bond	**8,230**	-
S3 programme	**5,613**	2,233
Acquisition and disposal related payments	**1,669**	7,291
Underlying operating cash flow	**120,434**	81,314

The 2015 impairment charge comprises a £2,693,000 impairment of the loan balance due from the Group's associate Al Shaheen Adventure LLC following disposal of Ultra's 49% shareholding, and a £5,769,000 charge to impair an intangible fixed asset impacted by the repeal of the US Patriot Act.

The above analysis of the Group's operating results, earnings per share and cash flows, is presented to provide readers with additional performance indicators that are prepared on a non-statutory basis. This presentation is regularly reviewed by management to identify items that are unusual and other items relevant to an understanding of the Group's performance and long-term trends with reference to their materiality and nature. This additional information is not uniformly defined by all Companies and may not be comparable with similarly titled measures and disclosures by other organisations. The non-statutory disclosures should not be viewed in isolation or as an alternative to the equivalent statutory measure. Information for separate presentation is considered as follows:

- Contract losses arising in the ordinary course of trading are not separately presented, however losses (and subsequent reversals) are separately disclosed in situations of a material dispute which are expected to lead to arbitration or legal proceedings.
- One-off curtailment gain arising on closure of the defined benefit pension scheme.

2. Additional non-statutory performance measures (continued)

- Material costs or reversals arising from a significant restructuring of the group's operations, such as the S3 programme, are presented separately.
- Disposals of entities or investments in associates or joint ventures, or impairments of related assets are presented separately.
- The amortisation of intangible assets arising on acquisitions and impairment of goodwill or intangible assets are presented separately.
- Other matters arising due to the Group's acquisitions such as adjustments to contingent consideration, payment of retention bonuses, acquisition and disposal costs and fair value adjustments for acquired inventory made in accordance with IFRS 13 are separately disclosed in aggregate.
- Furthermore, IAS 37 requires the Group to discount provisions using a pre-tax discount rate that reflects the current assessment of the time value of money and the risks specific to the liability, this discount unwind is presented separately when the provision relates to acquisition contingent consideration.
- Derivative instruments used to manage the Group's foreign exchange exposures are 'fair valued' in accordance with IAS 39. This creates volatility in the valuation of the outstanding instruments as exchange rates move over time. This has minimal impact on profit over the full term of the instruments, but can cause significant volatility on particular balance sheet dates, consequently the gain or loss is presented separately.
- The defined benefit pension net interest charge arising in accordance with IAS 19 is presented separately.
- The Group is cash-generative and reinvests funds to support the continuing growth of the business. It seeks to use an accurate and appropriate measure of the funds generated internally while sustaining this growth. For this, the Group uses operating cash flow, rather than cash generated by operations, as its preferred indicator of cash generated and available to cover non-operating expenses such as tax and interest payments. Management believes that using cash generated by operations, with the exclusion of net expenditure on property, plant and equipment and outflows for capitalised product development and other intangibles, would result in an under-reporting of the true cash cost of sustaining a growing business.

3. Disposals

The Communications & Security division disposed of its ID business in August 2016 and its remaining legal intercept assets, from the former SOTECH business, in December 2016. Cash proceeds of £22m were received in the year. After disposals of intangible fixed assets and allocation of goodwill, the accounting loss on disposal was £4.1m. Further proceeds could be received over the following two years based on agreed targets; any such proceeds will be accounted for in the year of receipt.

	2016 **£'000**
Cash proceeds received	22,040
Intangible assets and allocated goodwill disposed of	(21,992)
Other net assets disposed of	(6,019)
Release from translation reserve	1,895
Net loss on disposal	(4,076)

4. Deemed disposal of Ithra

In the prior year, 'Ithra' ("Ultra Electronics in collaboration with Oman Investment Corporation LLC"), the legal entity established with the sole purpose of delivering the Oman Airport IT contract, was placed into voluntary liquidation. A liquidator was appointed and is pursuing claims against the customer on behalf of the interested parties. Ithra, upon liquidation, no longer met the IFRS 10 criteria for consolidation as a subsidiary of the Group and was a deemed disposal as at 4 March 2015.

	2015 £'000
Non-controlling interest elimination	13,751
Release from translation reserve	2,696
Oman termination related costs	16,447

5. Investment revenue

	2016	2015
	£'000	£'000
Bank interest	**197**	190
	197	190

6. Finance costs

	2016	2015
	£'000	£'000
Amortisation of finance costs of debt	**848**	649
Interest payable on bank loans, overdrafts and other loans	**10,424**	7,088
Total borrowing costs	**11,272**	7,737
Retirement benefit scheme finance cost	**2,983**	3,041
Unwinding of discount on provisions	**367**	641
Fair value movement on derivatives	**19,103**	3,988
	33,725	15,407

7. Tax

	2016	2015
	£'000	£'000
Current tax		
United Kingdom	**3,701**	4,310
Overseas	**11,205**	8,815
	14,906	13,125
Deferred tax		
Origination and reversal of temporary differences	**(7,124)**	(6,505)
De-recognition of deferred tax assets	**1,576**	1,799
UK tax rate change	**5**	1,353
	(5,543)	(3,353)
Total	**9,363**	9,772

8. Dividends

	2016	2015
	£'000	£'000
Final dividend for the year ended 31 December 2015 of 32.3p (2014: 31.1p) per share	**22,631**	21,695
Interim dividend for the year ended 31 December 2016 of 14.2p (2015: 13.8p) per share	**9,952**	9,637
	32,583	31,332
Proposed final dividend for the year ended 31 December 2016 of 33.6p (2015: 32.3p) per share	**23,597**	22,625

The 2016 proposed final dividend of 33.6p per share is proposed to be paid on 4 May 2017 to shareholders on the register at 7 April 2017. It was approved by the Board after 31 December 2016 and has not been included as a liability as at 31 December 2016.

9. Earnings per share

	2016	2015
	Pence	Pence

Basic underlying (see below)	**134.6**	123.9
Diluted underlying (see below)	**134.5**	123.8
Basic	**82.8**	35.7
Diluted	**82.8**	35.6

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

	2016 **£'000**	2015 £'000
Earnings		
Earnings for the purposes of earnings per share being profit for the year	**58,260**	24,989
Underlying earnings		
Profit for the year	**58,260**	24,989
Loss on fair value movements on derivatives (net of tax)	**16,008**	3,180
Amortisation of intangibles arising on acquisition (net of tax)	**22,419**	21,195
Unwinding of discount on provisions (net of tax)	**367**	641
Acquisition and disposal related costs net of contingent consideration (net of tax)	**2,100**	8,403
Net interest charge on defined benefit pensions (net of tax)	**2,386**	2,425
Retirement benefit scheme curtailment gain (net of tax)	**(12,400)**	-
Impairment charges (net of tax)	**-**	6,270
S3 programme (net of tax)	**5,503**	3,281
Deemed disposal of Ithra (net of tax)	**-**	16,447
Disposals (net of tax)	**48**	-
Earnings for the purposes of underlying earnings per share	**94,691**	86,831

The adjustments to profit are explained in note 2.

	2016 **Number of shares**	2015 Number of shares
The weighted average number of shares is given below:		
Number of shares used for basic earnings per share	**70,330,384**	70,056,025
Effect of dilutive potential ordinary shares - share options	**73,320**	89,021
Number of shares used for fully diluted earnings per share	**70,403,704**	70,145,046

	2016 **£'000**	2015 £'000
Underlying profit before tax	**120,059**	112,425
Tax rate applied for the purposes of underlying earnings per share	**21.13%**	22.77%

10. Goodwill

	2016 **£'000**	2015 £'000
Cost		
At 1 January	**428,166**	348,598
Exchange differences	**55,577**	8,627
Recognised on acquisition of subsidiaries	**-**	70,579
Derecognised on disposal	**(8,305)**	-
Other changes	**3,127**	362
At 31 December	**478,565**	428,166
Accumulated impairment loss		
At 1 January	**(52,281)**	(49,638)
Exchange differences	**(10,691)**	(2,643)
Carrying amount at 31 December	**415,593**	375,885

Other changes in 2016 and 2015 relate to the re-assessment of initial fair values. In 2016 this relates to Herley adjustments predominantly to inventory and provisions and to Furnace Parts adjustments to deferred tax balances.

The Group's market-facing-segments, which represent Cash Generating Unit (CGU) groupings, are; Aerospace, Infrastructure, Nuclear, Communications, C2ISR, Maritime, Land and Underwater Warfare. These represent the lowest level at which the goodwill is monitored for internal management purposes. Goodwill is allocated to CGU groupings as set out below:

	2016 Discount rate	2015 Discount rate	**2016 £'000**	2015 £'000
Aerospace	10.1%	10.4%	**32,784**	32,310
Infrastructure	10.1%	10.4%	**28,159**	28,971
Nuclear	10.1%	10.4%	**19,411**	17,305
Aerospace & Infrastructure			**80,354**	78,586
Communications	10.1%	10.4-12.9%	**93,182**	87,393
C2ISR	10.1%	10.4-12.9%	**124,926**	107,524
Communications & Security			**218,108**	194,917
Maritime	10.1%	10.4%	**36,025**	31,690
Underwater Warfare	10.1%	10.4-12.9%	**81,106**	70,692
Maritime & Land			**117,131**	102,382
Total - Ultra Electronics			**415,593**	375,885

Goodwill is initially allocated, in the year a business is acquired, to the CGU group expected to benefit from the acquisition. Subsequent adjustments are made to this allocation to the extent operations, to which goodwill relates, are transferred between CGU groups. The size of a CGU group varies but is never larger than a reportable operating segment.

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

The key assumptions used in the value-in-use calculations are those regarding the discount rate, future revenues, growth rates, forecast gross margins and underlying operating profit. Management estimates the discount rate using pre-tax rates that reflect current market assessments of the time value of money and risks specific to the Group, being the Weighted Average Cost of Capital (WACC). The WACC is then risk-adjusted to reflect risks specific to each business. The pre-tax discount rate used during 2016 was 10.1% (2015: 10.4% to 12.9%). Future revenues are based on orders already received, opportunities that are known and expected at the time of setting the budget and strategic plans and future growth rates. Budget and strategic plan growth rates are based on a combination of historic experience, available government spending data and management and industry expectations of the growth rates that are expected to apply in the major markets in which each CGU operates. Longer-term growth rates, applied for the ten-year period after the end of the strategic planning period, are set at 2.5%. Ultra considers the long-term growth rate to be appropriate for the sectors in which it operates. Forecast gross margins reflect past experience, factor in expected efficiencies to counter inflationary pressures, and also reflect likely margins achievable in the shorter-term period of greater defence spending uncertainty.
Within each of the strategic plans a number of assumptions are made about business growth opportunities, contract wins, product development and available markets. A key assumption is that there will be continued demand for Ultra's products and expertise from a number of US government agencies and prime contractors during the strategic plan period.

Sensitivity analysis has been performed on the value-in-use calculations to:
(i) reduce the post-2021 growth assumption from 2.5% to nil
(ii) apply a 20% reduction to forecast operating profits in each year of the modelled cash inflows

(iii) consider specific market factors as noted above.

Certain of these sensitivity scenarios give rise to a potential impairment in Infrastructure. Headroom, which represents the value derived from the key growth assumptions in the Infrastructure value-in-use calculations, is £5.2m. Sensitivity (ii) results in a £1.5m impairment in Infrastructure; the CGU grouping is sensitive to the ability of the remaining operations to win sufficient new customers over the medium term.

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

11. Inventories

	2016	2015
	£'000	£'000
Raw materials and consumables	**48,147**	51,561
Work in progress	**21,452**	19,598
Finished goods and goods for resale	**8,578**	10,657
	78,177	81,816

12. Trade and other receivables

	2016	2015
	£'000	£'000
Non-current:		
Amounts recievable from contract customers	**16,352**	15,239
	16,352	15,239

	2016	2015
	£'000	£'000
Current:		
Trade receivables	**98,977**	93,016
Provisions against receivables	**(1,307)**	(959)
Net trade receivables	**97,670**	92,057
Amounts recievable from contract customers	**95,919**	81,617
Other receivables	**11,891**	9,328
Prepayments and accrued income	**10,251**	14,385
	215,731	197,387

13. Trade and other payables

	2016	2015
	£'000	£'000
Amounts included in current liabilities:		
Trade payables	**68,341**	70,701
Amounts due to contract customers	**46,310**	58,104
Other payables	**30,207**	27,157
Accruals and deferred income	**48,385**	43,980
	193,243	199,942

	2016	2015
	£'000	£'000
Amounts included in non-current liabilities:		
Amounts due to contract customers	**6,146**	1,625
Other payables	**243**	570
Accruals and deferred income	**3,583**	4,801
	9,972	6,996

14. Provisions

	Warranties £'000	Contract related provisions £'000	Other provisions £'000	Total £'000
At 1 January 2016	3,785	2,349	23,154	29,288
Created	2,012	5,779	3,457	11,248
Reversed	(467)	(22)	-	(489)
Utilised	(1,229)	(1,780)	(17,252)	(20,261)
Unwinding of discount	-	-	367	367
Exchange differences	343	413	1,193	1,949
At 31 December 2016	**4,444**	**6,739**	**10,919**	**22,102**
Included in current liabilities	2,325	6,046	8,262	16,633
Included in non-current liabilities	2,119	693	2,657	5,469
	4,444	**6,739**	**10,919**	**22,102**

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 will be utilised over the period as stated in the contract to which the specific provision relates. Other provisions include re-organisation costs, contingent consideration, dilapidation costs and provisions associated with the Oman Airport IT contract termination. Dilapidations will be payable at the end of the contracted life which is up to fifteen years. Contingent consideration is payable when earnings targets are met: £1,598,000 of provision was utilised in the period when the final Forensic Technology earn-out target was met.

15. Retirement benefit schemes

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

	2016 £'000	2015 £'000
Fair value of scheme assets	**287,340**	237,623
Present value of scheme liabilities	**(400,517)**	(322,442)
Scheme deficit	**(113,177)**	(84,819)
Related deferred tax asset	**19,517**	15,370
Net pension liability	**(93,660)**	(69,449)

The UK defined benefit pension scheme was closed to future accrual on 5 April 2016 and a curtailment gain of £15.5m was recognised in the income statement. As set out in note 2, this has been treated as a non-underlying item.

The discount rate used in the actuarial assessment of the UK defined benefit scheme at 31 December 2016 was 2.55% (2015: 3.75%).

16. Cash flow information

	2016 £'000	2015 £'000
Operating profit	**89,725**	66,425
Adjustments for:		
Depreciation of property, plant and equipment	**11,499**	10,959
Amortisation of intangible assets	**38,034**	34,627
Impairment charges	**-**	8,462
Cost of equity-settled employee share schemes	**984**	967
Adjustment for pension funding	**(8,468)**	(8,015)
Profit on disposal of property, plant and equipment	**291**	(559)
Share of loss from associate	**-**	581
Decrease in provisions	**(8,975)**	(2,073)
Operating cash flow before movements in working capital	**123,090**	111,374

Decrease in inventories	**8,295**	6,607
Increase in receivables	**(339)**	(2,261)
Decrease in payables	**(19,044)**	(44,381)
Cash generated by operations	**112,002**	71,339
Income taxes paid	**(9,012)**	(17,252)
Interest paid	**(10,156)**	(6,309)
Net cash from operating activities	**92,834**	47,778

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

	2016	2015
	£'000	£'000
Net increase in cash and cash equivalents	**20,766**	5,916
Cash inflow from movement in debt and finance leasing	**54,419**	(157,054)
Change in net debt arising from cash flows	**75,185**	(151,138)
Loan syndication costs	**-**	1,347
Amortisation of finance costs of debt	**(848)**	(649)
Other non-cash movements	**-**	(872)
Translation differences	**(35,465)**	(14,765)
Movement in net debt in the year	**38,872**	(166,077)
Net debt at start of year	**(295,572)**	(129,495)
Net debt at end of year	**(256,700)**	(295,572)

Net debt comprised the following:

	2016	2015
	£'000	£'000
Cash and cash equivalents	**74,625**	45,474
Borrowings	**(331,325)**	(341,046)
	(256,700)	(295,572)

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

17. Five-year review

	2012	2013	2014	2015	2016
	£m	£m	£m	£m	£m
Revenue					
Aerospace & Infrastructure	226.6	230.4	198.6	193.2	**204.7**
Communications & Security	268.9	237.7	224.4	239.3	**259.0**
Maritime & Land	265.3	277.1	290.7	293.8	**322.1**
Total revenue	760.8	745.2	713.7	726.3	**785.8**
Underlying operating profit(1)					
Aerospace & Infrastructure	45.1	46.2	29.6	28.7	**32.4**
Communications & Security	32.9	27.5	37.0	40.4	**39.7**
Maritime & Land	43.8	48.0	51.5	50.9	**59.0**
Total underlying operating profit(1)	121.8	121.7	118.1	120.0	**131.1**
Margin(1)	16.0%	16.3%	16.5%	16.5%	**16.7%**
Profit before tax	79.8	49.3	21.5	34.8	**67.6**
Profit after tax	61.3	38.2	6.5	25.0	**58.3**

Operating cash flow(2)	89.6	79.0	83.1	81.3	**120.4**
Free cash before dividends, acquisitions and financing(3)	57.4	43.8	51.2	43.1	**86.0**
Net debt at year-end(4)	(43.0)	(42.2)	(129.5)	(295.6)	**(256.7)**
Underlying earnings per share (p) (5)	125.5	127.1	123.1	123.9	**134.6**
Dividends per share (p)	40.0	42.2	44.3	46.1	**47.8**
Average employee numbers	4,430	4,274	4,787	4,843	**4,466**

Notes:

1) Before adjustments to contingent consideration net of acquisition and disposal related costs, amortisation of intangibles arising on acquisition, the S3 programme, impairment charges and Oman contact termination and liquidation related costs.
2) Cash generated by operations, and dividends from associates less net capital expenditure, R&D, LTIP share purchases and excluding cash outflows from the S3 programme, acquisition and disposal related payments and the Oman performance bond.
3) Free cash flow before dividends, acquisitions and financing has been adjusted to include the purchase of LTIP shares, which are included in financing activities.
4) Loans and overdrafts less cash and cash equivalents.
5) Before adjustments to contingent consideration net of acquisition and disposal related costs, amortisation of intangibles arising on acquisition, the S3 programme, impairment charges, fair value movement on derivative financial instruments, defined benefit pension curtailment gain and interest charges and unwinding of discount on provisions.

18. Financial Information

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2016 or 2015, but is derived from those accounts. Statutory accounts for 2015 have been delivered to the Registrar of Companies and those for 2016 will be delivered following the company's annual general meeting. The auditor has reported on those accounts; their reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain statements under s498(2) or (3) Companies Act 2006.

The preliminary announcement has been prepared on the basis of the accounting policies as stated in the financial statements for the year ended 31 December 2015. The company expects to publish full financial statements on 22 March 2017.

The following IFRIC interpretations, amendments to existing standards and new standards have been adopted in the current year but have not impacted the reported results or the financial position: Annual Improvements to IFRSs: 2012-2014 Cycle.

No new standards were adopted in the current year. A number of new standards and amendments to existing standards have been issued but are not yet effective and, in the case of IFRS 16 - Leases, are not yet endorsed by the EU. IFRS 15 Revenue from contracts with customers - is effective from 1 January 2018 and is expected to revise the timing of revenue recognised on some of the Group's contracts. There will be no impact to the timing of cash flows. The Group has an on-going project to assess the impact to its financial statements. This project has involved reviews of the Group's key contracts and the use of questionnaires and detailed contract discussions with finance and commercial teams to identify the most likely areas of change across the Group's business units and differing revenue streams. From the work performed to-date, it is expected that the most significant changes relative to current accounting treatments will arise in the following areas:

(i) the accounting for multiple elements of long term contracts approved at different times, for example contracts involving product design, followed by subsequent production orders;
(ii) allocation of the contract price to performance obligations for long term contracts containing multiple deliverables;
(iii) the accounting for certain transactions currently accounted for as sales of goods; and

(iv) the accounting for long-term support arrangements or maintenance contracts.

The following areas are also expected to result in some, potentially less significant, change in approach (i) the treatment of contract penalties which are currently booked to costs of sales, (ii) the treatment of warranties and (iii) licenses of software. Other areas of change could be identified as the project continues and as more detailed work is undertaken to quantify the financial impact on individual contracts. At the current time it is not possible to quantify the impact of IFRS 15 on the Group's future revenues and profits. The next stage of the project will develop new internal revenue recognition accounting policies and guidance, roll out further training across the Group, and undertake further detailed contract reviews and analysis to allow the impact of the transition to IFRS 15 to be quantified.

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

Copies of the annual report will be sent to shareholders who have elected to receive a copy of the annual report in due course and will also be available from the Company's registered office at 417 Bridport Road, Greenford, Middlesex, UB6 8UA. The report will also be available on the Company's website: www.ultra-electronics.com.

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