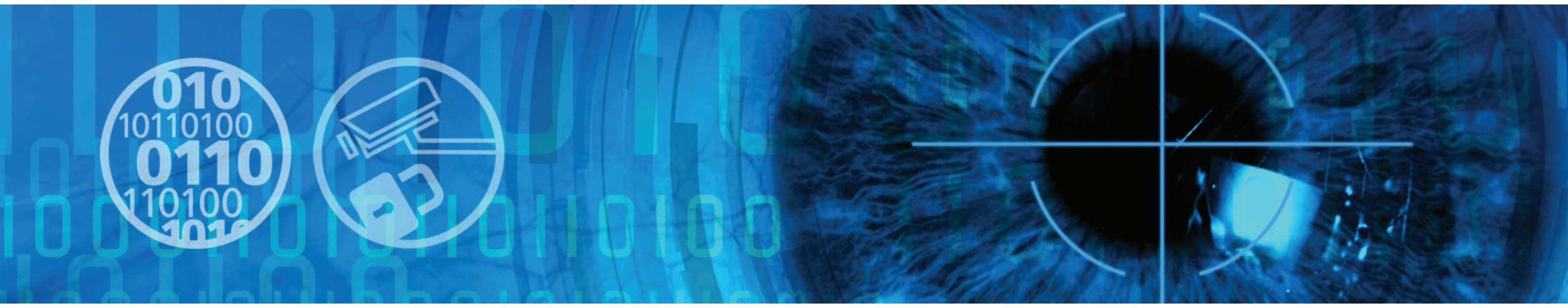
Ultra Electronics Holdings plc

Annual Report and Accounts 2015



Positioned for growth through **portfolio strength...** focused on customer need

making a difference

Financial highlights

Revenue +1.8%

£726.3m (2014: £713.7m) KPI

2015	726.3
2014	713.7
2013	745.2
2012	760.8
2011	731.7

Underlying earnings per share* +0.6%

123.9p (2014: 123.1p) KPI

2015	123.9
2014	123.1
2013	127.1
2012	125.5
2011	121.1

Dividend per share +4.1%

46.1p (2014: 44.3p)

2015	46.1
2014	44.3
2013	42.2
2012	40.0
2011	38.5

Underlying profit before tax* +0.4%

£112.4m (2014: £112.0m) KPI

2015	112.4
2014	112.0
2013	116.8
2012	116.5
2011	116.5

Underlying operating profit* +1.6%

£120.0m (2014: £118.1m)

2015	120.0
2014	118.1
2013	121.7
2012	121.8
2011	121.7

Group order book -4.3%

£753.8m (2014: £787.3m)

2015	753.8
2014	787.3
2013	781.2
2012	905.0
2011	950.3

IFRS operating profit +68.0%

£66.4m (2014: £39.5m)

2015	66.4
2014	39.5
2013	57.4
2012	88.3
2011	98.8

Dividend

The proposed final dividend is **32.3p**, bringing the total dividend for the year to **46.1p** (2014: 44.3p). This represents an annual increase of **4.1%**, with the dividend being covered **2.7 times** (2014: 2.8 times) by underlying earnings per share. If approved at the Annual General Meeting, the dividend will be paid on 5 May 2016 to shareholders on the register on 8 April 2016.

KPI Key Performance Indicator, see pages **28** and **29** for details

Cautionary statement

This document contains forward-looking statements which are subject to risk factors associated with, amongst other things, the economic and business circumstances occurring from time to time in the countries and sectors in which the Group operates. It is believed that the expectations reflected in these statements are reasonable, but they may be affected by a wide range of variables which could cause actual results to differ materially from those currently anticipated.

For more information:
www.ultra-electronics.com/investors/irhome.php

Introduction

What is Ultra?

The Ultra Electronics Group manages a wide range 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 environments and critical applications to meet customer needs.

Ultra's business model

Our objective

outperform the market in terms of annual increases in shareholder return

Portfolio strength

- Eight distinct and wide-ranging market segments
- Acquisition and divestment to position in growth markets
- Innovative solutions focused on customer need

Read about our portfolio strength on **pages 04-21**

Focus on customer need

- Focus on **tiers 2 – 4**
- R&D at 5% of revenue
- Customer funded development at 15% of revenue
- Form external partnerships to develop the best solution for customers

Read about how we deliver for our customers on **pages 04-21**

value created

value created

World class performance

- Agility through a devolved organisation
- Operational efficiency through engaged competent people with domain expertise
- An excellent and strategic supplier
- Help customers identify true needs
- Develop customer relationships

Read about our world class performance on **pages 22-35**

profit reinvested

profit reinvested

Our business model is underpinned by:

Sustainability
pages 42-51

People and culture
pages 44-48

Risk management
pages 36-41

Good governance
pages 52-83

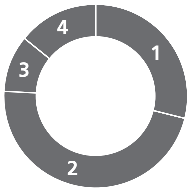
The business model, pictured above, describes how Ultra operates to achieve its strategic objective. Investment in portfolio strength and innovative technologies, whilst developing tailored solutions focused on customer need, ensures long-term value creation and informs inward investment.

Ultra's business model is further explained on pages **8** and **9**, while the Group's strategies for growth are set out on pages **10** and **11**. The strength of Ultra's broad capability portfolio is set out under the eight market segments described on pages **12** to **21**. The key to delivering a sustainable business is rooted in

Ultra's responsible values and behaviours, embedded in our people and embodied within Ultra's culture, described on pages **44** to **48**. Good corporate governance and effective risk management are at the heart of Ultra's compliance framework and are described on pages **36** to **41** and **52** to **83**.

Group at a glance
How and where Ultra operates

During 2015 Ultra has reorganised to deliver and report its performance through three divisions: **Aerospace & Infrastrucure**, **Communications & Security** and **Maritime & Land**. Ultra's divisions deliver specialist capabilities to our key end markets of Defence & Aerospace, Security & Cyber, Transport and Energy. The Group addresses these end markets through eight distinct market segments, discussed on pages **12** to **21**.



Revenue by region

1 United Kingdom	29
2 North America	47
3 Mainland Europe	10
4 Rest of the world	14

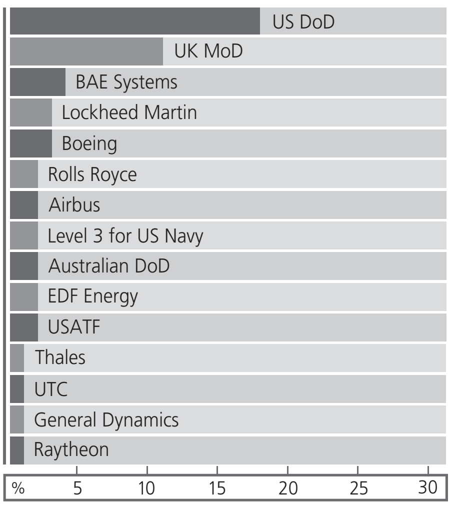
% of Group revenue

Ultra's place in the market
Ultra continues to focus on its main markets of **Defence & Aerospace**, **Security & Cyber**, **Transport** and **Energy**. To explain its wide portfolio of capabilities more effectively, the Group have adopted the market segmentation shown opposite. Each of the **eight segments** generate highly differentiated, cost-effective and proven technologies at the system, sub-system and component level. These technologies are often fundamental to the performance, safety or mission success of the platforms in which they are incorporated, making Ultra a critical supplier on many complex platforms, enjoying long-term positions. To sustain this advantage the Group harnesses both internal and customer-funded research and development to tailor solutions to changing customer needs and budgets. This sustains its reputation as an exceptional supplier of enabling technology. This is based upon the development of a deep understanding of individual customer requirements through open dialogue and long-term relationships.

The segment structure allows Ultra to harness the capabilities of its **24 businesses** to provide technical expertise and domain knowledge to deliver the more complete, comprehensive and cost-effective solutions they demand. Where needed, the Group partners seamlessly with best-of-breed suppliers to offer a more complete solution and will happily "lead or follow" as a non-threatening mid-tier company in order to completely satisfy customer need. Equally, individual businesses continue to develop and supply the specific, high-end technologies for which they are well known, providing the agility and responsiveness of a smaller, autonomous business unit. The Group maintains its development focus on the eight segments that it understands well while reviewing markets for new opportunities where Ultra can apply its existing technology edge or explore a sensible adjacency.

Where we operate
Ultra's core regional markets remain North America and the United Kingdom. In mainland Europe the Group focuses on technologies that are unavailable from indigenous suppliers (e.g. sonobuoys). Elsewhere in the world the Group has developed its strategic positioning on its target regions of Australia, the Middle East, India, Turkey and (for non-defence products) China, while continuing to pursue individual opportunities and business relationships in many other nations. These core markets and target regions allow Ultra to access the largest addressable defence and security budgets in the world, positioning for long-term growth through well-considered partnerships and government relationships. Given Ultra's relatively low exposure to mainland Europe, a potential UK Exit from the EU (Brexit) is not expected to have a significant specific impact on the Group, notwithstanding any global macroeconomic impact.

Ultra's customers
This market position, together with Ultra's independence, allows it to work very effectively with the world's prime contractors in the Group's chosen markets. The graphic below shows the major customers for the Group's 2015 revenue. Within these top customers, such as the US Department of Defense (DoD), the UK Ministry of Defence (MoD) and BAE Systems, the Group supplies to a wide range of different project offices, integrated project teams and platform teams. Therefore, Ultra deals with a larger number of different partners and customers than the graphic might at first suggest, executing against tens of thousands of contracts and production orders on an annual basis.



Market segment

Aerospace
Read more on page **14**

Infrastructure
Read more on page **15**

Nuclear
Read more on page **16**

Communications
Read more on page **17**

C2ISR*
Read more on page **18**

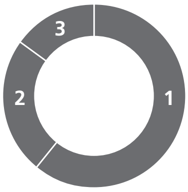
* **Command & Control, Intelligence Surveillance and Reconnaissance**
Ultra's Cyber capabilities sit primarily in C2ISR and Communications, but run across all eight segments

Underwater Warfare
Read more on page **19**

Maritime
Read more on page **20**

Land
Read more on page **21**

End markets



Revenue by market

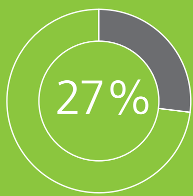
1 Defence	61
2 Security & Cyber	24
3 Transport & Energy	15

% of Group revenue

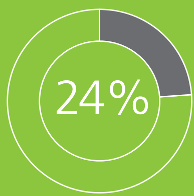
2015 Performance

Defence	Security & Cyber	Transport	Energy	Division
✓		✓		Aerospace & Infrastructure
		✓	✓	Aerospace & Infrastructure
✓			✓	Aerospace & Infrastructure
✓	✓			Communications & Security
✓	✓			Communications & Security
				Communications & Security
✓				Maritime & Land
✓				Maritime & Land
✓				Maritime & Land

Aerospace & Infrastructure†



% of Group revenue



% of Group profit*

Read more on pages **30** and **31**

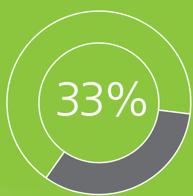
Revenue
£193.2m -2.7%
2014: £198.6m†

Underlying operating profit*
£28.7m -3.0%
2014: £29.6m†

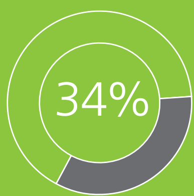
Order book
£265.4m +4.9%
2014: £252.9m†

Number of employees
1,402

Communications & Security†



% of Group revenue



% of Group profit*

Read more on pages **32** and **33**

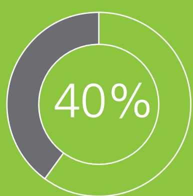
Revenue
£239.3m +6.6%
2014: £224.4m†

Underlying operating profit*
£40.4m +9.2%
2014: £37.0m†

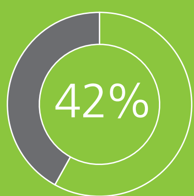
Order book
£213.7m -0.4%
2014: £214.5m†

Number of employees
1,674

Maritime & Land†



% of Group revenue



% of Group profit*

Read more on pages **34** and **35**

Revenue
£293.8m +1.1%
2014: £290.7m†

Underlying operating profit*
£50.9m -1.2%
2014: £51.5m†

Order book
£274.7m -14.1%
2014: £319.9m†

Number of employees
1,767

†During 2015 the Group reorganised under three new divisions. The prior year divisional analysis has been restated to reflect these changes.

*see footnote on page **136**

Portfolio strength focused on customer need

Chief Executive's review

These outcomes provide greater clarity for the future UK and US defence procurement programmes, with real opportunities in Ultra's areas of strength, including submarine build, ISTAR and Communications.

Rakesh Sharma
Chief Executive

Introduction
As we entered 2015, the continuing uncertainty in our core defence markets led us to adopt a prudent view of annual performance against which we have delivered. While it seems a long time ago, you will recall in those early months the UK was in its normal pause during the general election and resolution of US government spending plans were far from certain. Uncertainty of this nature inevitably translates into caution at the contract officer level, which we saw reflected in the 10% year-on-year reduction reported in US defence outlays in the first half of 2015. This caution led us to take the early measures necessary to control costs across the Group and ensure performance in line with market expectations.

By the close of the year we were in a very different place. A surprise election victory by the Conservative Party in the UK led to a comprehensive and well-considered Strategic Defence & Security Review by ministers and officials familiar with the challenges. A real-term increase in defence spending coupled with a commitment to maintain spending at 2% of GDP was a responsible reaction to the increase in global instability, security threats and conflicts. In the US a similar appreciation of the broad range of potential threats that the nation's armed forces may need to respond to, contributed to a welcome two-year budget agreement. These outcomes provide greater clarity for the future UK and US defence procurement programmes, with real opportunities in Ultra's areas of strength, including submarine build, ISTAR and Communications. My remaining caution would be that both the US and UK defence procurement programmes remain highly ambitious and funding pressure will inevitably continue. Improved efficiency in the supply chain will be an increasing demand made by both governments but one to which we are already responding.

Underlying earnings per share* +0.6%

123.9p (2014: 123.1p) KPI

2015	123.9
2014	123.1
2013	127.1
2012	125.5
2011	121.1

Dividend per share +4.1%

46.1p (2014: 44.3p)

2015	46.1
2014	44.3
2013	42.2
2012	40.0
2011	38.5

The Group's development of secure positions on a range of aerospace opportunities through long-term development investment will transition to production revenue over the next few years. The majority of the value that this unlocks lies beyond the current order book value in multi-year positions and agreements. Our nuclear business is increasingly focused on commercial opportunities as long-term investment plans clarify. As an example, the excellent relationship we have developed with EDF in the commercial nuclear market is now physically reflected in the delivery of the first reactor core neutron flux detectors from the £5m joint Ultra/EDF facility.

Operational highlights

- The award of an £18m contract for the design and development of reactor control and cooling systems for the next generation of Royal Navy nuclear submarines. This continues our close involvement in the UK submarine programme supplying critical electrical and control systems to the Vanguard, Astute and Future Deterrent platforms.
- An £18m contract award for the supply of sonobuoys for the Royal Navy's Merlin Maritime Patrol Helicopter fleet. This contract covers technical design, development, manufacture and logistic support of a range of passive and active buoys capable of detecting modern conventional and nuclear submarines. The capability supports forecast export sales over the next two years to France, Germany, Sweden, Poland, Turkey, UAE and Australia.
- The award of engineering development contracts for the Mitsubishi Regional Jet (MRJ) landing gear and steering gear control units, adding another long-term position to our aerospace business.

Positioning for future growth

During the year we reorganised into **three new divisions** (pages **30** to **35**) which reflect the eight market segments we now use to better connect our organisational structure to end markets. The divisions drive performance and delivery through the organisation, controlling costs and instilling the behaviours we seek. The segments allow businesses from across the Group to collaborate in the presentation of their collective capability to end customers and allow Ultra to offer the more comprehensive solutions the market increasingly demands. Importantly, the **24 individual businesses** retain a high degree of autonomy, allowing them the agility to respond quickly to emerging opportunities and changing customer needs without the need to seek permission from a dense, hierarchal structure. It also ensures our people feel responsibility towards every aspect of delivery to the customer and the performance of their individual business.

Challenging markets and a deflationary economy demand increasing efficiency. In the year we have taken further manpower reductions to match changes in revenue and keep our businesses lean. We have also announced the Standardisation & Shared Services **S3 programme** which will bring together non-differentiating activities (including HR, IT and Finance) from across the Group into regional hubs where we can deliver the services to the businesses more effectively. S3 is on track to start to cover its costs in 2016 and make substantive savings thereafter.

Entry into new markets requires careful assessment accompanied by appropriate relationships. Ultra builds such positions gradually so as to test assumptions and grow confidence in new partnerships. During the period we made two key moves which position us for future growth:

- In June we signed a Memorandum of Understanding (MOU) with Mahindra in India to support defence and security opportunities, initially in sonar systems and radio equipment. Mahindra is a $17bn multinational group that is responding to the significant changes that have followed the election of Prime Minister Modi's BJP party to enter the defence sector. In partnership we have been selected to supply £30m of torpedo defence systems to the Indian Navy with further orders expected. Mahindra have already demonstrated their ability to build the system's countermeasure launcher in country to the required levels of quality.
- In September we announced a strategic partnership with NuScale Power in the US to produce the first commercial Small Modular Reactor (SMR). Ultra will provide the reactor control and instrumentation systems for a new kind of nuclear plant that is a safer, smaller and scalable version of the pressurised water reactor technology we are already familiar with from our submarine propulsion experience. Incorporating natural safety features, this safe, reliable, carbon-free power source takes away many of the issues surrounding larger nuclear installations. The US and UK governments are very supportive and Ultra is firmly on board at the outset.

> S3 is on track to cover its costs in 2016 and make substantive savings thereafter.

Portfolio strength focused on customer need
Chief Executive's review (continued)

"Acquisition of Herley established a major presence in the Electronic Warfare (EW) market at a time of strong growth in this sector, correcting an underweight position."

Portfolio strength

The segment analysis we have undertaken has also allowed us to more rigorously assess our portfolio in terms of internal investment, acquisition and divestment. This analysis directly influenced the Group's decision in June to make its largest ever acquisition of the Electronic Products Division of Kratos Defense & Security Solutions for $258m, now known as Ultra Electronics Herley (Herley). Acquisition of Herley established a major presence in the Electronic Warfare (EW) market at a time of strong growth in this sector, correcting an underweight position. The business comes with long-term contracts as a specialist component and sub-system provider to several major US programmes. Since joining Ultra the business has been successful in winning new positions, most recently on the US Navy's Surface EW Improvement Programme (SEWIP). Herley is now part of the Communications & Security division.

In October the Group acquired Furnace Parts LLC for $12m, a developer and supplier of thermocouple-based temperature sensors for demanding applications in the nuclear and process control markets. Furnace Parts has been integrated into Ultra's existing Nuclear Sensors & Process Instrumentation (NSPI) business based in Round Rock, Texas.

Ultra continues to invest between 5% and 6% of revenue in internal development to refresh and develop new offerings. Segment analysis and collaboration has allowed the prioritisation of this development spending to better match customer interests and funding. We are also more carefully aligning development activity across the Group.

Customer needs

Ultra's underlying behaviours focus heavily on meeting customer need. By remaining with technologies and markets we understand well, and through sustained internal development investment, we are able to offer leading technology solutions tailored to customer need. Our through-life and service provision supports the Group's systems, products and components so we understand how to deliver successfully. Meeting our commitments and sustaining our position as an excellent strategic supplier to our customers is at the forefront of our behaviours. These guiding principles are underpinned by our **LEAP** and **LAUNCH** behaviours (more information on page **45**).

“A slow but steady reversal of recent declines can now be anticipated.”

Summary
Ultra’s objective remains to outperform the market in terms of annual increases in shareholder return. Our long-term performance is illustrated by the graph below. In the prevailing markets the Executive Team must maintain a careful balance between meeting performance during the year while investing and positioning for longer-term growth. I believe that the changes we have made in our market approach, the improved management of our portfolio of capabilities and the new positions we are achieving, through acquisition, investment and partnership, will deliver that longer-term growth. Improved efficiency, through delivery of the **S3 programme** and through continuing cost control, will keep Ultra lean and fit. Balancing this with continuing autonomy in our individual businesses will maintain our innovation, sense of ownership and agility.

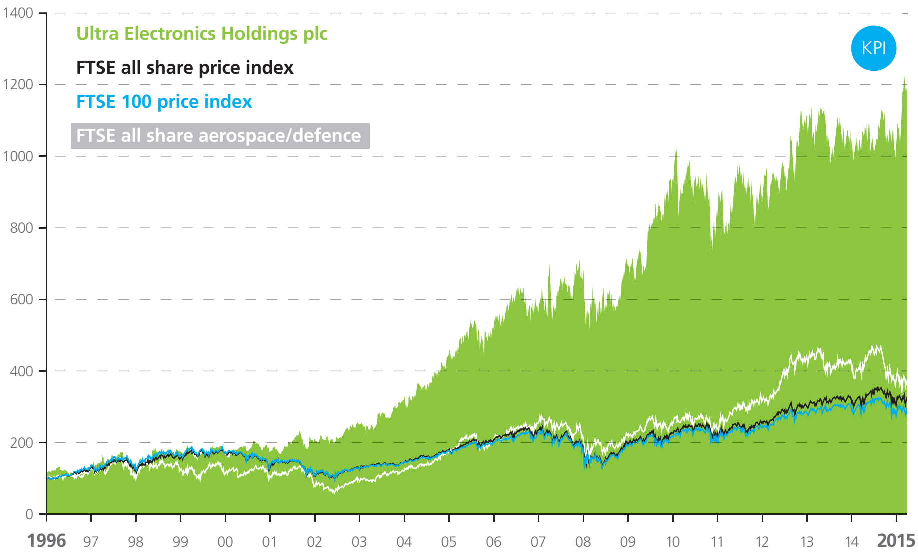
2016 should see stabilising defence and security budgets in the face of increased tensions and threats but the impacts will take time to reach our mid-tier position. Wider fiscal volatility, in oil revenues and reducing demand from emerging markets, will impact some of our markets. That said, it is an improving picture and there are promising indications of a new growth cycle for defence and security.

Increasing efficiency and portfolio rationalisation, together with the benefits of sound acquisition, will add to this improving position. Over the next few years the acceleration in aerospace production will further improve revenue. As a result a slow but steady reversal of recent declines can now be anticipated.

None of this happens without a huge amount of hard work and commitment by every one of the Group’s 4,843 employees. At all levels of management, engineering, production, marketing, HR and finance people have gone the extra mile to ensure we met our market guidance and delivered for our shareholders. I could not be more proud of the sustained levels of enthusiasm, commitment, dedication and resolve that I see on a daily basis within Ultra. In the final analysis it is this resolve that gives me confidence in the Group’s future success.

Rakesh Sharma
Chief Executive

Ultra’s track record of delivering above average shareholder returns since flotation (pence)

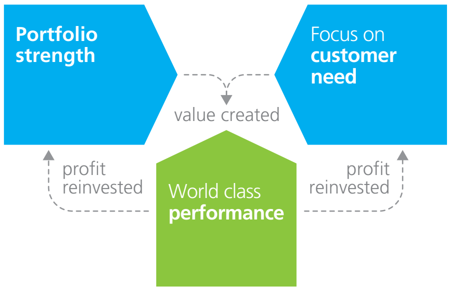


KPI = Key Performance Indicator, see pages 28-29 for details

Portfolio strength focused on customer need

Business model

The value Ultra creates through its **business model** enables it in achieving its primary objective:
To **outperform the market in terms of annual increases in shareholder return.**



Ultra faces the market with **portfolio strength**

Eight distinct and wide-ranging market segments.

Market segments are the natural evolution of Ultra's business model, supporting a shift from individual products to allow more complex offerings. This approach establishes a framework that aligns resources to greater effect across each market-facing segment. This in turn supports the development of coherent strategies against particular end markets, based upon collective market research and opportunity capture. The market segment approach provides the Group with improved analysis at an appropriate level of fidelity. This allows Ultra to better manage and prioritise the Group's investments, including R&D alignment and acquisition strategy.

Acquisition and divestment to position in growth markets.

Ultra invest in targeted acquisitions to further strengthen its portfolio and will dispose of capabilities that no longer fit.

Ultra invests to develop and apply its domain expertise, capabilities and technical synergies in common end markets.

Ultra's deep understanding of the users' domain, its enduring customer relationships and its outward-facing nature, inform the Group's investment decisions.

Innovative solutions focused on customer need.

Ultra creates value by generating innovative solutions from across its portfolio and by becoming a key partner in its customers' design process.

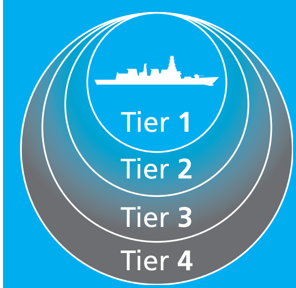
Ultra businesses innovate constantly to create solutions (often through highly specialised disruptive technological innovation) to customer requirements which are different from, and better than, those of the Group's competitors.

Ultra constantly innovate to meet **customer need**

Focus on tiers 2-4.

Ultra has no strategic aim to be a **tier 1**, top-level platform provider. The Group is, therefore, non-threatening to the **tier 1** prime contractors such as BAE Systems or Boeing and counts them amongst its key customers. They can rely on Ultra to provide the specialist capabilities at which the Group is expert. Ultra concentrates on **tiers 2**, **3** and **4**, rather than aiming to be a **tier 1** platform provider.

Ultra's specialist capabilities are mainly at **tiers 3** and **4**, supplying equipment and components to support **tier 1** and **2** systems and programmes. The Group does undertake **tier 2** system integration, but does this mainly when integrating its own **tier 3** offerings. Ultra, therefore, understands the **tier 3** detailed interfaces and so is able to manage the risk inherent in system integration activities.

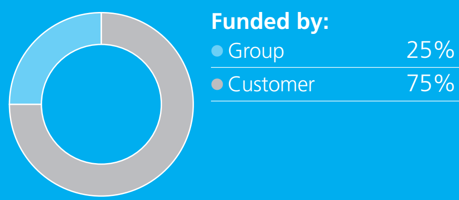


Tier 1. Platform provider
Responsible for being the prime contractor of the platform in question, examples being a naval or a terminal at an airport.

Tier 2. Sub-system integrator
Responsible for integrating equipment or components that will make up a functional element of the platform. Examples of system integration Ultra has completed include integrated sonar systems and wing ice protection systems.

Ultra invests 5% of revenue into R&D to develop new offerings and its customers invest a further 15%.

Ultra has consistently invested 5% or more of its revenue in innovation, new products and business development. In addition, over 15% of Group revenue is customer-funded product development. In total over 20% of revenue spend is focused on augmenting the portfolio of capabilities and programme positions which underpin further growth.



Where the Group has a number of complementary capabilities, it can also combine these to offer more comprehensive solutions. In other words, Ultra's products, capabilities and the associated domain expertise uniquely position the Group to be able to meet more complex sub-system and system requirements.

Tier 3. Equipment supplier
Ultra has a large presence at this level of the supply chain, supplying equipment such as data links, cryptographic equipment and large electrical transformers.

Tier 4. Component supplier
Ultra also provides a broad range of smaller components for many programmes worldwide, including sensors for measuring the performance of a nuclear reactor and joysticks to control UAVs.

Form external partnerships to develop the best solution for customers.

Ultra has an established ability to partner and team (internally and externally) in order to offer the best-of-breed technologies which best meets customers' requirements. The Group is agnostic as to the source of technology which is required to deliver solutions. Where proven technology that meets customers' requirements exists outside the Group, Ultra is happy to form external teaming partnerships to access it. Ultra sees these teaming arrangements as a source of competitive advantage, allowing it to deliver differentiated solutions which meet customer needs efficiently. By working together, the team members are able to win opportunities which would not be possible in isolation.

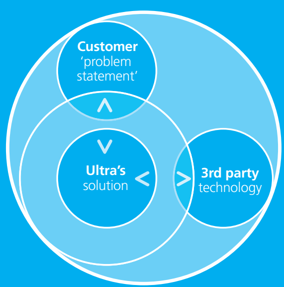
Ultra is continually evolving its approach in response to:

- changing customer demands
- anticipating the direction of travel of the markets
- the Group striving to be the first to bring new solutions to market

In its specialist capability areas, Ultra's understanding of the:

- customers' domains
- demanding operational environments
- projected capability gaps which customers would like addressed

This is a key differentiator for the Group. In short, Ultra's understanding of the customers' need allows it to get to the heart of the customers' requirements and develop effective and innovative solutions.



We achieve world class **performance**

Agility through a devolved organisation.

A key differentiator for Ultra is the agility businesses in the Group exhibit in their dealings with customers.

The Board provides effective leadership and direction in delivering the key corporate objective of reliable and consistent growth in shareholder value. At the operational level, the Executive Team has responsibility for running the Group and for delivery of strategy, financial performance and team development.

Ultra's individual businesses have a high degree of operational autonomy, so that they provide the exceptionally agile and responsive support to customers and partners, normally associated with a smaller business. These benefits of customer focus and agility are augmented by the access to wider and complementary technologies and expertise that lie elsewhere in the Group (collaborative autonomy) or with partners and by Ultra's strong financial position.

Ultra is an excellent and strategic supplier to its customers. To enable this Ultra's businesses are focused on helping customers identify their true needs whilst developing long-term relationships.

Ultra's **LAUNCH** is a behaviour which the Group has developed to facilitate customer engagement and relationship building.

LAUNCH is a way for Ultra's businesses to generate long-term customer relationships that leads to a better pipeline of opportunities and ultimately, enables growth. This approach ensures Ultra understands the real needs of its customers and encourages a long-term strategic relationship where Ultra's businesses become part of the customers' extended enterprises, to mutual benefit.

Operational efficiency through engaged competent people with domain expertise.

Ultra believes that the right people, who embrace and sustain Ultra's culture and who have the domain expertise, are its most important asset in successfully enabling the Group to deliver value to its stakeholders.

Ultra's business model is underpinned by:

Sustainability. Page 42
Ultra's people and culture. Page 44
Risk management. Page 36
Good governance. Page 54

Portfolio strength focused on customer need

Ultra's 4 strategies for growth

Ultra's objective is to add long-term shareholder value, as measured by market capitalisation and the Group's ranking in the FTSE index, more rapidly than other companies to outperform the market. This will be facilitated by an above-average rate of revenue growth. Ultra constantly strives to increase its share of the high-growth sectors of the markets in which it has positioned itself.

1

Increase the Group's portfolio of specialist capability areas

- Concentrate on providing customers with capabilities and systems
- Offer electronic and software solutions in niche markets
- Focus on developing specialist capabilities with demanding and critical requirements
- Provide specialist solutions, often for demanding environments

2

Increase the number of long-term platforms and programmes on which Ultra's specialist capabilities are specified

- Identify new platforms and programmes to apply Ultra capabilities
- Platform lives are typically 30 to 50 years which provides a long-term "flywheel" effect
- Enables resilient financial performance despite market fluctuation

3

Broaden customer base

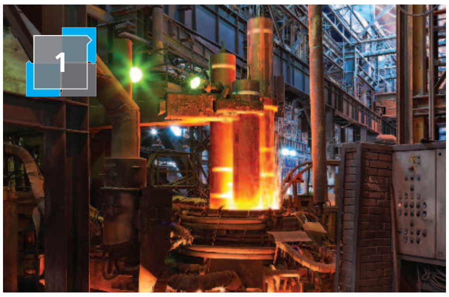
- Independence allows portfolio to be sold to a broad range of customers globally
- Supply to different project offices, teams and platform teams within customers
- Largest customers include: US DoD, UK MoD, Rolls-Royce, BAE Systems, Lockheed Martin and Boeing

4

Widen geographic footprint

- Gained access to two of the largest addressable defence budgets in the world
- The US still spends more on defence each year than other nations combined
- Undertaken the majority of acquisitions in North America to achieve transatlantic capability
- Focus now is to gain competitive advantage through measured expansion into Australia, the Middle East, India and Asia-Pacific

Examples of how the Group is performing in each strategy can be found below:



- Acquisition and integration of Furnace Parts into NSPI extends the Group's temperature sensing capability
- The acquisition of Herley has significantly extended and strengthened the Group's Electronic Warfare (EW) capability
- A strategic partnership with NuScale provides a suite of instrumentation to support the Small Modular Reactor (SMR), further enhancing the capabilites of the Group
- Ultra's TCS business has partnered with Thales for the next generation of high-capacity communications systems

- Sonar Systems will be supplying sonobuoys to the Royal Navy's Merlin maritime patrol helicopter that maintains a persistent Anti-Submarine Warfare surveillance capability against hostile submarines
- Contract for secure radio development on the RAF Typhoon
- PALS will be working on the new COMAC C919 aircraft after winning a contract to produce the translating harness mechanism
- Ultra's Controls business awarded a contract by the Xi'an Aircraft Corporation of China for the MA700

- Partnering with Mahindra Group in India to address significant opportunities in Underwater Warfare equipment for the Indian Navy and high capacity radios for the Indian Army
- TCS expanded in Africa, receiving its first contract from Algeria
- EWST, who formed part of the acquisition of Herley and are now integrated into CIS, are active in over 30 countries and bring these customers into the Group's customer base

- PALS received a contract from NIMR, a new customer in the UAE, to supply electrical systems for armoured fighting vehicles
- Partnering with Rolls-Royce led to a contract award for the delivery of the next generation propulsion power system for the future submarine fleet
- NSPI's new online e-commerce system has resulted in orders from previously unknown customers

Portfolio strength focused on customer need

Market-facing segment strategies

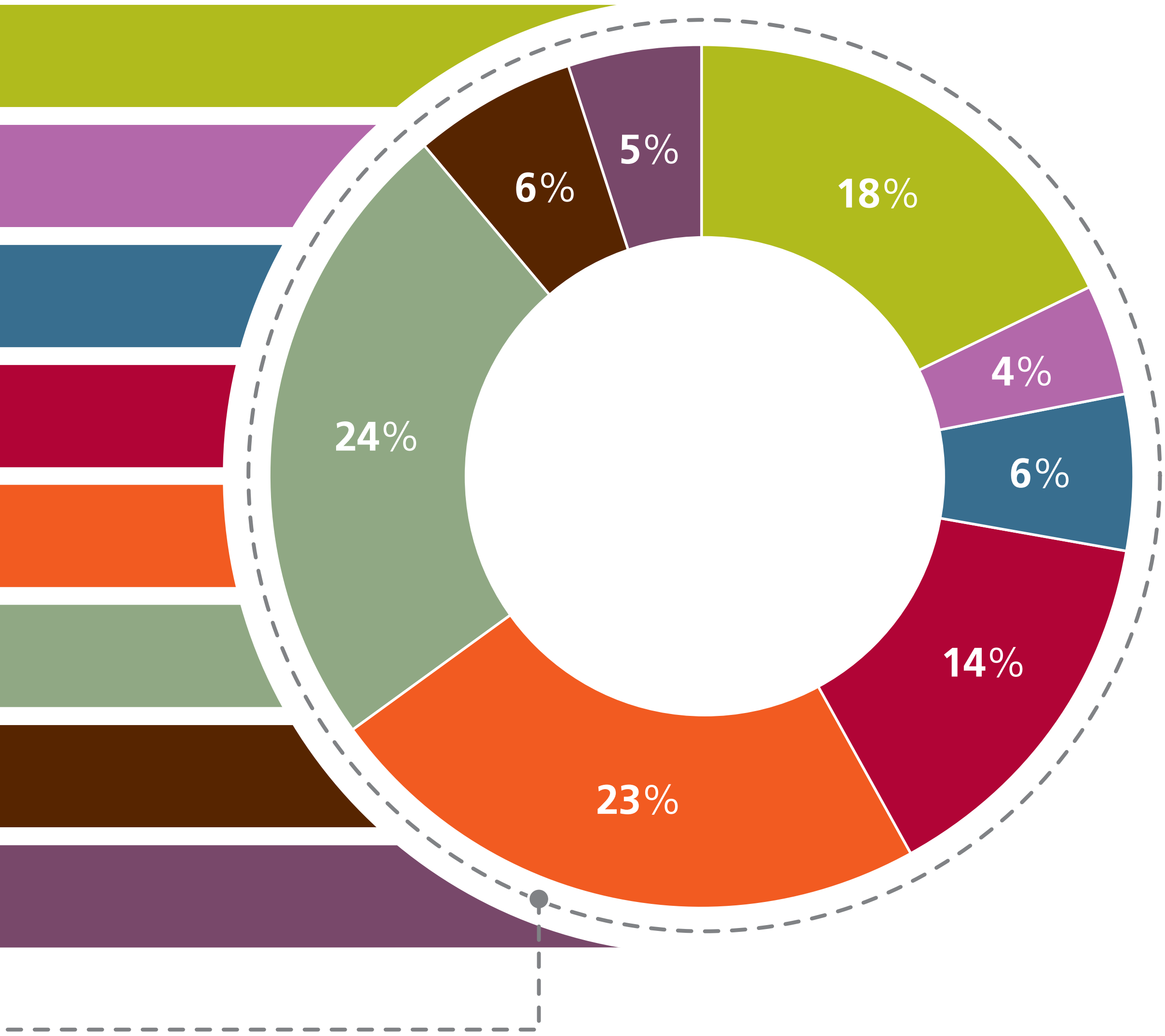
Ultra has introduced eight segments to provide a framework within which the Group can more effectively utilise its portfolio of capabilities and target opportunities in specific markets without losing the autonomy of its individual businesses. This better allows the Group to exploit its domain expertise and the synergies between the technologies in its businesses that face the same end markets.

	Market segment definition
Aerospace	The design, manufacture, production, operation, support and maintenance of commercial, military, manned and unmanned aircraft.
Infrastructure	Airport and airline information systems, rail transit power conversion and control, as well as non-nuclear civil energy related capabilities.
Nuclear	Nuclear reactor control for UK submarines and civil power power stations. Radiation monitoring at national and tactical platform levels.
Communications	Secure communication and timely exchange of voice, data and video information. As well as communication platforms and products, this segment also encompasses architectures, system integration, cryptographic systems and information assurance capabilities.
C2ISR	Command & Control (C2) and surveillance solutions in military and civil domains, Electronic Warfare reconnaissance and targeting systems, and forensic solutions for law enforcement.
Underwater warfare	Anti-submarine warfare, sonobuoys, sonobuoy receivers for ships and aircraft, surface ship mounted sonars, towed arrays, submarine sonars, sensors and acoustic countermeasures.
Maritime	Signal and power management, operating, controlling, supporting and maintaining maritime (surface and sub-surface) military platforms, both manned and unmanned.
Land	Operating, controlling, supporting and maintaining land military platforms, both manned and unmanned, including the dismounted soldier's power management, situational awareness and information distribution.

Ultra's Cyber capabilities sit primarily in C2ISR and Communications, but run across all eight segments

Ultra Electronics is now making its internal sophisticated cyber defence capability (see page **38**) available to customers on a commercial basis under the trading name of CORVID. Increasing recognition of the growing threat from internet enabled cyber-attacks is driving new market demands that lie well beyond the realms of normal IT security techniques. Managed security from CORVID provides advanced prevention, detection and incident analysis beyond that which is achieved by typical Security Operations Centres (SOCs). CORVID focuses on reducing an attacker's window of opportunity and articulating exactly what impact a security incident has to a business, in order to assess damage and restore operations promptly. CORVID operates remotely through bespoke and commercial off the shelf (COTS) software to allow specialist forensic analysis at a central location, supported by a uniquely generated intelligence base.

2015 revenue (%)



The pie chart above shows Group revenue by market segment.

More information about each market facing segment can be found on pages **14** to **21**

Portfolio strength focused on customer need

Aerospace

Across the civil and military aerospace sectors, demand for innovative technologies to reduce cost, improve efficiency and increase safety play well to Ultra's established strengths in controls systems and niche aviation technologies, allowing inclusion in a growing number of positions on long-term aerospace programmes.

Revenue by segment
Aerospace

18%

Ultra's portfolio strength

Ultra's CORE capabilities include:

- Ice Protection and Detection
- Position Sensing and Control
- Active Noise & Vibration Control
- Health & Usage Monitoring
- Fuel System Solutions
- Ground Handling Equipment
- Pilot Controls
- Data and Power Transfer
- Stores and Gas Management

Market overview

Commercial aerospace remains a vibrant sector with predictions of worldwide passenger growth doubling over the next 15 years. Large aircraft manufacturers are buoyed by record order backlogs that exceed 12,000 aircraft. This growth in platform numbers is driven by the demand for new aircraft in the developing regions while the more established markets need new aircraft to replace ageing aircraft as well as to capture the greater efficiencies in fuel, emissions and system reliability. The military aerospace market continues to see growth driven predominantly by the production ramp up of the existing major military aircraft programmes. There are few new military aircraft programmes, with the market focused on technical insertion and capability upgrades of existing airframes.

Market outlook

In the civil aerospace sector the twin aisle market continues to grow and will remain dominated by Airbus and Boeing for the foreseeable future. Ultra provides unique electrical wing ice protection systems and position sensing electronics to the Boeing 787 and provides specialist harnessing, landing gear service panels and a new Electrical Ground Door Opening system to the new Airbus A350. The single aisle market is also in growth and, while currently dominated by Boeing and Airbus, is seeing new entrants from China and Canada. The regional aircraft market is highly competitive and in this sector Ultra has secured content on the Japanese Mitsubishi Regional Jet and also the new Chinese MA700 regional turboprop. Growth in the business jet market is focused on larger aircraft, where Ultra has secured business on the new Gulfstream G650, G600 and G500 as well as the Cessna Citation Longitude. In the rotary wing market the large reduction in energy prices is reducing orders from the oil and gas rig servicing businesses and key requirements in this market are minimising aircraft through-life costs. In the military aerospace sector, the fixed wing combat aircraft market will be dominated for the next 20 years by the increasing build rate and entry-into-service of the F-35 Joint Strike Fighter and its F-135 engine. Ultra provides significant content to this aircraft/engine combination including precision pneumatics (HiPPAG) for weapons ejection and the engine inlet ice protection system controller. The air transport market is seeing a number of competitors looking to fill the niches left by C-17 and C-130. In this sector Ultra has secured positions on the Embraer KC-390 and on the Airbus A400M. The UAV market remains attractive however, it is still crowded and relatively immature.

2 3

Strategy in action

In 2015, Ultra's ICE business in Kansas, which joined the Group in 2014, was awarded the largest contract in its history by Cessna Aircraft in Wichita, to provide it with a novel Power Transfer Control Unit for its new Citation Longitude business jet.

Infrastructure

Ultra is a trusted international provider and integrator of critical systems and software to operate and secure today and tomorrow's transport and energy infrastructure.

Revenue by segment
Infrastructure

4%

Ultra's portfolio strength

Ultra's CORE capabilities include:

- Broad suite of integrated infrastructure offerings spanning Airports, Rail and Energy
- Reputation for functionality and capability
- Flexible delivery models; outstanding service reputation
- Integration capability and domain expertise at both technology and programme levels
- Growing credibility at national and regional government levels
- Secure localised network communications for measurement and control

Market overview

Transportation, including airport systems and rail, remains an area of strong investment worldwide. The increase in global air traffic and national prestige projects is driving investment in airport infrastructure, although competition in this sector is also growing. Rail infrastructure, globally, is also growing rapidly as a key commercial and national enabler in both established and emerging economies. In established economies infrastructure investment is focused on upgrading existing capabilities and driving economic recovery. In emerging economies, such investment is being used to secure growth and build national capacity. Increasing global demand for energy has led to the power generation, power distribution, secure power management and renewables markets also witnessing increased investment. Energy dominates the global trend in smart infrastructure, with Smart Grid and secure energy management lying at the heart of Smart Cities and Critical National Infrastructure. Whilst global infrastructure demand is largely being driven by China, India and the Middle East and North Africa region, at least 50% of the global market for smart solutions lies in Europe and the US.

Market outlook

In the airport sector, the market for Airport Master Systems Integration continues to experience growth, especially in the demand for tier 2 airports. This is particularly so in South America, the Middle East and Asia, where there are number of key capital projects. The Airport & Airline Information Management market is also forecast to see investment grow, although many of the operational systems are becoming increasingly commoditised. There is growing polarisation between global commoditised offerings and those with more localised niche expertise, so Ultra has continued to focus upon market intimacy, customer relationships and comprehensive solutions over individual products. The Rail Transit Power Conversion & Control market is also anticipated to see significant growth. However, with the exception of the Rail Control sector and the drive toward Smart Digital solutions, the market is becoming increasingly price-sensitive. In the Power Management & Renewables sector, the growing need for compact, power dense solutions plays to Ultra capabilities with power resilience, energy storage and fast switching all being key drivers for growth. The Secure Energy Management sector is forecast to see substantial investment, particularly in areas related to secure monitoring, analysis and control. The emergent Smart Grid market relies on the ability to securely identify each connected device and, in September, Ultra launched a cyber-hardened critical infrastructure management system to improve site management and performance without the need to replace legacy equipment. Whilst the Smart Grid market is likely to remain fragmented until the appropriate regulatory frameworks are established, Ultra's broader secure communication and data portfolio places it in a strong position with the Group able to offer the highest level of assurance that can be gained for the storage of unique digital keys and identifiers of devices.

3

Strategy in action

In September 2015 Ultra's Infrastructure segment combined expertise with UK start-up, PowerOasis, to integrate and launch a cyber-secure, intelligent remote management solution for critical national infrastructure.

Portfolio strength focused on customer need

Nuclear

Through its established relationships with Original Equipment Manufacturers (OEMs), the domain knowledge of its Suitably Qualified and Experienced Personnel (SQEP), and its broad range of qualified safety systems and sensors, Ultra is well positioned to support the growing market in the licensing, delivery and safe operation of reactors and associated systems via a full "defence in depth" approach to reactor operations and safety.

Revenue by segment
Nuclear

6%

Ultra's portfolio strength

Ultra's CORE capabilities include:

- Extensive pool of suitably qualified experienced personnel (SQEP)
- Nuclear safety system expertise
- Qualified reactor instrumentation control
- Radiation detection sensors
- Nuclear energy management systems
- Nuclear operational support

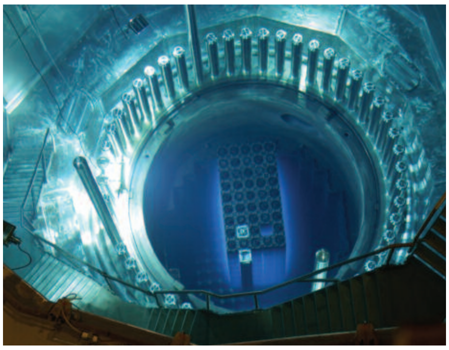
1 4

Strategy in action

Ultra NSPI was awarded in excess of $8m of contracts to design, qualify, and manufacture new temperature and pressure sensors for a variety of nuclear power plant customers around the world. These have resulted in multiple new products which broaden the scope, capability and international reach of Ultra's offering.

Market overview

There are over 440 commercial nuclear power reactors operating in 31 countries. They provide over 11% of the world's electricity as continuous, reliable base-load power and remain an important part of the low carbon energy mix. In addition 56 countries operate around 240 civil research reactors, with many of these in developing countries. Globally there are over 65 new reactors under construction. Many of the new builds are proceeding within emerging economies and in those countries where there is substantial state backing. The emphasis in established western markets has, however, largely shifted to a shorter-term focus on safety system upgrades, life extensions and emergency management and plant sustainment programmes. In addition to this, the UK is proceeding with a new commercial model it pioneered in support of new nuclear build ambitions. The nuclear market is generally very conservative and supported through large multinational organisations; however, there remain several complex niches served by smaller specialist companies. It is a highly regulated market, with high barriers to entry, and as such is dominated by a number of well-established global players. The qualification of sensors and products across multiple standards and platforms is extremely expensive and offers further barriers to entry once established.



Market outlook

Although the nuclear market is a long cycle one, with plants taking several years to come to completion, the outlook is positive. Much of the current global fleet of plants will need life extensions and upgrades. These plants are largely older analogue Instrumentation and Control (I&C) designs, with the biggest market by far being the US. The new build, digital I&C market that is currently dominated by China, India and Russia, is of a similar order of magnitude. Ultra has invested significantly in new facilities for the test, development and manufacture of sensors. This has shown its value through further contract wins with EDF for the provision of specialist sensors and with the Strategic Partnership announcement with NuScale to develop a suite of reactor and plant instrumentation and control systems for their Small Modular Reactor (SMR). The Group currently provides equipment to over 190 reactors across 16 countries, plus another 32 reactors currently under construction. Furthermore Ultra is uniquely qualified on eight new types (as well as many legacy plants), meaning that it is well positioned for the future.

The Fukushima accident prompted further growth in the nuclear emergency management market, where there has been a global reassessment of post-accident response and support needs. Plant safety is now increasingly reliant on secure data and, as such, cyber security is now a key part of meeting the formal safety requirements. Security concerns around proliferation and the threat of terrorism are also driving the growth in new deployable security and surveillance systems for nuclear plants and enhanced border security. Ultra's domain knowledge, through its suitably qualified and experienced personnel (SQEP), coupled with its extensive security and surveillance capabilities (as described in C2ISR segment on page **18**), position Ultra well in this sector.

Communications

Ultra is well positioned as one of the most trusted and respected providers of secure communication systems in the world offering advanced, interoperable solutions that are scalable and low risk.

Revenue by segment
Communications

14%

Ultra's portfolio strength

Ultra's CORE capabilities include:

- Encryption solutions
- Data link systems
- High performance, high reliability radio and wireless systems
- Secure voice, video and data communication platforms
- Secure wireless mesh networking
- Fixed, mobile and transportable satellite earth stations
- Airborne communication exchange
- Personal protective gear communications
- Acoustic hailing devices
- "Through the earth" communications

2

Strategy in action

In December, Ultra's Communication & Integrated Systems business was awarded an initial contract to upgrade the radios on the Royal Air Force's Typhoon aircraft, with further orders to follow in 2016 and beyond. Over the life of the programme this could be worth in excess of £20m.

Market overview

The military and security communications market is seeing a greater demand for interoperability, mobility and rapid deployment solutions, alongside an increased desire for smaller, faster, easier to use technology that is less complex to configure. Many nations have a plethora of communications systems in service and there is a drive to streamline these to achieve coherency and cost-effectiveness, which is translating into the gradual modernisation of legacy equipment and systems. The customers' desire to maintain interoperability throughout these modernisation programmes is resulting in small evolutionary changes, as opposed to step changes, an approach that allows customers to exploit commercial and modified commercial off the shelf (COTS) technology. In particular, there is a shift towards using software defined solutions that enable fast cycle upgrades to capability and the use of open and commercial standards.

The other key factor driving the market in the exploitation of COTS technology is the reduced funding that military customers have to develop bespoke solutions. Many nations wish to procure low risk and proven systems, rather than being the first adopters or having to fund the development. Additionally, overseas customers want the ability to implement their own waveforms and cryptographic algorithms. Globally, there is a growing reliance on Machine-to-Machine (M2M) communications, especially in critical national infrastructure. With the rising prevalence of connected devices and the growth in the "Internet of Things" (IoT), the secure low power communication market is also experiencing a considerable increase.

© Eurofighter/Geoffrey Lee

Market outlook

In general, the demand to deliver secure voice, data and video communications will increase, driving the requirement for faster performance using lower cost platforms. More specifically, the data link market, in which Ultra is well placed with its wide range of advanced data link and airborne gateway solutions, will see a growing demand for secure full motion video and C2 links to deliver real time situational awareness to the smallest platforms at the tactical edge. This, in turn, will continue to drive the demand for more bandwidth and broader connectivity, and thus for higher performance tactical communication systems such as the Ultra Orion multi-mission radio. In the satellite earth station market, the move to smaller, more portable and mobile solutions that deliver higher bandwidth X and Ka band solutions will accelerate over the next five years, driven by the rapid expansion of High Throughput Satellite (HTS) capacity and the migration of users to Ka band services. Ultra has a strong pedigree in this sector and is positioning to capitalise on this development.

Looking at the encryption market, there is a general move to smaller form factor products and from link to Internet Protocol (IP)-based cryptographic solutions, coupled with a shift from paper-based key to electronic key distribution and management systems. Ultra, with its proven next generation of end cryptographic products and strong position in both UK and US cryptographic programmes, allied to the Group's electronic key distribution and management solutions, is well positioned in this sector. Finally, with the vulnerabilities of M2M communications becoming increasingly apparent and a growing recognition of the need for solutions to secure such systems, the secure M2M market will continue to grow. Here again Ultra's proven certified security solutions, that are tailored to meet critical national infrastructure and industrial needs, position the Group well. Similarly, the increasing secure low power communication market will enable Ultra to build on its reputation as a trusted supplier of wireless network solutions.

Portfolio strength focused on customer need

C2ISR*

As a trusted supplier of innovative surveillance and security solutions to government and commercial customers, Ultra is well positioned to exploit this growing market.

Revenue by segment
C2ISR

23%

Ultra's portfolio strength

Ultra's CORE capabilities include:

- Surveillance solutions for critical national infrastructure, coastal and border security needs
- Covert surveillance solutions
- Command and control systems
- Communications surveillance and analysis
- Airborne surveillance and targeting
- Ballistics and crime scene analysis
- Secure identification systems
- Document examination systems
- Electronic warfare solutions, electronic warfare simulators and radar test systems

Market overview

Budgets for security remain ring-fenced or are growing substantially in the face of terrorism, organised crime and drug trafficking. Border security and Critical National Infrastructure (CNI) protection opportunities are increasing, driving the requirement for surveillance and security solutions. The market is seeing a growing demand for interoperable and mobile networks that deliver a single integrated picture for timely situational awareness. With a growing number of devices capable of collecting sensor data operating across multiple communications networks, integrated surveillance systems continue to increase in complexity and scale. Solutions need to be tailored to customer need, comprehensive and able to draw on "best-of-breed", established and clearly differentiated technologies.

The reliance on air power as the principal mechanism for early or urgent delivery of military effect is driving the demand for airborne intelligence, surveillance, target acquisition and reconnaissance (ISTAR). In this regard, there has been a significant growth in the use of unmanned air vehicles and the associated intelligence, surveillance and reconnaissance payloads. The challenge remains to be the timely and secure dissemination of such data, typically video, around the battlespace.

Market Outlook

In the civil security market, political, economic and social factors will continue to drive growth in the border surveillance and security market. This is seeing a move from more traditional approaches to high tech networked solutions, and Ultra has all the necessary elements to deliver these for multiple applications. The CNI protection market is also expected to see significant growth and here Ultra is well positioned to provide complete cyber-physical security solution drawing on its advanced secure communications and surveillance capabilities. The communications and intelligence surveillance market will also continue to see demand, but remains politically sensitive in some countries.

In the defence market, the demand for precision strike, reduced collateral damage and extended stand-off ranges will continue. There will also be more emphasis on intelligence and surveillance assets, together with the ability to fuse or correlate these data streams into a single real time integrated picture that can be disseminated down to the lowest level. This will continue to drive the growth in real time ISTAR (for both manned and unmanned platforms) and the connectivity between assets in the battlespace. Ultra's leading data fusion, situational awareness and visualisation systems play well to this growing need. Electronic Warfare (EW) is also gaining in prominence. The worldwide EW market is forecast to grow significantly over the next few years and Ultra, with the acquisition of Herley last summer, is well placed to strengthen and widen its EW offerings and grow its share of the EW market.

2

Strategy in action

Last year, Ultra's 3eTI business secured orders worth over $30m for the protection of US Navy bases in the Washington, Southwest and Hawaii regions.

*Command & Control, Intelligence Surveillance and Reconnaissance

Underwater Warfare

Ultra's world-leading domain knowledge, acoustic technical expertise and ability to provide leading technology Anti-Submarine Warfare (ASW) performance through rapidly delivered, scalable, affordable and reliable solutions means that it is well positioned to exploit this growing market.

Revenue by segment
Underwater Warfare

24%

Ultra's portfolio strength

Ultra's CORE capabilities include:

- Full understanding of acoustic performance in the maritime domain
- Multi-Static Active processing
- Acoustic countermeasure techniques for torpedo defence
- Recognised integrator for complex acoustic systems both towed and hull-mounted
- Design and cost-effective manufacturing of acoustic components and systems

Strategy in action

In December, Ultra was selected by the Indian Navy for delivery of the New Torpedo Defence System (NTDS). Ultra partnered with Mahindra Defence Naval Systems (MDNS) to provide the Indian Navy with the winning solution based on the Sea Sentor Torpedo Defence System in use by the Royal Navy. The NTDS success was achieved through a winning combination of Ultra's extensive experience and innovation in torpedo defence systems, alongside MDNS' understanding of the unique customer requirements. The combined strengths of this team led to an optimised, affordable offering for the Indian Navy. The offering builds off of Sea Sentor's architecture which enables efficient design tailoring to incorporate only those capabilities meeting operational requirements. This down selection is the first major Indian Navy programme win for the Ultra-MDNS strategic collaboration, culminating after many months of intensive customer/industry exchanges and rigorous at-sea demonstrations.

Market overview

The proliferation of the modern submarine threat is driving increased opportunity in the underwater warfare market. Submarines are strategic assets, fulfilling a range of roles from intelligence gathering to area denial operations. The growth in the number of submarine platforms, coupled with the increasingly capable Russian submarine force and the growing threats in the Middle and Far East, is seen to be challenging the traditional western underwater technological superiority. Investment in ASW is growing rapidly as nations react to counter these threats.

Global financial pressures coupled with increased capital platform costs mean that nations can typically no longer afford platforms dedicated to a specific role. Instead, they are generally moving to use of more, smaller multi-role platforms, of frigate or offshore patrol vessel size. As a result, ASW solutions now need to be modular with reduced footprints to fit on these smaller vessels. Other key factors in this growing ASW market are the desire for short to no development times, requiring investment in advance of contract awards. Ultra has positioned itself well in both of these areas, with continued investment in ASW technologies including multi-static active systems and sonobuoys for use with Unmanned Aerial Vehicles (UAV). A key export market driver is the increasing requirement for indigenous technology transfer to overseas customers, another area where Ultra has a strong pedigree with recent export contracts.

Market outlook

The US continues its strategic rebalancing towards Asia (the "pivot to the Pacific"). As a result, despite the wider US government funding pressures, ASW and submarines remain areas of preferential spend with increased budget allocation. Specifically, the US Secretary of Defense has directed the Navy to adjust their budget to prioritise acceleration of submarine combat system upgrades, torpedo production and next generation torpedo countermeasures. Ultra's Underwater Warfare segment has leadership positions for these specific areas in and beyond the US market, particularly with torpedo warning systems, torpedo countermeausres and small arrays. More broadly in the addressable Asia-Pacific market, spend related to ASW systems, including towed torpedo defence solutions, is projected to rise to almost £0.5bn. India intends to award three major ASW-related programmes totalling in excess of £100m over the next five years. Ultra is well placed to address these needs based on its continued investment in integrated sonar systems and surface ship torpedo defence system technologies, both of which have enabled recent contract wins in the UK and New Zealand patrol aircraft requirements.

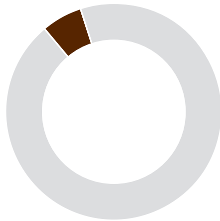
1. Introduction
2. Strategic report
3. Governance
4. Group financials
5. Company financials
6. Five-year review

Portfolio strength focused on customer need

Maritime systems

Combining open architectures and niche electronic solutions, Ultra provides affordable, reliable solutions to meet customer needs in power and electronics for maritime platforms.

Revenue by segment
Maritime systems



6%

Ultra's portfolio strength

Ultra's CORE capabilities include:

- Customised command and control systems for smaller ships
- Weapons interfaces
- Stable positioning for precise Electro-Optic (EO) tracking on moving platforms
- Power conversion and control management
- Platform signature management
- Specialist motor drives and power converters
- Degaussing systems

Strategy in action

Ultra PMES was awarded a contract in June for continued design work on the UK's Next Generation Nuclear Power and Propulsion (NGNPP) programme. The award leverages Ultra's established niche expertise in power management and control designs and products present on today's nuclear submarines. This award puts Ultra in a strong position for contributing product on the UK's follow-on submarine programmes, Successor and Maritime Future Underwater Capability (MFUC).

Market overview

In Ultra's established defence markets customers are now generally looking to re-establish balanced force presence and intervention capabilities without the risk exposure of a forced land footprint. As such, after a decade of land-based operations, the focus on spending has now moved towards maritime, air and Special Forces. Ever-present budget pressures mean new build maritime programmes have generally reduced either in number or scale. As a result, existing platforms are typically now being extended beyond their original service lives and customers are seeking more cost-effective ways of increasing the capabilities of their navies. Consequently the demand for system/sensor upgrades and technology insertion programmes on existing hulls is growing, particularly for navies in emerging nations. For the export market in general, new build maritime platform programmes are often dominated by the industrial politics of the nation concerned, especially if they have indigenous capabilities. As a result, technology transfer is an increasingly important factor enabling business in the export market.

Market outlook

The power products segment in the US market remains stable with Virginia Class Submarine (VCS) production funding well protected. Longer-term growth opportunities for Ultra specialist power products will come with the Ohio Replacement Programme (ORP), projected to provide 12 new hulls beginning in 2021. The use of common subsystems with VCS will help lower the cost growth risk that currently exists on ORP. The US Navy is investing in technical refresh of Arleigh Burkeclass guided missile destroyers (DDG-51), Ohio class submarines, landing platform dock (LPD-17) and replenishment naval vessel (T-AKE class) that provides further opportunities for growth of the Group's advanced power management and signature management products.

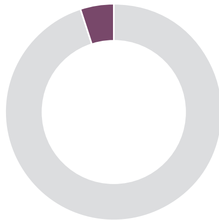
With the protection of maritime resources rising in importance in areas such as the South China Sea, there are increasing requirements for submarines with extended patrol times. The advent of air independent propulsion capability is expected to increase demand for power conversion and degaussing products. Incumbent positions on the UK Successor submarine development programme will enable the high probability of production follow on for main static converters, electric cruise propulsion and signature management. Clean Power requirements of DoD and aerospace specifications will continue to drive the need for Ultra's specialty components highlighted by power filters and multi-phase transformers. The Group's specialist signature management capabilities will see growth opportunities in the next five years through the US Navy's Ohio Replacement Programme, replacement new fleet oilers (TAO-X) and DDG-51 upgrades. There is also increased focus on electric field signature management due to the growing awareness of influence mine threat.

More broadly, the continuing demand for surface platform system and sensor upgrades plays well to Ultra's strengths in naval combat systems and electro-optics and the Group's pedigree in partnering with local industry.

Land systems

With defined open architectures and niche electronic solutions, Ultra has a growing position in the provision of innovative, affordable and reliable solutions to meet customer needs in power and electronics for the land environment.

Revenue by segment
Land systems



5%

Ultra's portfolio strength

Ultra's CORE capabilities include:

- Power Systems
- Information Systems
- Control Systems
- Mission Systems
- Electronic Architectures
- Soldier Systems
- Operating Base Solutions

Market overview

In general the focus of military forces is to reset away from the "hold and build" operations of the last decade, back to building more balanced and full spectrum capable forces. This has seen a shift in spending away from the Land sector, which has resulted in a reduction in the number of new land vehicle programmes in Ultra's established markets. Instead there has been a significant growth in the number of major capability enhancements and life extension programmes for land platforms. This plays to Ultra's strengths in electronic vehicle architectures. Land platforms are now increasingly complex, with multiple sensors, weapons and communication systems. These complex electronics are driving the increased electrical generation capacity and management within the platform.

Market outlook

In the UK and European markets the reduction in the number of new vehicle programmes has been partially offset by a significant increase in the number of platform life-extension and technical insertion programmes. Further, there are also upgrade programmes as a number of platforms' procured to meet urgent operational requirements over the last decade of operations, are now being absorbed back into core service. Ultra, as a provider of specialist capabilities, is well positioned to be able to support such upgrade programmes. In the UK, the Group has teamed with Morgan Advanced Materials to provide the through life support of the UK Mastiff platforms. In the US, despite the budgetary pressures that led to the cancellation of several large new vehicle programmes, the DoD has funds for a number of platform upgrade programmes, that offer opportunities for Ultra given the Group's electronic architecture capabilities. More broadly, the export market place is growing with a number of prospective new vehicle and upgrade programmes being initiated. This includes the established markets of India and Australia and the emerging markets in the Middle and Far East. In the Middle East, Ultra is working in partnership with an indigenous platform provider to support the upgrade of the existing vehicle fleet. Combined, these potential programmes offer significant opportunities and volumes.

Military forces are beginning to look at how they can integrate soldiers and their associated systems into the wider land battlespace. Ultra is actively exploring opportunities with a number of customers regarding how it can apply its advanced power management technologies to the soldier.

1 2

Strategy in action

Ultra EMS was awarded a contract in December for Battery Monitoring System (BMS) delivery for use on the Army's Warfighter Information Network-Tactical (WIN-T) Increment 2 Programme. Specifically, Ultra's BMS allows the Army to provide its tactical vehicles with a lighter, more collaborative, maintenance and crew-reduced Network and Communications capability. The Ultra BMS is now designed into the Army's Tactical Communications Node Lite (TCN-L) and Network Operations and Security Center Lite (NOSC-L) architectures that drive the electronic architecture of their tactical vehicles.

World class performance

Financial review

The Group's businesses sustained their focus on costs, delivering an underlying operating margin of 16.5%.

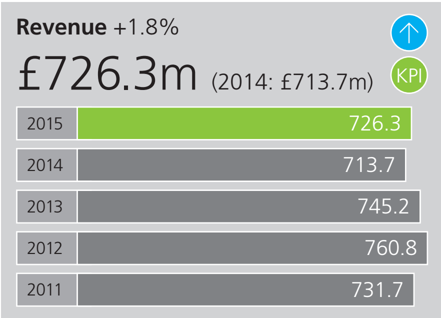
Ultra continues to invest in research and development to support future opportunities

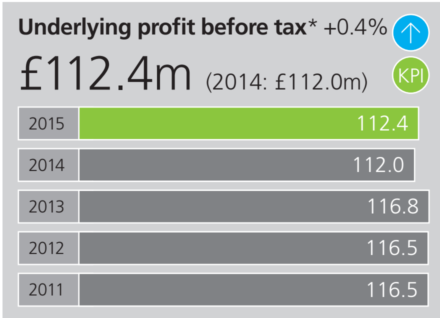
Mary Waldner
Group Finance Director

Ultra's 2015 results
The order book at the end of 2015 was £753.8m compared to £787.3m in the prior year. Acquisitions, primarily Herley, contributed 7.3% and there was a foreign exchange benefit of 0.9%, however, there was an underlying order book decline of 12.5%. This reflected the delay into 2016 of over £100m of orders, a substantial number of which are expected to be secured in the first half of the year. This includes the UK sonobuoy partnering and India torpedo defence orders.

Revenue
The revenue of £726.3m represented an increase of 1.8%, or £12.6m, on the prior year (2014: £713.7m). A 5.9% increase reflecting the impact of acquisitions, together with a benefit from the positive impact of foreign exchange on overseas revenues, was partially offset by an organic decline of 8.1%, 2.1% of which related to the Oman Airport IT contract which was terminated on 9 February 2015.

With approximately 50% of revenues sold in US Dollars, Ultra was impacted by the reduction in the US Dollar rate to 1.53 (2014: 1.65) which increased revenues by 4.0%.





Acquisitions contributed 5.9% to revenue, primarily reflecting the impact of Herley together with Furnace Parts, acquired during 2015, as well as contributions from 3 Phoenix, Forensic Technology, Ice Corporation and Lab Impex Systems all of which were acquired during 2014.

Excluding the impact of Oman, the organic revenue decline of 6.0% comprised reductions across all three divisions.

Aerospace & Infrastructure sales were impacted by the termination of the Oman contract, as well as a reduction in revenue from the A400M NIM programme, reflecting contract phasing. However, these were partially offset by an increase in Aerospace sales, in particular on the MRJ and the JSF programmes, and in revenues from Airport Systems including the Orange County contract in the US. Revenue from vehicle programmes, including the Warrior, Scout and Middle East NIMR, also increased.

Communications & Security was impacted by the repeal of the US Patriot Act that significantly reduced domestic legal intercept revenues in the SoTech business; however, this was offset by an increase in revenue from security and surveillance products and from the ECU RP programme. This division saw the benefit of the acquisition of Herley in 2015 together with the prior year acquisition of Forensic Technology.

In Maritime & Land there was an increase in sales of US and international sonobuoys reflecting the pivot to the Pacific, and also in revenue on the Sonar 2050 programme for the UK MoD. This was offset by the impact of funding delays on the Torpedo Warning System in the US and by a reduction in rail power management revenue. The acquisition of 3 Phoenix in the prior year contributed to divisional sales.

Operating profit and margins*
Underlying operating profit* was £120.0m (2014: £118.1m). Acquisition growth contributed 4.9% and foreign exchange 1.9%, which was partially offset by an organic decline of 5.2%. The Group's businesses maintained their focus on restructuring their cost bases which sustained an underlying operating margin of 16.5% (2014: 16.5%).

Following the securing of a number of new orders to develop products for the aerospace sector, Aerospace & Infrastructure margins have been impacted by increased R&D investment and lower margins during the engineering phases of projects. There were also restructuring costs at the CEMS business. This was partially offset by higher margins as vehicle programmes enter the production phase. In Communications & Security, there were higher margins as the CIS ECU RP programme completes its production phases. This more than offsets the impact of both the loss of high margin revenue and the associated restructuring costs in the SoTech business. In Maritime & Land, margins reflected the release of some contract risk reserve in the prior year.

Acquisitions contributed an additional £5.8m to profit, primarily in Communications & Security, reflecting the acquisition of Herley in 2015 and Forensic Technology during 2014.

The integration of Herley is on schedule, with $1m of the acquisition case synergies already actioned and a further $0.5m planned. In addition, Herley's future position is improved by its selection for more than expected of the modules in the major US Surface Electronic Warfare Improvement Programme (SEWIP), securing significant revenue opportunities over many years.

Ultra continues to invest in research and development to support future opportunities; this investment, at £36.0m, represented 5.0% of Group turnover.

The Group's Standardisation & Shared Services programme (S3) is on track. The UK Shared Service Centre will be set up during 2016, and the ERP strategy phase will identify the ERPs to be used across the Group. c£3m of savings have been identified for delivery in 2016 and procurement savings are already being delivered.

Interest and profit before tax*
Net financing charges*, excluding the unwinding of discounts on provisions, fair value movement on derivatives and the net interest charge on defined benefit pensions, were £7.6m (2014: £6.1m). The increase reflected higher debt balances as a result of the acquisition of Herley during the year, partially offset by the impact of lower rates following the renewal of the £100m revolving credit facility during the year. The interest on bank debt was covered 16 times (2014: 20 times) by underlying operating profit*.

Underlying profit before tax* was £112.4m (2014: £112.0m).

	2015 £m	2014 £m
Underlying profit before tax	**112.4**	112.0
Amortisation of intangibles arising on acquisition	**(30.8)**	(28.8)
Net interest charge on defined benefit pensions	**(3.0)**	(3.6)
Loss on fair value movements on derivatives	**(4.0)**	(7.2)
Adjustments to contingent consideration, net of acquisition costs	**(9.4)**	4.5
Unwinding of discount on provisions	**(0.6)**	(1.2)
Oman contract termination charge	**-**	(46.9)
Deemed disposal of Ithra	**(16.5)**	-
S3 programme	**(4.9)**	-
Impairment charges	**(8.4)**	(7.3)
Reported profit before tax	**34.8**	21.5

World class performance
Financial review (continued)

77%

the cash to underlying operating profit ratio over a five-year rolling period is **77**%

IFRS profit before tax
Ultra's IFRS profit before tax increased from £21.5m (2014) to £34.8m. In the prior year an exceptional non-underlying charge of £46.9m relating to the termination of Oman Airport IT contract was recognised in profit before tax. In 2015, the deemed disposal of Ithra resulted in a non-cash, non-underlying IFRS accounting charge. It arises from the liquidation of the Ithra contract vehicle following the termination of the Oman contract. Profit before tax also includes a £2.7m charge reflecting the sale of Ultra's minority shareholding in the Al Shaheen joint venture, following a review of activities in the Middle East and a £5.7m charge to impair the intangible fixed asset impacted by the repeal of the US Patriot Act. The prior year included the impairment of the acquired goodwill relating to Al Shaheen.

The £9.4m of acquisition related costs primarily reflected costs incurred on the acquisition of Herley during the year. In the prior year, £4.5m of acquisition related adjustments included the release of an £8.4m provision relating to the GigaSat earn out agreement for which the 2014 target was not met.

The start-up costs of the S3 programme, include onerous lease costs relating to facility consolidations.

Tax, EPS and dividends
The underlying tax rate* reduced slightly to 22.8% (2014: 23.2%) reflecting lower UK tax rates.

Underlying earnings per share* were 123.9p (2014: 123.1p), an increase of 0.6%. A final dividend of 32.3p (2014: 31.1p) is proposed. If this is approved at the Annual General Meeting, this will give a full year dividend of 46.1p (2014: 44.3p) and will be covered 2.7 times.

Operating cash flow
Underlying operating cash flow* was £81.3m (2014: £83.1m) and the ratio of cash to underlying operating profit was 68% (2014: 70%). Excluding outflow of £10.8m relating to the Oman airport IT contract cash conversion would have been 77%.

The cash to underlying operating profit ratio over a rolling five-year period is 77%.

Depreciation and disposals were slightly higher than last year reflecting the sale of an airport systems building in the UK.

Capital expenditure, including on systems, was lower than last year, at £4.6m (2014: £10.7m) as we scheduled ERP upgrades into 2016 in order that they can be implemented through the S3 programme. The net outflow on intangible capital expenditure reduced reflecting capitalised development of £0.9m compared to £5.0m in the prior year.

Working capital increased by £40.0m (2014: decrease £12.2m), reflecting a reduction in creditors and an increase in debtors, partially offset by a reduction in inventory.

Included in creditors was a £10.8m impact relating to settlement of sub-contractors following the termination of the Oman airport IT contract. There was also an £20m impact relating to the unwind of a number of advanced payment balances including on the ECU RP contract and on the US sonobuoy IDIQ. Debtors increased reflecting the timing of delivery on vehicle programmes. This was partially offset by a £6.6m reduction in inventory, resulting from the Company-wide initiative targeting working capital.

The other outflow primarily represents the pension deficit reduction payments of £8.5m agreed with the trustees.

Finally during the period we received an £5.3m dividend from Al Shaheen.

*see footnote on page 136

46.1p

Full year dividend of **46.1**p

Non-operating cash flow
With underlying operating cash flow* of £81.3m (2014: £83.1m), the Group funded various non-operating items with net debt increasing to £295.6m (2014: £129.5m). The main non-operating items were:

- cash tax of £17.3m (2014: £22.9m)
- acquisition spend of £179.1m (2014: £107.5m) including acquisition fees and other acquisition related payments, with the majority of the spend in respect of the two acquisitions completed in the year
- dividend payments of £31.3m (2014: £29.7m)

Effect of acquisitions
The two acquisitions made in the year, Herley and Furnace Parts, were made at a total purchase consideration of £176.3m, including related acquisition fees of £5.3m. The purchase consideration includes cash acquired of £0.7m. In addition, £3.5m was spent on prior year acquisitions and fees.

Banking facilities
Ultra's current banking facilities amount to £451.8m in total, together with a £15.0m overdraft. They are provided by a small club of banks, led by the Royal Bank of Scotland, and comprise three tranches all of which are due to expire in August 2019. The first two tranches comprise £200m and £100m revolving credit facilities, that can be drawn down in any major currency. During the period, the £100m facility, that was due to expire in December 2017 was extended and amended to match the favourable interest pricing of the £200m facility. The third tranche is a $225m term loan which was put in place at the time of the Herley acquisition. The covenants match the revolving credit facilities.

The Group also has a "shelf" facility with Prudential Investment Management Inc ('Pricoa'). This agreement effectively gives the Group access to the US private placement market on a bilateral basis. The facility is non-committed, but is for up to $195m. At 31 December 2015, $70m of loan notes had been issued, that will mature in 2018 and 2019. By using the Pricoa facility, Ultra has been able to extend the term profile of its debt at a competitive rate.

As well as being used to fund acquisitions, the financing facilities are also used for other balance sheet and operational needs, including funding day-to-day working capital requirements. The US Dollar borrowings also represent natural hedges against assets denominated in that currency.

At the year end, the total borrowings drawn from the revolving facilities were £140.2m (2014: £122.0m), giving headroom of £159.8m (2014: £178.0m) in addition to the £15m overdraft. £47.2m (2014: £44.8m) of Pricoa loan notes had been issued. The Group also held £45.5m of cash, which was held for working capital purposes and to fund acquisitions.

The Group's balance sheet remains resilient, with net debt/EBITDA of 2.2 and net interest payable on borrowings covered around 16 times by underlying operating profit.

Interest rate management
Much of the Group's current financing has been taken on to fund acquisitions in North America. To reduce the risks associated with interest rate fluctuations and the associated volatility in reported earnings, Ultra has issued a total of $70m of fixed-rate, seven-year notes to Pricoa. Consequently, the Group has extended the term profile of its debt and has also fixed a substantial proportion of its interest for the same seven-year period. The amount of fixed-term debt and the associated interest rate policy is kept under regular review. During 2015, interest rate hedging was put in place to ensure that 40% of forecast debt was at a fixed rate at year end.

" Company-wide initiative to target working capital. "

*see footnote on page 136

World class performance
Financial review (continued)

“ All staff who have joined Ultra in the UK since the defined benefit scheme was closed in 2003, have been invited to become members of the Ultra Electronics Group Personal Pension Plan ”

Pensions
Ultra offers Company-funded retirement benefits to all employees in its major countries of operation. Many UK staff with longer service still participate in the Ultra Electronics Limited defined benefit scheme, which was closed to new entrants in 2003. This is a contributory scheme in which the Company makes the largest element of the payments, that are topped up by employee contributions. The scheme was actuarially assessed, using the projected unit method at 31 December 2015, when the net scheme deficit, calculated in accordance with IAS19, was £68.1m, compared to £68.6m in 2014. The present value of the liabilities rose by £1.2m in 2015. The increase in the scheme liabilities was more than offset by a £3.7m increase in the value of the scheme assets.

There was a full actuarial assessment carried out as of April 2013, the result of which was a funding deficit relating to past service of £99.8m before tax, representing an increase of £36.2m from the previous funding deficit. Following the completion of the assessment, Ultra reached agreement with the pension scheme trustee board to eliminate the deficit through additional deficit payments over a 10.5-year period; it was £8.0m in 2014, rising to £8.5m in 2015 and £9.0m per annum for the following 8.5 years. The next valuation will take place as of April 2016.

During 2015 a consultation took place with the members on a proposal to close the scheme to future benefit accrual from 5 April 2016. Following the end of the consultation and discussion with the Trustee, it was announced to members on 1 February 2016 that the Company had agreed with the Trustee the terms under which the scheme is to be closed and that the proposed closure would go ahead.

The scheme has a statement of investment principles which includes a specific declaration on socially responsible investment. This is delegated to the investment managers. Pension management and governance is undertaken by the pension trustees on behalf of the members. The trustees include both Company-nominated and employee-elected representatives.

All staff who have joined Ultra in the UK since the defined benefit scheme was closed in 2003, have been invited to become members of the Ultra Electronics Group Personal Pension Plan and since April 2011, the Ultra Electronics Group Flexible Retirement Plan. Under the terms of this defined contribution scheme, Company payments are supplemented by contributions from employees.

Certain employees at TCS in Canada participate in a defined benefit scheme. This scheme is closed to new employees and had an IAS19 net deficit of £0.6m at the end of the year (2014: £0.9m). Regular payments continue to be made, with both Company and employees making contributions, so as to maintain a satisfactory funding position. The Group's remaining Canadian employees participate in a number of defined contribution pension plans. In the US, Ultra offers a defined contribution 401(k) retirement benefit plan to all full-time employees. Under this plan, Ultra provides participating and contributing employees with matching contributions, subject to plan and US Internal Revenue Service limitations.

Certain employees at the Swiss subsidiary of Forensic Technology, acquired during 2014, participate in a defined benefit pension scheme. The scheme had an IAS19 net deficit of £0.7m at 31 December 2015 (2014: £0.2m).

100%

Foreign exchange risks: 100% of expected exposure for 2016 is covered

Foreign exchange risks

Ultra's results are affected by both the translation and transaction effects of foreign currency movements. By their nature, currency translation risks cannot be mitigated, but the transaction position is actively managed.

The majority of sales made by Ultra's businesses are made in local currency, thus avoiding any transaction risk. However, this risk does arise when businesses make sales and purchases which are denominated in foreign currencies, most often in US Dollars. To reduce the potential volatility, Ultra attempts to source, in US Dollars, a high proportion of the products sold in US Dollars. For the remaining net expense, the Group's policy is to hedge forward the foreign currency trading exposure in order to increase certainty. The expected flows are reviewed on a regular basis and additional layers of cover are taken out so that, for 2016, 100% of the expected exposure is covered, reducing to 80% of the exposure for 2017, 50% for 2018 and 30% for 2019. Exposure to other currencies is hedged as it arises on specific contracts.

Statement of going concern

Ultra's committed banking facilities amount to £451.8m in total, together with a £15.0m overdraft. They were established in three tranches.

The first tranche comprises £100m of revolving credit, denominated in Sterling, US Dollars, Canadian Dollars, Australian Dollars or Euros. This facility was signed in December 2012, amended and extended in July 2015 and expires in August 2019. The facility is provided by a group of five banks.

The second tranche provides a further £200m of revolving credit in the same currencies. This was signed in August 2014 with seven banks and expires in August 2019. Both facilities have the same covenants.

The third tranche, agreed in May 2015, is a $225m term loan with a group of four banks from our existing lending group. This loan, denominated in US Dollars, was drawn in full in August 2015 to complete the Herley acquisition. The covenants match the revolving credit facilities.

The Group has a "shelf" facility with Pricoa. This agreement gives the Group access to the US private placement market on a bilateral basis. The facility is non-committed but is for up to $195m. At the year end $70m of loan notes had been issued, which mature in 2018 and 2019.

As well as being used to fund acquisitions, the financing facilities are also used for other balance sheet and operational needs, including the funding of day-to-day working capital requirements. The US Dollar borrowings also represent natural hedges against assets denominated in that currency. Details of how Ultra manages its liquidity risk can be found in note 23 – Financial Instruments and Financial Risk Management.

Though global macro-economic conditions remain uncertain, the long-term nature of Ultra's business and its positioning in attractive sectors of its markets, taken together with the Group's forward order book, provide a satisfactory level of confidence in respect of trading in the year to come.

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

Long-term viability statement

In accordance with provision C.2.2 of the 2014 revision of the Code, the Directors have assessed the viability of the Company over a longer period than the 12 months required by the going concern basis of accounting. The Board conducted this review for a period of three years to December 2018, to coincide with its review of the Group's financial budgets and medium-term forecasts from its Strategic Plan. The certainty is lower in later years due to the inherent uncertainties in forecasting future performance. The Strategic Plan is underpinned by the regular Executive Team reviews of business unit performance, market opportunities and associated risks. The assessment has taken into account the Group's current position and the potential impact of the principal risks documented in the Strategic Report. Based on this assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to December 2018. In making this statement the Directors have considered the resilience of the Group, taking account of its current position, the principal risks facing the business in severe but reasonable scenarios and the effectiveness of any mitigating actions. This assessment has considered the potential impacts of these risks on the business model, future performance, solvency and liquidity over the period. The Directors have determined that the three-year period to December 2018 is an appropriate period to provide its viability statement. In making their assessment, the Directors have taken account of the Group's robust balance sheet, its financial covenant headroom, its ability to raise new finance in different financial market conditions and its key potential mitigating action of restricting dividend payments.

This conclusion is based on a review of the resources available to the Group, taking account of the Group's financial projections together with available cash and committed borrowings, financial covenants and any material uncertainties. In reaching this conclusion, the Board has considered the magnitude of potential impacts resulting from uncertain future events or changes in conditions, the likelihood of their occurrence and the likely effectiveness of mitigating actions that the Directors would consider undertaking.

Mary Waldner
Group Finance Director

World class performance
KPIs charting growth

The indicators shown below have been identified by the Board as giving the best overall indication of the Group's long-term success in improving its FTSE ranking by outperforming the market.

Revenue growth

Description
Growth in total Group revenue compared to the prior year, providing a quantified indication of the rate at which the Group's business activity is expanding.

+1.8%

2015	+1.8%
2014	-4.2%
2013	-2.1%
2012	+4.0%
2011	+3.1%

Comment
Revenue increased by 1.8% or £12.6m to £726.3m. A 5.9% increase reflecting the impact of acquisitions, together with a 4.0% benefit from the positive impact of foreign exchange on overseas revenues was partially offset by an organic decline of 8.1%. 2.1% (or £14.9m) of the decline related to the Oman Airport IT contract which was terminated in February 2015.

Underlying profit before tax growth

Description
Growth in Group underlying profit before tax* compared to the prior year, confirming that additional revenue is being gained without profit margins being compromised or that profits from new acquisitions are not being diluted.

+0.4%

2015	+0.4%
2014	-4.1%
2013	+0.3%
2012	+0.1%
2011	+10.7%

Comment
Underlying profit before tax was £112.4m (2014 £112.0m). This contributed to an underlying operating margin of 16.5% (2014: 16.5%).

Growth in underlying earnings per share

Description
Annual growth in underlying earnings per share* calculated over a rolling three-year period, indicating progress towards the Board's primary objective.

0%

2015	0%
2014	+1%
2013	+5%
2012	+9%
2011	+15%

Comment
Underlying operating earnings per share in the year were 123.9p (2014: 123.1p), an increase of 0.6%. A final dividend of 32.3p (2014: 31.1p) is proposed. If this is approved at the Annual General Meeting it will give a full year dividend of 46.1p (2014: 44.3p) and will be covered 2.7 times.

Operating cash conversion

Description
Net cash from operating activities, less net purchases of property, plant and equipment, less expenditure on product development and LTIP purchases, expressed as a percentage of underlying operating profit*. Operating cash conversion* is a simple yet reliable measure of cash generation, which represents the major element of the Group's short-term incentive bonus scheme.

68%

2015	68%
2014	70%
2013	65%
2012	74%
2011	110%

Comment
Underlying operating cash flow* in the year was £81.3m (2014: £83.1m) reflecting the expected Oman impact and other working capital movements, leading to a cash conversion of 68% (2014: 70%). Excluding the impact of Oman, cash conversion would have been 77%. Through the cycle, the Group targets average cash conversion of 80% to 85%.

*see footnote on page **136**

Total shareholder return

Description
Annual total shareholder return (capital growth plus dividends paid, assuming dividends reinvested) over a rolling five-year period.

+6.0%

2015	+6.0%
2014	+8.0%
2013	+14.0%
2012	+6.0%
2011	+9.0%

Comment
Annual total shareholder return over the 5-year period from 2011 to 2015 is 6%.

Interest cover

Description
The ratio of underlying operating profit to finance costs associated with borrowings, as a reliable indicator of balance sheet strength.

16 times

2015	16 times
2014	20 times
2013	25 times
2012	23 times
2011	23 times

Comment
Ultra continues to generate significant cover to meet its interest payments.

YOURviews employee engagement survey

Description
Ultra's internal employee satisfaction survey, YOURviews, provides an employee engagement rating for each individual business within Ultra and is completed every one to two years. Answers to various questions are combined to give the overall employee engagement scores.

82%

2015	82%
2014	81%
2013	81%
2012	81%
2011	79%

Comment
The level of employee engagement has remained stable in 2015. Drawing on best practice examples, businesses develop an action plan to ensure that employee engagement continues to rise against both internal and relevant external benchmarks.

see pages 44 to 48
for details

1 2
4 3

Additional non-financial performance indicators
Ultra's four strategies for growth are described on pages **10** and **11** of this report. Performance indicators relating to the Group's success in these four dimensions are shown on those pages. The Group's right people are its most important asset. Performance indicators that relate to the recruitment, retention and development of Ultra's staff are included on page **48** of this report.

1. Introduction
2. Strategic report
3. Governance
4. Group financials
5. Company financials
6. Five-year review

World class performance

Aerospace & Infrastructure

Aerospace

Infrastructure

Nuclear

Revenue
£193.2m -2.7%

Profit*
£28.7m -3.0%

Order book
£265.4m +4.9%

Excluding the impact of Oman, the divisional revenue increased by 3.4% compared to 2014, as the prior year included £11.7m of sales from the Oman Airport IT programme, whereas no revenue was recognised in 2015.

The division saw an increase in Aerospace sales, in particular on the Mitsubishi Regional Jet (MRJ) and the Joint Strike Fighter (JSF) programmes, and in revenues from Airport Systems including the Orange County contract in the US. Revenue from vehicle programmes, including the Warrior, Scout and Middle East NIMR also increased. As well as the impact of the Oman contract, revenue from the A400M Network Interface Module (NIM) was lower reflecting contract phasing.

Following the securing of a number of new orders to develop products for the aerospace sector, the division's margins have been impacted by increased R&D investment and lower margins during the engineering phases of projects. There were also restructuring costs at the CEMS business. This was partially offset by higher margins as vehicle programmes enter the production phase. The acquisitions of Ice Corporation in 2014 and Furnace Parts in 2015, provided a positive contribution to both revenue and profits as did the impact of foreign exchange. The resulting divisional margin was 14.9% (2014: 14.9%).

The change in the order book reflects increased orders for aerospace products and services, offset by the trading of the Lockheed Martin Warrior contract.

Strategy in action

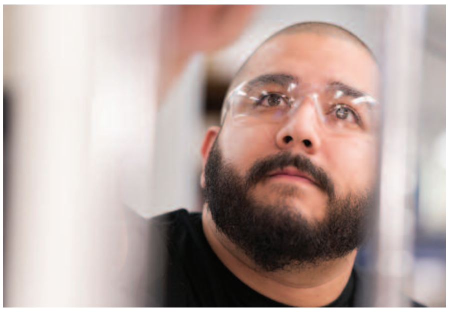
In October 2015, Ultra's Precision Air & Land Systems business was awarded the next three Low Rate Production phases for the engine harnesses for the F-35 Lightning II aircraft. This contract, worth in excess of £10m, marks the end of Low Rate Production, with the aircraft scheduled to move towards Full Rate Production by 2020. Ultra also supplies missile cooling and pneumatic stores ejection to the F35 Lightning II programme which in totality is forecast to be worth in excess of £500m to Ultra through its life.

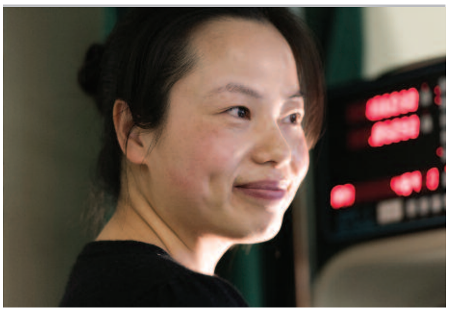
Features of the division's performance in the year that will underpin future performance included:

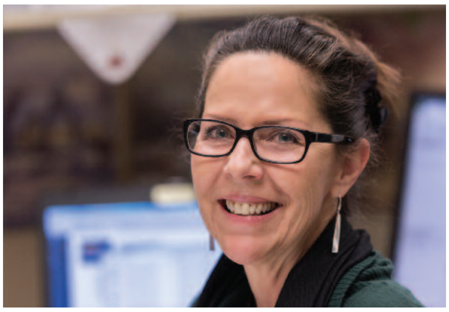
- Awarded development contracts by the Xi'an Aircraft Corporation of China for the landing gear control unit and nose steering wheel system on the new MA700 twin-engine, medium-range turboprop airliner.
- A strategic partnership with NuScale to develop a suite of reactor and plant instrumentation and control systems to support deployment of their Small Modular Reactor (SMR) fleet worldwide. Part payment for this contract includes an equity stake in NuScale.
- Selection by the Cessna Aircraft Company to provide a Power Transfer Control Unit for its new Hemisphere business jet.

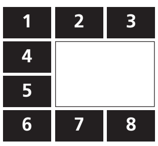
For further information on Ultra's strategies see pages 10 and 11

Throughout 2015 Ultra NSPI accelerated its win of new contracts across a number of nuclear reactor new build programmes around the world. The projects included the design, qualification and manufacture of multiple new temperature and pressure sensor designs for Generation III and SMR reactors. The resulting expansion in Ultra's portfolio of sensors and the opening of a new sales office in Beijing during the year, positions the business well for the next wave of new build opportunities in that region.



1 Chris Brown, Director of Industrial Sales & Marketing. **2** Anthony Martinez, Technician.
3 Miriam Gonzalez, Planning Manager. **4** Xavier Menchaca, Welder/Machine Operator.
5 Flora Shen, Quality Engineer. **6** Kelden Marshall, Assembler. **7** Janice Hampton, Accounting Specialist.
8 Greg Michalik, Nuclear Production Specialist.

World class performance

Communications & Security

Communications

C2ISR

Revenue
£239.3m +6.6%

Profit*
£40.4m +9.2%

Order book
£213.7m -0.4%

Communications & Security saw the benefit of the acquisition of Herley in 2015, together with the prior year acquisition of Forensic Technology. Against this, the division was impacted by the repeal of the US Patriot Act which significantly reduced domestic legal intercept revenues in the SoTech business. This was partially offset by an increase in revenue from security and surveillance products (and from the ECU RP programme) and a positive impact from foreign exchange.

There were higher margins as the ECU RP programme completes its production phases and Herley improved the mix. This more than offset the impact of both the loss of high margin revenue and associated restructuring costs in the SoTech business and took divisional margin to 16.9%.

The order book reflected the trading of the ECU RP Crypto contract and the reduction in US contract placement over the last 12 months.

Strategy in action

In November 2015, Ultra's CIS business was awarded an initial contract to upgrade the radios on the RAF's Typhoon aircraft, with further orders to follow in 2016 and beyond. Over the life of the programme this could be worth in excess of £20m.

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

- Orders worth over $30m for the protection of US Navy bases in the Washington, Southwest and Hawaii regions.
- Award of a contract for Phase 1 of the US Reprogrammable Single Chip Universal Encryptor (RESCUE)/KOV-21A replacement programmes. This is the development phase of a long-awaited and much larger US software-programmable crypto opportunity.
- Selection by Inmarsat as a technology partner to develop micro satellite terminals for both government and commercial customers.

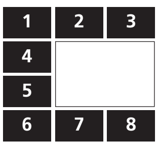
For further information on Ultra's strategies see pages 10 and 11

Ultra's Communication & Integrated Systems business has entered its production phase on the UK MOD End Cryptographic Replacement Programme (ECU RP) with many devices now successfully integrated and installed on a variety of naval platforms and land systems. In 2015, Ultra received a significant contract amendment to make modifications in order to meet future air platform requirements. In 2016, Ultra is working with the Authority to put in place a sizeable five-year support contract for the programme alongside several development upgrades to provide the customer with continued interoperability with its allies as communications and security standards evolve.







1 Graham Housby, Contractor Logistics Support Manager. **2** Nicky Tabram, Business Unit Director, IA.
3 Marlon Brown, Principal Systems Engineer. **4** Gavin Newport, Managing Director.
5 James Dalrymple-Smith, Programme Manager. **6** Rawindar Chana, Senior Software Engineer.
7 James Lovell, Business Unit Director, AEP and EWST. **8** James Fleeting, Firmware Engineer.

World class performance

Maritime & Land

Underwater Warfare

Maritime

Land

Revenue
£293.8m +1.1%

Profit*
£50.9m -1.2%

Order book
£274.7m -14.1%

In Maritime & Land there was an increase in revenue from US and international sonobuoys and from the Sonar 2050 programme for the UK MoD. This was offset by the impact of funding delays on the Torpedo Warning System in the US and by a reduction in rail power management revenue. The acquisition of 3 Phoenix in the prior year contributed to divisional revenues, as did foreign exchange.

Margins at 17.3% (2014: 17.7%) reflected the release of some contract risk reserve in the prior year comparative, and the product mix within the sonobuoy businesses.

The order book declined as a result of the trading of major contracts, including Fatahillah and UK sonobuoy partnering. There was also a delay into 2016 of some large orders, including the 2017 UK sonobuoy partnering contract extension and India torpedo defence.

Strategy in action

In February 2015, Ultra's Sonar Systems business was awarded an £18m contract to supply sonobuoys for the Royal Navy's Merlin maritime patrol helicopter. The contract will be executed over the next two years with options for a further two years. The contract, between Ultra and the MoD, for sonobuoy engineering, manufacture, logistics and support, ensures the Royal Navy maintains a persistent Anti-Submarine Warfare surveillance capability against hostile submarines.

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

- Award of £18m contract, by Rolls-Royce, for the design and development of reactor control and cooling systems for Royal Navy submarines.
- A $25m contract award for the procurement of engineering services for development, integration, testing and logistic support of the Torpedo Warning System.
- Partnering with Mahindra Group in India to address significant opportunities Underwater Warfare equipment for the Indian Navy and high-capacity radios for the Indian Army.

For further information on Ultra's strategies see pages **10** and **11**

1. Introduction
2. Strategic report
3. Governance
4. Group financials
5. Company financials
6. Five-year review

In June 2015, Ultra's PMES business was awarded an £18m contract by Rolls-Royce Nuclear to design and develop the rod control and main coolant pump systems for the next generation nuclear reactor on the Vanguard replacement programme. Production deliveries for an advanced degaussing system for the Royal Navy continued with a contract in March 2015, maintaining PMES's position as the UK designated design authority for sub-surface signature management.

1/2	3	4/5
6		
7/8		
9	10/11	12

1 Amanda Gibbs, Materials Planner. **2** Sandra Haire, Materials Planner. **3** Nicola Melia, Project Manager. **4** Andy Purslow, Principal Engineer. **5** Steve Booker, Principal Engineer. **6** Sarah Wright, Materials Control Buyer. **7** Phil Hulse, Support Manager. **8** Lawrie Boardman, Operations Support Manager. **9** Norma Sheard, Supply Chain Manager. **10** Deb Cumiskey, Quotations Coordinator. **11** Les Thompson, Support Manager. **12** Iain Robertshaw, Head of Programmes

2015 Principal risks and uncertainties

How we analyse and manage risk

The business environment in which the Group operates presents a number of risks and uncertainties which continue to be the focus of the Board's attention. Ultra's approach to risk management and internal controls is designed to achieve the Group's business objectives whilst mitigating risk to within an acceptable risk appetite. The Group has implemented mitigation strategies to manage the overall risk exposure in line with the Board's risk appetite.

" A programme of continuous monitoring and reporting has been undertaken to ensure Ultra's risk profile reflects the current risk exposure and improvements in control activity. "

Ultra encourages its businesses to challenge the market through innovation and to exhibit audacity. Profitable growth cannot be achieved without accepting some degree of considered risk. Review of business activity and the management of risk is an integral part of Ultra's processes. Risks are considered and managed as business decisions are made, then collated so that the Group's collective exposure is well understood and controlled.

The implementation of a revised Risk Management Framework in 2015 (see pages **61** and **62**) resulted in a refresh of Ultra's principal risks. This has had a direct impact on the risks disclosed in this Annual Report and Accounts in that previously reported risks have been separated out to provide more granularity, and other risks have been escalated to principal risks status. The development of the revised Risk Management Framework was undertaken with engagement from the Executive Team, the Audit Committee and the Board to ensure a robust assessment of the principal risks facing Ultra, including those that would threaten its business model, future performance, solvency and liquidity.

A programme of continuous monitoring and reporting (as outlined in the Risk Management Framework) has been undertaken to ensure Ultra's risk profile reflects the current risk exposure and improvements in management activity.

The Board has developed risk appetite statements against each of the principal risks, clearly setting out the Board's perspective on its willingness to accept risk in pursuance of its strategic objective – "**to outperform the market in terms of annual increases in shareholder return**" (see page **10**). In addition, metrics have been established to support the Board's ability to identify when its tolerance for risk is being reached.

The Group's principal risks are identified below and on the following pages, together with:

- A description of the risk and its potential impacts.
- Examples of the current controls and mitigations.
- An indication of the direction of travel of the risk exposure and, where relevant, an indication of the rationale for this.

01. **Strategy and market environment**
02. **Contract win/delivery**
03. **Delivering change***
04. **Acquisitions***
05. **Intellectual property/ information security**
06. **Innovation and development**
07. **People**
08. **Culture***
09. **Supply chain***
10. **Legislation/regulation**
11. **Governance and internal control***
12. **Health, safety and environment***
13. **Pensions**
14. **Treasury and tax**

*newly reported principal risks

Principal risks

Risk 01. Strategy and market environment

Trend: No significant change

Description

Ultra's core markets continually change as government budgets come under fiscal strain and/or geopolitical events affect the Group's operations.

Understanding and effectively responding to these changing market dynamics is key to delivering future organic growth.

Potential impacts:

- Reduced business opportunity through an inability to adapt our offerings and approach quickly enough
- Inability to match the full range of customer requirements
- Loss of market share

Mitigations (examples):

- Cleary defined and consistently applied approach for setting strategies for each of the eight segments (see page 12)
- Dedicated Regional Marketing Directors focused on creating local networks, understanding the market and culture/procurement regime
- LAUNCH principles embedded to understand customers' requirements (see page 45)
- Ultra has a diversified portfolio of businesses that mitigates exposure

Risk 02. Contract win/delivery

Trend: No significant change

Description

Underpinning the overall success of the Group is its ability to win new business and manage/deliver against contracted customer commitments (on budget, on time and to the agreed quality).

Potential impacts:

- Customer dissatisfaction and reputational damage
- Loss of future order book opportunities
- Ultra may need to provide for unrecoverable additional costs incurred until the end of a programme
- Contract disputes/litigation

Mitigations (examples):

- The Group Operating Manual sets out the policies and procedures for major bids
- The monthly review process of the Business Performance Reports provides oversight and challenge on the order book and delivery status of significant contracts
- Commercial Directors support their Divisional Directors in reviewing major bids and assist collaboration across the divisions
- A country risk assessment process has been implemented to evaluate jurisdictional contracting risks

Risk 03. Delivering change

Trend: Escalated to a principal risk

Description

Effective delivery of major change programmes with minimal effect on business as usual (BAU) is a key component of Ultra's continual programme of operational improvement.

The introduction of two major change programmes in the year (market-facing segment strategies (see page 12) and S3 (see page 5)) resulted in the escalation of this to a principal risk.

Potential impacts:

- Identified benefits of change not realised
- Significant increase in change programme costs
- Senior management distraction from BAU
- Reduction in employee morale

Mitigations (examples):

- All major change programmes are monitored on a monthly basis by the Board
- An Executive Team sponsor for all major change programmes
- Recruitment of specialists in designing and delivering change programmes to support delivery
- Employee communication and engagement strategies

2015 Principal risks and uncertainties

Principal risks (continued)

Risk 04. **Acquisitions**

Trend: Escalated to a principal risk

Description

The Group continues to look at acquisitions to add capabilities, market access and critical mass. The effective selection, due diligence and/or integration of acquisitions is critical to making this a success.

The acquisition of the Electronic Products Division of Kratos Defense & Security Solutions was the largest the Group has done, which resulted in the escalation of this to a principal risk.

Potential impacts:

- Destruction of value through overpayment for acquisitions
- Non-delivery of synergies and/or economies of scale
- Senior management focus diverted away from delivering BAU

Mitigations (examples):

- The Group acquisition process and procedures are led by the M&A Director and include due diligence, the use of professional advisors and appropriate and enforceable representations and warranties
- Detailed post-acquisition integration plans are in place and led by an Executive Team sponsor
- Formal two and five-year post-acquisition reviews are undertaken by the Board
- Medium-term integration milestones and plans are reported quarterly to the Executive Team

Risk 05. **Intellectual property/information security**

Trend: No significant change

Description

The Group's information systems, personnel and facilities are subject to security risks. The incidence and sophistication of cyber security crime is on the rise. Breach of security could cause controlled or critical data to be lost, made inaccessible, corrupted or be accessed by unauthorised users.

Potential impacts:

- Reputational damage to Ultra as a highly regarded provider of secure data systems
- Loss of business opportunity with removal of government approval to work on classified programmes
- Reduced product differentiation with loss of intellectual property
- Disruption to business activity as systems are cleansed and restored

Mitigations (examples):

- Dedicated Cyber Protection Group (CPG) providing Group-wide monitoring, incident response and continued enhancement of Ultra's IT systems and processes
- Security clearance process for all employees
- The Group Information Security policy classifies all information assets
- Established physical security processes implemented at all sites
- Training provided on IP awareness, IP management and IP exploitation

Over the last three years Ultra Electronics has made a significant investment in internal cyber defence to ensure that the Group's sensitive information is appropriately secured against the increasing threats that are taking advantage of the internet as an attack-vector. The Ultra Cyber Protection Group (CPG) provides comprehensive pro-active defence using advanced techniques to prevent, detect and respond to security incidents. Operating from a UK base, the CPG uses advanced and often uniquely designed software techniques to remotely monitor and protect all of the Group's network operations at sites in several different countries. The CPG is led by senior network security specialists with long experience from highly sensitive national and multinational organisations, supported by some very carefully selected and highly capable graduates.

Risk 06. **Innovation and development**

Trend: Increased risk

Description

Ultra must continue to distinguish itself from its competitors through product and service innovation/development. This needs to address changing customer preferences and deliver highly-differentiated solutions.

The market conditions throughout the year have continued to have a direct impact on the availability of customer funding for new product development.

Potential impacts:

- Loss of key customers
- Significant loss of revenue, profits and or market share
- Ultra's portfolio of specialist capabilities is eroded through commoditisation

Mitigations (examples):

- A culture that focusses on ensuring a deep understanding of customer need and delivering innovation
- Market and competitor analysis to support technology and product roadmaps
- Segment focussed R&D prioritisation to avoid duplication and maximise advantage

Risk 07. **People**

Trend: No significant change

Description

Attracting, developing and retaining the right people who embrace and sustain Ultra's culture, and who have the domain expertise is critical to delivering the Group's strategy and business plan.

Potential impacts:

- Ultra could lose key staff or capabilities and be unable to fulfil its contractual obligations
- Reduction in staff morale results in a rise of employee related issues (e.g. grievances and sickness)
- Talent within the business is not developed to its full potential

Mitigations (examples):

- Clearly defined and implemented recruitment processes
- Annual Organisation, Succession and Development Process
- The Chief Executive meets high potential employees to assess performance, skills and competencies first-hand
- Quarterly review by the Executive Team and annual review by the Nomination Committee of the succession planning and career progression of senior employees
- Engagement with potential recruits at an early stage through links with schools and universities by offering apprenticeships, work placements and graduate training (see page 46)
- Monitoring and reviewing salary and benefits surveys

Risk 08. **Culture**

Trend: Escalated to a principal risk

Description

The preservation of Ultra's culture (innovation, agility and accountability) as the Group expands through organic growth, natural staff turnover and acquisitions is a key driver for future success.

In 2015, the Group completed its largest acquisition (Ultra Electronics Herley); introduced a new market segment structure; and launched S3. Preserving Ultra's culture in light of this has resulted in the escalation of this to a principal risk.

Potential impacts:

- Reduction in the quality and consistency of service delivery to customers
- Reduction in staff morale results in a rise of employee related issues (e.g. grievances and sickness)
- Loss of high potential employees

Mitigations (examples):

- Delivery and follow-up analysis of the YOURviews employee survey (which is reviewed annually by the Board)
- Implementation of LEAP and LAUNCH behaviours across the Group
- Group culture expectations is a key part of the HR induction process
- Culture transition requirements are included as part of the formal integration plans for all new acquisitions

2015 Principal risks and uncertainties

Principal risks (continued)

Risk 09. **Supply chain**

Trend: Escalated to a principal risk

Description

The Group places significant reliance on key suppliers/sub-contractors for the delivery of its customer commitments and therefore, there is a need to ensure the continuing effectiveness of the supply chain. The Group's manufacturing facilities are exposed to natural catastrophe risks and the Group is affected by the social, economic, regulatory and political conditions in the countries in which it operates.

Continued funding pressures on US and UK defence procurement programmes has led to increasing demands for improved efficiency in the supply chain. This has resulted in the escalation of this to a principal risk.

Potential impacts:

- Failure to deliver against customer commitments
- Significant product quality defect

Mitigations (examples):

- Pre-contract audits of key suppliers and sub-contractors and continuing review of their performance
- Business continuity and disaster recovery plans are in place and tested
- Single-source supplier risks are identified through risk management process and, where possible, key materials or components are dual-sourced
- The Group has business interruption, property damage and product liability insurance

Risk 10. **Legislation/regulation**

Trend: No significant change

Description

The Group operates in a highly-regulated environment across many jurisdictions and is subject to regulatory and legislative requirements. There is a risk that the Group may not always be in complete compliance with laws, regulations or permits.

Potential impacts:

- Debarment from government contracts
- Regulatory fines and/or penalties
- Legal disputes
- Reputational damage

Mitigations (examples):

- Implementation of the Group Operating Manual that sets out policies and procedures for legislative and regulatory requirements and compliance training
- Monthly compliance reporting
- Ethics Overview Committee (see page 49)
- Effective whistle blowing procedures (EthicsPoint) (see page 49)

Risk 11. **Governance and internal control**

Trend: Escalated to a principal risk

Description

Maintaining corporate governance standards and an effective and efficient risk management and internal control system is critical to supporting the delivery of the Group strategy.

As a result of the re-fresh of the principal risks in 2015, governance and internal control has been separated out from the legislation/regulation risk to provide greater granularity and to reflect the continued focus of the Board in this area. This has resulted in the escalation of this to a principal risk.

Potential impacts:

- Significant financial loss (e.g. fraud, theft, material errors)
- Loss of investor confidence
- Loss of business opportunity with removal of government approval to work on classified programmes

Mitigations (examples):

- Implementation of the Group Operating Manual as the overall policy and procedures framework
- Effective internal controls and Risk Management Framework
- Year end disclosures by the businesses on the effectiveness of accounting and internal control systems
- Terms of reference for Board and Committees are reviewed and updated annually

Risk 12. **Health, safety and environment**

Trend: Escalated to a principal risk

Description

A continued focus on: ensuring high standards of health and safety of employees and visitors; and maintaining our commitment to minimise the environmental impact of our activities is of paramount importance to support the achievement of Ultra's business objectives.

As a result of the refresh of the principal risks in 2015, health, safety and environment has been separated out from the legislation/regulation risk to provide greater granularity and to reflect the continued focus of the Board in this area (see page **50**). This has resulted in the escalation of this to a principal risk.

Potential impacts:

- Harm to people's well-being
- Serious business interruption
- Reputational damage

Mitigations (examples):

- Annual self-assessment of health, safety and environment by each business and bi-annual external health, safety and environment audit for each business
- Quarterly review of health, safety and environment by the Executive Team and annual review by the Board

Risk 13. **Pensions**

Trend: Decreased risk

Description

The Group's UK defined benefit pension scheme needs to be managed to ensure it does not become a serious liability for the Group. There are a number of factors including investment returns, long-term interest rate and price inflation expectations, and anticipated members' longevity that can increase the liabilities of the scheme.

The planned closure of the Group's UK defined benefit pension scheme will contribute to reducing the overall risk exposure (see page **26**).

Potential impacts:

- Any increase in the deficit may require additional cash contributions and therefore reduce the available cash for the Group

Mitigations (examples):

- The Group's UK defined benefit pension scheme is closed to new members
- Formal annual reviews of the Group pension strategy by the Board
- Annual accounting and triennial valuation processes in order to highlight issues to the Board as they emerge
- Appointment of Willis Towers Watson as the Group's pension strategy advisors

Risk 14. **Treasury and tax**

Trend: No significant change

Description

Operating across a number of countries adds complexity to managing currency exchange rate and interest rate fluctuations that can directly impact on Ultra's business performance.

As for all companies, Ultra is exposed to changing tax legislation in the territories in which it operates including as an international business, changes that may arise due to local legislation arising from the OECD's current Base Erosion and Profit Shifting project.

Potential impacts:

- Ultra's revenue and earnings could be adversely impacted by the weakening of a currency in which it generates sales
- The impact of foreign exchange could either be through translation of the balance sheets and profits of foreign operations or UK businesses transacting in a foreign currency

Mitigations (examples):

- The translation impact cannot be mitigated; however, the Group Finance Director ensures that analysts and investors are aware of the impact
- Transaction impact is mitigated through the Treasury policy of hedging forecast cash flows and, where possible, through ensuring that contracts provide protection against exchange movements, and cost and revenue currencies are matched
- Ultra is committed to complying fully with the laws in the countries in which it operates from a tax perspective. It seeks to achieve a competitive tax rate by maintaining established financing structures where appropriate. We manage these risks by monitoring international developments, participating in pro-legislative consultations where appropriate and adapting our approach where necessary and practical

1. Introduction
2. Strategic report
3. Governance
4. Group financials
5. Company financials
6. Five-year review

Sustainability
making a difference to…

Making a difference

Ultra recognises that the success and sustainability of the business is enhanced by positive relationships with stakeholders and continues to focus on value creation for ALL its stakeholders: local communities, shareholders, customers, employees, the environment and suppliers.

In the community:

Ultra's businesses remain active in their local communities, building positive links by engaging with local people and local issues. Many businesses form special relationships with education establishments in the surrounding communities providing interview practice sessions, supporting lessons, careers events and school science fairs, as well as offering work placements and visits to businesses as part of AS level courses. Ultra also takes part in the nationwide initiatives on STEM* education at a national level and offers Arkwright scholarships, a scholarship that sponsors students looking for a career in engineering through their A-level education. Ensuring a long-term supply of talent to the business is essential and Ultra dedicates itself to developing the talent pipeline in schools and higher education institutions. This is exemplified by the PALS business winning a regional Partnerships with Education Award as part of the EEF Future Manufacturing Awards 2015. Sonar Systems was a runner up in the same category. Each business manages its own charitable budget, that it directs to maintain and grow connections with local communities. Fundraising and voluntary work in the local community or at a national level is something the Group is keen to encourage and actively supports employees who undertake voluntary activities. Some noteworthy examples in 2015 include:

- Ultra's Nuclear Control Systems business sponsored the Dorset Enterprise and Skills Company "Enterprise Challenge" awards. This is a local schools programme where small teams of students set up and run a business over the course of four months to help develop essential skills in business and entrepreneurship in a practical, fun and innovative way.
- Sonar Systems is supporting a local Code Club, which is a charity that was set up to establish a nationwide scheme to teach children between the ages of 9 and 11 how to write software. Each Code Club runs weekly for one-hour during term time and teaches programming by having the children write games and create animations and websites.
- During 2015, Ultra CIS launched a "CIS in the community" policy enabling employees to take time out to work in the local community and providing matched sponsorship for events.

For more about securing the talent pipeline, see page **46**

*STEM (Science, Technology, Engineering & Mathematics)

…Shareholders:

Ultra aims to extend its long track record of delivering above-average shareholder returns. The Group's primary objective is to outperform the market by delivering above-average increases in total shareholder return and by communicating effectively, through various means, with shareholders and the financial community.

…Customers:

Ultra aims to be an excellent, strategic supplier to its customers. To enable this, Ultra's businesses are focused on helping customers identify their true needs whilst developing long-term relationships, based on performance excellence and meeting its commitments. Ultra's businesses have built long-term, mutually beneficial relationships with their customers and have become part of the customers' extended enterprises.

Examples from 2015 that highlight Ultra's commitments to its broad customer base are:

- USSI's joint venture, ERAPSCO, has been recognised by the US Navy as a Tier 1 Superior Supplier. This honour is awarded to the top DoD suppliers in the nation who provide the greatest overall value to the Department in terms of cost, schedule, performance, quality and business relations.
- Ultra's Controls business was complimented when one of its major customers, MITAC, recommended that its senior management team visit the Controls production site in Greenford to observe what MITAC considered to be best practice following the maiden flight of the Mitsubishi Regional Jet (MRJ).
- In Australia, Ultra's Avalon business received a written statement of recognition from the Royal Australian naval vessel HMAS Melbourne for its support in the preparations for its deployment for operation MANITOU.

To read more about Ultra's customers, see page 2

…Employees:

Ultra believes that the right people are its most important asset; the capabilities of its employees allow the Group to innovate continually and meet customer need. Ultra has a strong commitment to developing people and securing the talent pipeline, details of which can be found in the section Developing Ultra's People. The Group believes that, to ensure its continuing growth and success, these initiatives for talent development and people retention are essential. However, ultimate responsibility for individual talent development and employee retention resides within each of Ultra's businesses, a number of which have launched unique initiatives to ensure continuing employee development and engagement.

Examples include:

- In 2015, 3eTI rolled out its "Making 3eTI a Great Place to Work" initiative aimed at helping employees enjoy happy and healthy lifestyles while maintaining a good balance between life and work. Programmes included flexible summer work weeks, quarterly social hours and project-swap education projects.
- Forensic Technology continues its efforts towards maintaining its status as an employer of choice in Canada and benchmarked its employee engagement related practices against those of other Employers of Choice. Employee engagement is a significant part of the businesses overall business plan and it is currently revisiting the performance management process and tools, incorporating feedback from both managers and employees.
- Ultra Electronics US was presented with the Gold Wellness Award by the Business Council of Fairfield County, Connecticut that recognised Ultra as a leading company in promoting a healthy workplace for its employees.

To read more about Ultra's people, see pages 44 to 48

…the Environment:

Ultra is committed to implementing and enforcing effective measures to minimise the environmental impact of its activities. All businesses are audited biennially. In the US in 2015 ProLogic, 3Phoenix, 3eTI, ATS, Flightline and NSPI all achieved 100% in the audit. Additionally in the UK, CIS, ID, Sonar Systems, PMES, PALS and Controls all maintained the ISO14001 environmental standard.

Ultra continues its commitment to investing in manufacturing facilities to offer increased efficiencies and reduce energy consumption, while improving productivity across the Company. The Group also looks for its suppliers to reduce their environmental impact.

Initiatives that have taken place within the Group include:

- 3eTI continued its "Go Green Campaign" encompassing two separate recycling programmes and the use of sensor lighting.
- Controls introduced an Environmental Newsletter.
- Maritime Systems switched to reusable packaging for many of its plastic parts and installed variable frequency air handling units and an air compressor to reduce its carbon footprint.
- NCS updated its personal development review process to include a "Health, Safety and Environment" section to encourage staff to engage.
- TCS installed charging stations for electric cars.
- Ocean Systems constructed an environmentally-controlled transducer and encapsulation room.

To read more about the environment, see pages 50 to 51

…to Suppliers:

Ultra views its suppliers as an extension of the Ultra enterprise as many businesses rely on these suppliers for delivery of their products and services. These are safety- or performance-critical in their end markets so working together is crucial. Partnership with suppliers and customers generates innovative and differentiated solutions which are at the core of Ultra's business model. Many Ultra businesses work with their suppliers to enable them to operate more efficiently.

This year Ultra's Ocean Systems business mentored a new supplier of energetics on a shared contract to enable them to fulfil their commitments to the contract and deliver the product in time.

Sustainability

Developing Ultra's people

Without the innovative and entrepreneurial spirit of its staff, Ultra would not be able to deliver value to customers.

The right people
Ultra is successful in innovating to meet customer needs due to the broad range of skills and capabilities held by the Group's employees. As such the Board has recognised that the right people are the Group's most important asset. Therefore people and their development are key initiatives for the Group as it strives to achieve an efficient organisation with engaged and committed people.

Domain expertise
The key factors in delivering innovative solutions to meet customers' needs are Ultra's deep understanding of its specialist capability areas, combined with knowledge of the users' environment. Ultra maintains its domain expertise by ensuring that employees maintain expertise in their respective fields. The Group ensures it has the right people to work with customers to support their needs by understanding and creating winning solutions.

> Being on the apprentice training scheme gave me the chance to work with many different people and learn a lot from them, which I have enjoyed the most.

Carly Nettleford Trainee engineer, CIS

How Ultra manages its people
Ultra values the autonomy of its businesses and believes a high degree of operational autonomy enables businesses to focus on delivering agile and responsive solutions to its customers.

The Managing Directors and Presidents of Ultra's individual businesses and their management teams are given as much authority and responsibility as possible. This allows these teams to maintain the agility and sharp focus that is typical of owner-managed businesses.

People in action

Carly Nettleford a trainee engineer at Ultra's CIS business recently won the title of Apprentice of the Year in the West London Business Awards. Here she talks about her time at Ultra.

Why did you choose Ultra?
I chose Ultra Electronics because I could see there would be many opportunities for me to learn and grow as an engineer. I have definitely been able to do this while working at Ultra.

What have you done here?
The great thing about doing an apprenticeship is that you're able to move around different departments; therefore I've had the opportunity to work on many different projects with elements of both electronic and mechanical engineering principles. I have had the chance to learn electronic CAD, radio frequency theory and many different software and programming packages. With all of these skills I was able make a difference to the projects being worked on.

How much have you enjoyed your time at Ultra?
Being on the apprentice training scheme gave me the chance to work with many different people and learn a lot from them, which I have enjoyed the most. I have built a rapport with many of my colleagues and it has made my time at Ultra enjoyable.

What have you learnt?
I have learnt a lot while working at Ultra from my colleagues and my mentor, Andy Cambridge. I have been able to take the theoretical knowledge that he has taught me and from studying my HNC/HND and apply this in the working environment.

How do you feel about winning this award?
I am still in shock about winning the award. I feel overwhelmed to achieve something of such a high magnitude. I am very happy that I could win it on behalf of Ultra and make my parents very proud.

Ultra is committed to securing the talent pipeline and developing people to ensure the continued growth and success of the Group. Focus is placed on ensuring that the right people are in the right roles. Furthermore businesses are responsible for and encouraged to develop their teams and individuals continuously, which will enable people to grow with the business and not become a constraint on the development of the Group.

Culture

Ultra is committed to keeping its culture strong as the Group expands through organic growth, natural staff turnover and acquisitions. The Group believes culture is what drives Ultra's success and that this includes values, role models, processes and the behaviours of its employees. The Group's culture, values and behaviours are shaped by the guiding principles, in particular the call for "an efficient organisation with engaged and committed people".

To achieve this, Ultra has identified four cultural behaviours of its people that are highly valued and encouraged. These are: **L**eadership, **E**ntrepreneurship, **A**udacity and **P**aranoia. Together, they are known within the Group as **LEAP**.

What people mean to Ultra

The broad range of skills and capabilities of Ultra's employees support the Group's success in innovating to meet customer needs. Ultra's aim of delivering an efficient organisation, with engaged and committed people to meet the Group's business commitments, is a goal all managers work towards and is a measure of their success. The quality of Ultra's leadership teams is constantly reviewed and improved as this is essential to the continuing growth and success of the Group. Many companies state that their people are the company's most important asset. Ultra varies this slightly: the right people are the Group's most important asset.

Leadership: Good leadership is extremely important to Ultra and a number of models of leadership are incorporated in the development and training programmes that are delivered around the Group.

Entrepreneurship: Being entrepreneurial is a behaviour which underpins the Group's strategy. All Ultra businesses seek to provide customers with solutions which are different from, and better than, those of competitors. Ultra's entrepreneurial culture seeks to maximise the capability to generate excellent ideas and the business skills needed to bring them successfully to market.

Audacity: Audacious thinking is the difference between incremental improvement and business transformation. It takes the idea of innovation, one of Ultra's core values, and invites employees to think about issues in ways which are unconstrained by existing norms, making use of creative approaches in every aspect of the Group's business.

Paranoia: Paranoia, in the business sense, is a concern and fear about competitors and what they may do. It also relates to concerns and fears about things which can go wrong internally. For Ultra, paranoia is important in focusing its staff on maximising their knowledge of the competitive landscape, by constantly asking questions of the Group's individual businesses, customers, teaming partners and suppliers.

Growth through engagement

LAUNCH is a set of behaviours which the Group has developed to facilitate customer engagement and relationship building.

- **L** Listen to customers
- **A** Ask the right questions
- **U** Understand what their "pain" is
- **N** identify the customers' Needs and get their agreement
- **C** Create a relationship, opportunity and solution
- **H** Holistic. Examine the bigger picture; how can Ultra maximise the scope and value of the opportunity?

This approach ensures Ultra understands the real needs of its customers; in addition, **LAUNCH** is a way for Ultra's businesses to generate long-term customer relationships which leads to a better pipeline of opportunities and to, ultimately, enable growth. **LAUNCH** is aligned with the Group's approach to systems engineering and project management.

Sustainability
Developing Ultra's people (continued)

Securing the talent pipeline

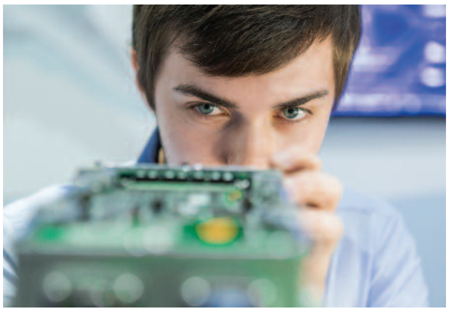
Ultra has been committed to developing people ever since it was formed in 1993. There are a number of programmes which help the Group to attract the best people, as well as encouraging students to develop careers in engineering or business.

SCHOOLS

Ultra engages with local schools near many of its businesses. Relationships with schools and sixth form colleges take a variety of forms: from work experience, longer work placements, visits as part of AS level courses, interview practice sessions, careers events and Ultra employees supporting both lessons and after school clubs. Examples include:

- Ultra's Forensic Technology business continues to run their "CSI for a day" programme in local schools; this has been a huge success, with one school stating it has improved interest in science lessons as well as encouraging more collaboration between students.

- Businesses at the Head Office site in Greenford welcomed teachers from the local Greenford High School to tour the site as part of an initiative to inform teachers about careers in engineering and science, furthering the businesses commitment of helping to encourage students into STEM* studies and jobs.
- 3 Phoenix is an advocate of the STEM* programme in the local North Carolina public school system, encouraging careers in technical fields. It has undertaken site tours for students at local schools and also mentored an intern doing research with engineering staff at the facility.



Ultra's focus is mainly engineering but also includes other STEM* subjects, finance and commercial disciplines. Ultra also sponsors students through their last years at school via the Arkwright Scholarship. This provides students with support and mentoring during their studies and has led to students electing to undertake STEM degree courses. Ultra is a recognised major sponsor of the scheme and currently has eight scholars.

APPRENTICESHIPS

Many Ultra businesses have well-established and successful apprenticeship programmes, which have also historically provided the Group with engineering leaders. The Group runs apprenticeship schemes at most of its UK businesses and currently has 48 apprentices in training in the UK.

There have been a number of notable successes:

- Carly Nettleford, based at CIS, won Apprentice of the Year at the West London Business Awards.
- Lakjit Chand, from Sonar Systems, was presented with an Apprentice Ambassador award from the Mayor of Hillingdon in recognition of his hard work as an Apprentice Ambassador.
- Three apprentices from Ultra's NCS business were awarded honours for their first year at the Engineering Trust Apprentice Awards.

UNIVERSITIES AND COLLEGES

In addition to traditional career fairs, Ultra actively engages with lecturers and faculties during degree courses as the Group maintains excellent links with universities around the world. This allows Ultra access to leading research and enables the Group to form relationships with students well before graduation. The Group benefits from working with universities as it can collaborate on innovation and recruit students who can make a difference. Ultra currently has 10 sponsored university students and also provides a number of work placements as part of degree courses (49 in the UK and US in the last year).

Ultra businesses provide opportunities for students to work on real projects via work placements, co-operative programmes and internship schemes; all internships are paid

for, to promote access to all. The Group also works with SEPnet to provide summer work placements to students to help advance and sustain physics as a strategically important subject for the UK economy.

SUCCESS STORIES

- PALS was first introduced to Nick Roberts through the Arkwright Scholarship Trust. Following the award of his scholarship PALS offered him work experience during every holiday. On completion of his A Levels PALS sponsored him at Nottingham University. This came with a small bursary and the guarantee of paid work during the holidays. PALS also set his final year project and supported him through this. The amount of work Nick did during his degree negated the need for him to undertake an intern year. Nick graduated in 2015 with a MSc in Mechanical Engineering and started working at Ultra full-time in September 2015.
- Ocean Systems supported a Northeastern University student involved in the "Gordon Institute of Engineering Leadership" programme in which corporations sponsor aspiring young talent, engaging them with business-relevant "challenge" projects. The student successfully led a small team of Ultra employees to demonstrate initial risk reduction activities for countermeasure mobility. Following his graduation he was offered and accepted a position as a full-time employee.
- Ultra PALS won the regional Partnerships with Education award at the 2015 EEF Future Manufacturing Awards. This award goes to the manufacturer that has made the biggest strides or found new ways to work with education providers to promote engineering and manufacturing careers.

INSTITUTIONS

Ultra's businesses are members of Engineering UK, Cyber Challenge UK and other bodies which research and develop new ways to attract people into engineering careers, as well as helping to forecast future trends in the sector. Ultra businesses worldwide have a variety of links with their local business forums and chambers of commerce members, helping to encourage STEM* activities.

*STEM (Science, Technology, Engineering & Maths)

Ultra actively invests in and supports the training and development of its employees.

Engineering education case study

This year Ultra employees were invited to attend a meeting to offer an industry perspective to the government on the development of nuclear skills in preparation for nuclear policy statements in the run up to the general election.

Following an announcement by David Cameron on 11 March 2015, the Nuclear Trailblazer employer group, led by Sellafield Sites Ltd and facilitated by the National Skills Academy for Nuclear (NSAN), was established to develop standards for the nuclear sector and make apprenticeships more attractive to employers. Lesley Fewell, Head of Human Resources at Ultra Electronics Nuclear Control Systems, was invited to join the Group representing the interests of UK supply chain companies.

Following the review, NSAN reported that two new apprenticeship standards for nuclear, as developed by the Nuclear Trailblazer employer, had been approved.

UK data

Employees	2,310
Apprentices	48
University placement students	10
Sponsored university students	10
Arkwright scholars	8

US data

Employees	1,640
Undergraduate interns	33
New graduates	18
Employees working on graduate-level degrees	22

Training and development

Ultra actively invests in and supports the training and development of its employees. Each business is responsible for identifying the training needs of its employees and managing its own training budget. Employee performance and development reviews are held annually, at a minimum, and are used to identify the development needs of individuals. Ultra has invested in its Learning Academy, which is an online portal, and is available to all of the Group's businesses to support training.

Many of these are courses tailored to the specific requirements of Ultra, and the trainers have an intimate knowledge of how the Group operates across all of its businesses. These training events include programmes on leadership and management, along with workshops on Ultra's successful competitive strategy, strategic selling, programme management and systems engineering. Specific training programmes are provided for individuals as necessary.

Businesses also look for further opportunities to develop training outside their training budget. For example, Ultra's NCS employees have used their contacts to gain experience for the businesses apprentices that would not usually be available. A group was taken to the MoD site in Davenport and shown the operations and maintenance of the submarine as well as seeing how the Ultra equipment is deployed. Another group visited the Advanced Manufacturing Resource Centre (AMRC) at the University of Sheffield which focuses on machining and materials research and provides skills training. Here they engaged in a tour and spent the afternoon doing practical challenges using the practice equipment.

To give students access to real life current work challenges, and to enable Ultra employees to develop their management and leadership skills, there are opportunities to participate in national schemes, such as the Engineering Education Scheme (run by the Engineering Development Trust) and competitions promoting STEM* careers. Ultra's businesses have also developed corporate partnerships with engineering institutions, including the Institution of Engineering and Technology, in order to support and encourage employees to pursue professional recognition (in the form of CEng, IEng or EngTech status) for both their current and previous work and academic achievements.

*STEM (Science, Technology, Engineering & Maths)

Sustainability
Developing Ultra's people (continued)

Succession planning and retention

Each of Ultra's businesses prepares an annual "Organisation, Succession & Development Plan" to ensure that Ultra has the right people in the right place in the organisation. The plan assesses individuals' performance in their current role and their potential to perform a larger role in the short or longer term.

Assessments are recorded in Ultra's Talent & Succession system and give a performance versus potential rating for each employee. The system is used by businesses to ensure a supply of suitable talent is available when required and recognises that any role within Ultra may become more challenging as the business grows. The performance categories consist of "exceed", "meet", "partially meet" or "does not meet" the required performance level. Equal attention is given to enhancing the performance and retention of those who meet and exceed standard performance levels and to addressing the challenges of the people who fall into the "partially meet" or "does not meet" categories. Where an individual is not meeting the standard performance level, it often means that they need to be placed in a role more suited to their talents in which they can start to perform to the required standards.

The Group is able to create its next generation of business leaders, through developing and retaining those employees identified as having high potential who will be able to take up the challenge of continuing the growth and expansion of Ultra. The Group has a high retention rate of those individuals in the businesses' senior management teams who continually meet or exceed expectations in terms of their performance, or who are high-potential and still developing in their new role.

Ultra has been able to appoint a high proportion of its leaders at Board, divisional and business levels through internal promotion. This is because the succession planning element of the process aims to ensure that there are always suitable successors for all the management team roles across each business and for other senior level roles.

Internal appointments at Executive Team, divisional and MD/President level (%)

2015	100%
2014	60%
2013	71%
2012	80%
2011	81%

As well as the people listed as successors, each business also identifies people with high potential. The combined list represents Ultra's "high-potential" talent pool and is used regularly to find the right people to fill internal vacancies via the Group's Talent & Succession system. Ultra businesses attend graduate and undergraduate fairs, utilising current graduates as the Group's ambassadors. Attendance has seen applications for graduate schemes increase, and this in turn helps to ensure that there is a future supply of engineers for the Group. In a typical year, Ultra recruits over 600 new employees and acquisitions bring additional new people into the Ultra family.

Retention of "high-performers"

2015	100%
2014	98%
2013	97%
2012	97%
2011	95%

" Each of Ultra's businesses prepares an annual "Organisation, Succession & Development Plan" to ensure that Ultra has the right people in the right place in the organisation. "

Sustainability
Corporate and social responsibility

Ultra believes that a successful and sustainable business is built on more than just financial results. Ultra has built a reputation for meeting its commitments.

Ultra is committed to maintaining high standards of business ethics as part of being a responsible business. The Group endeavours to uphold the rights of its employees as well as creating an honest and transparent business both internally and externally. The Group's corporate responsibility initiatives are focused in the following key areas:

Human rights
The Group recognises and respects the rights of its employees and all stakeholders and the communities that it encounters. As such, Ultra adheres to all relevant government guidelines, designed to ensure that its products are not incorporated into weapons or other equipment used for the purposes of terrorism, internal repression or the abuse of human rights. Ultra's Board requires that the Group should, at all times, be a responsible corporate citizen and, as such, the Group complies with all applicable legislation in the countries in which it operates. In 2016, the Company will review its supply chain management processes in light of the Modern Slavery Act 2015 and publish a slavery and human trafficking statement on the Company's website.

Ethical business conduct
Ultra is committed to ethical business conduct.

MEETING LEGAL AND ETHICAL STANDARDS
Ultra requires all employees, businesses and third parties, who act on Ultra's behalf, to comply with the applicable laws and regulations of the countries in which it does business.

Ultra is committed to operating in accordance with all legislative requirements, including those pertaining to anti-bribery and corruption practices, competition and anti-trust laws and relevant national export control regulations.

Ultra has a corporate ethics code, which encompasses a gifts and hospitality policy. All Ultra businesses are required to report on compliance with the corporate ethics code monthly and the Board reviews compliance with the code twice a year.

Ultra's ethics code can be found within Ultra's Policy Statement on Ethics and Business Conduct along with as its policies on anti-corruption and bribery, competition compliance and gifts and corporate hospitality. All of these policies can be found on the Group website: **http://www.ultra-electronics.com/about-us/corporate-responsibility.aspx**

PROVIDING GUIDANCE AND TRAINING TO EMPLOYEES
The Group continues to promote and strengthen its policies, processes and training to ensure employees have the clear guidance they need in identifying and managing ethical matters.

Ultra uses EthicsPoint in all of its businesses. EthicsPoint is Group-wide independent, confidential web- and telephone-based hotline, which enables all employees to report concerns anonymously about possible improprieties and other compliance issues.

All reports registered through EthicsPoint are reviewed and responded to in a timely and appropriate manner. The responsibility for handling reports rests with Ultra's Senior, Independent Non-Executive Director (with the exception of US security related issues that are routed to the Chairman of the Security Committee of either Ultra's Special Security Agreement company or Ultra's Proxy Board company, as appropriate). No retaliatory action is taken against employees for making reports in good faith through EthicsPoint. Any employee found to be in breach of the Policy Statement on Ethics and Business Conduct is subject to appropriate disciplinary action.

INDEPENDENT ETHICS OVERVIEW COMMITTEE
The Ethics Overview Committee was formed to provide independent advice and scrutiny of Ultra's business activity, giving assurance that the Group's current and planned undertakings are conducted in a manner consistent with the legislative environment and are transparent. The Committee comprises six permanent members, three of whom, including the Chairman, are independent.

To maintain the highest degree of impartiality, the independent members of the Committee are self-selecting with the appointment of the Chairman exclusively within the remit of the independent members. The Committee meets quarterly and provides assurance that Ultra's business is being conducted in line with the Group's policies, processes and relevant legislation. This is ascertained through discussions with senior managers, receiving reports and visiting Ultra's businesses. During these reviews, the Committee undertakes a formal review of business activities and the independent members provide advice and guidance on the appropriateness of target markets and customers and on potential teaming partners. The Committee also considers the reports that come through EthicsPoint.

Sustainability
Corporate and social responsibility (continued)

Diversity and inclusion
These values are embedded into the organisation to ensure each business is truly representative of the environment in which it operates. It is essential to the Group that all employees feel fairly treated and are not discriminated against in any way. To enable this, Ultra complies with all applicable employment rights and legislation in the countries in which it operates. In addition the Group is strongly committed to maintaining a work environment which provides equal opportunities for all employees, regardless of nationality, gender, ethnic background, sexual orientation, religious beliefs, marital status, disability or age.

Board of Directors
● Female 14
● Male 86
% of gender diversity

Executive team
● Female 34
● Male 66
% of gender diversity

Senior management
● Female 12
● Male 88
% of gender diversity

All of Ultra Electronics
● Female 27
● Male 73
% of gender diversity

Ultra uses rigorous recruiting practices to ensure the best candidate is selected, based on objective requirements and assessments. Ultra monitors gender and age diversity.

Disabled employees
Applications for employment by disabled people are always fully considered, bearing in mind the aptitude of the applicant concerned. In the event of a member of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled people should, as far as possible, be identical to that of other employees.

Health and safety
The health and safety and well-being of the Group's employees and visitors is of the upmost importance to Ultra. A healthy, committed and engaged workforce, working in a safe environment, is necessary to achieve superior business results. The businesses manage a wide range of safety risks, from office and manufacturing employees to employees providing services at customer sites, including military bases and platforms. The Group is committed to upholding and improving health and safety across the Group and engages in continuous safety improvement activities.

The safety of the products and services provided to users and customers is a key priority to Ultra. Each business ensures the appropriate legal and ethical levels of safety are met across a product's life cycle, with particular emphasis on the manufacturing, in-service and disposal phases.

All operating businesses are required to have a written health and safety policy, which is to be upheld at all times. Within each business, Managing Directors and Presidents are responsible for health and safety and for providing adequate resource to meet the requirements of the health and safety policy. Independent external audits, which take place biennially, assess compliance. Overall health and safety responsibility at Board level resides with the Chief Executive.

Each business is required to submit an annual report on health and safety performance. Annually the Board receives a report which summarises the health and safety performance of the Group.

The reportable/recordable accident rate is shown in **Figure 1**. Lost time accident data per 200,000 hours has been recorded for the whole Group since 2010 and is shown in **Figure 2**.

The reportable/recordable accident rate per employee for 2015, remained steady at 0.52%.

Figure 1
Reportable/recordable accidents per employee (%)

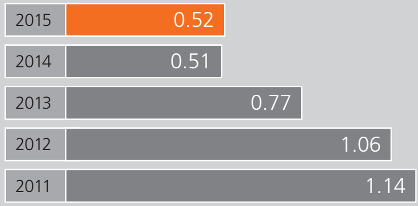
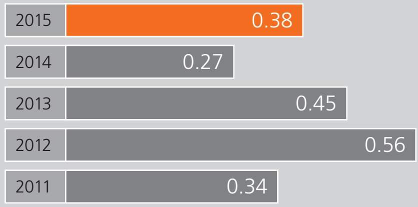


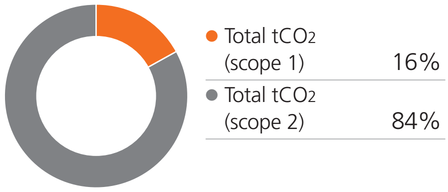
Figure 2
Lost time accidents per 200,000 hours



Environment
Ultra is committed to putting effective measures in place to minimise the environmental impact of its activities. This is important both for its employees and the communities in which it operates, as it will help to secure the long-term future of the Group. These measures include both the operational business environment and the products and services that the Group provides.

PRODUCTS
Environmental considerations are taken into account throughout a product's life cycle, from concept through to disposal; each individual business ensures its practices and processes consider this. Businesses work with their suppliers to reduce the impact of their products and to maximise the use of environmentally-acceptable components.

Total tonnes of CO_2 emitted by all Ultra businesses



Ultra ensures the full co-operation of all employees to minimise environmental impact and maximise the conservation of materials.

OPERATIONAL
The Chief Executive is the main Board member with overall environmental responsibility and the Managing Directors and Presidents of the operating businesses are responsible for the implementation of the environmental policy.

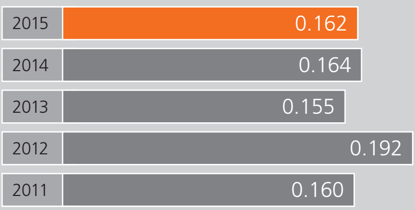
Ultra's formal environmental policy addresses compliance with environmental legislation, conformity with standards for air, waste disposal and noise, the economical use of materials and the establishment of appropriate environmental performance standards. Progress is monitored through annual reporting and a biennial external audit process, the most recent of which took place in 2015. Where it is appropriate, individual businesses have ISO14001 accreditation.

Each site plans and manages compliance with environmental requirements and the processes for the storage, handling and disposal of hazardous or pollutant materials are reviewed on a continuous basis. Ultra caused no contamination of land in 2015, continuing the excellent track record of the previous five years.

In addition, there were no environmental incidents reported in the year.

Ultra measures and reports on its packaging waste annually and this is shown in **Figure 3**. In the UK, businesses are encouraged and incentivised to reduce the net amount of waste they produce.

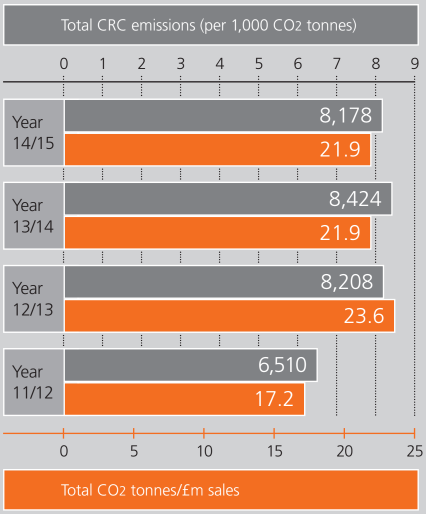
Figure 3
Packaging waste (t/£m sales)
in UK businesses



The Group continues to address energy conservation and emissions. Energy consumption is measured annually and the data compared with previous years.

As part of the Carbon Reduction Commitment (CRC) programme Ultra, in the UK, is registered with the Environment Agency. The Group's compliance emissions reported for 2014/15 were 8,178t CO_2. Historic performance data is shown in **Figure 4**.

Figure 4
Total tonnes of CO_2 emitted
(t/£m sales)



Greenhouse gas emissions

Ultra is committed to the systematic reduction of greenhouse gas emissions. In compliance with the 2013 Greenhouse Gas Emissions Regulations, Ultra collects and consolidates information on carbon dioxide (CO_2) emissions from across its portfolio of 24 businesses; 2013 was the first year this was undertaken and serves as the baseline year.

Ultra's Greenhouse gas emissions – tonnes of CO2 (tCO_2)

Total tCO_2 emitted by all Ultra businesses	**19,094**
Total tCO_2 from Ultra's business activities (scope 1)	**3,018**
Total tCO_2 purchased by Ultra (scope 2)	**16,076**
Ultra's annual emissions in relation to Ultra's business activities shown as tCO_2 per £m of revenue	**26.29**

Methodology

In 2015, each UK business reported on the appropriate greenhouse gas metrics. These metrics were aggregated to produce the figures reported above to which standard DEFRA conversion factors were applied.

Energy Savings Opportunity Scheme

The Energy Savings Opportunity Scheme (ESOS) is a new piece of legislation introduced by the UK Government that applies to Ultra. The scheme is run by the Environment Agency (such as CRC) and its focus is to reduce the demand for energy. The first qualification phase ended on 31 December 2014. Ultra has since successfully demonstrated compliance with the requirements using ESOS-compliant energy audits and notified our compliance to the Environment Agency in January 2016. The opportunities for energy savings identified during the ESOS assessment will be addressed as part of the S3 programme.

Additional environmental initiatives

All businesses are audited biennially. In the US in 2015, ProLogic, 3 Phoenix, 3eTI, ATS, Flightline and NSPI all achieved 100% in the audit. Additionally in the UK, CIS, ID, Sonar Systems, PMES, PALS and Controls all maintained the ISO14001 environmental standard.

Sharon Harris
Company Secretary & General Counsel

To read more about Ultra and the environment, see page **43**

Governance
Board of Directors

Douglas Caster 1
Chairman

Time with Ultra: **27 years 2 months**
Time in position: **4 years 8 months**

Rakesh Sharma 2
Chief Executive

Time with Ultra: **26 years 2 months**
Time in position: **4 years 8 months**

Mary Waldner 3
Group Finance Director

Time with Ultra: **2 years 6 months**
Time in position: **2 years 6 months**

Mark Anderson 4
Group Marketing Director

Time with Ultra: **4 years 7 months**
Time in position: **3 years 8 months**

Sir Robert Walmsley 5
Non-Executive Director

Time in position: **6 years 11 months**

Martin Broadhurst 6
Non-Executive Director

Time in position: **3 years 5 months**

John Hirst 7
Non-Executive Director

Time in position: **1 year**

Sharon Harris 8
Company Secretary & General Counsel

Time with Ultra: **4 years 1 month**
Time in position: **3 years 8 months**

- Executive Director
- Non-Executive Director
- Company Secretary & General Counsel
- Audit Committee member
- Remuneration Committee member
- Nomination Committee member

NOTE: All details correct as at 31 December 2015

1. Douglas Caster CBE BSc MIET

Douglas is a highly experienced engineer and manager of electronics businesses. He has a long track record of driving growth through effective acquisition and superior financial performance in the companies he has led.

Douglas started his career as an electronics design engineer with the Racal Electronics Group in 1975, before moving to Schlumberger in 1986 and then to Dowty as Engineering Director of Sonar & Communication Systems in 1988. In 1992, he became Managing Director of that business and, after participating in the management buy-out which formed Ultra Electronics, joined the Board in October 1993. In April 2000, he was promoted to the position of Managing Director of Ultra's Information & Power Systems division. In April 2004, he was appointed Chief Operating Officer and became Chief Executive in April 2005. He was appointed deputy Chairman in April 2010 and became Chairman of Ultra in April 2011.

Douglas is a Non-Executive Director of Morgan Advanced Materials plc and was appointed Chairman of Metalysis Limited in January 2015.

2. Rakesh Sharma BSc MBA MInstP FRAeS CPhys

Rakesh has managed businesses and divisions across the full range of Ultra's wide portfolio, with consistent success in driving growth in the Group. Combining business and technical insight, he ensures Ultra businesses maintain a competitive advantage in the Group's specialist market sectors.

Rakesh started his career as an electronic design engineer at Marconi in 1983, before moving to Dowty as Chief Engineer of Sonar & Communication Systems in 1989. He was appointed Marketing Director of that business in 1993, when Ultra Electronics was formed. From 1997 to 1999, he worked in the US as Ultra's Operations Director, North America. After returning to the UK, he was Managing Director of PMES and then of Sonar & Communication Systems, before taking his first divisional role in 2005 as Managing Director, Tactical & Sonar Systems. In 2008, he moved to run the Group's Information & Power Systems division, before being appointed Chief Operating Officer in January 2010. He was appointed to the Board in April 2010 and became Chief Executive in April 2011.

3. Mary Waldner MA FCA

Mary has a broad range of experience in a variety of sectors and an excellent track record of delivery throughout a number of senior financial roles with major public limited companies.

After graduating from Oxford University with an MA in Physics, Mary started her career at Coopers & Lybrand Management Consultancy Services, before working for Vauxhall Motors Ltd. From 1998 to 2008, she held a number of senior roles at British Airways plc, including Financial Controller (Commercial) and Manager, Corporate Planning and Reporting. Following this, she moved to 3i Group plc, where she was Group Financial Controller. In 2011, Mary joined QinetiQ Group plc as Director, Group Finance. She joined Ultra as Group Finance Director and was appointed to the Board in July 2013. In February 2016, Mary was appointed a Non-Executive Director of Oxford Instruments plc.

4. Mark Anderson CB BSc

Mark brings a broad customer perspective, operational experience from recent conflicts and collaboration with close allies. His oversight of Ultra's strategic process benefits from this broad understanding of the customer need.

Mark Anderson joined the Royal Navy in 1974 as a weapon system engineer, before switching career path to achieve both nuclear submarine and ship command. His MoD staff appointments include policy roles in two Strategic Defence Reviews and equipment customer responsibility for all underwater programmes. He has worked closely with the US throughout his career, including sensitive roles within the US Joint Staff. Promoted to Rear Admiral, he commanded all Fleet Operations and headed the UK submarine service up to the end of his 36 years' service in June 2011. He then joined Ultra in a divisional strategy role, before being selected to join the Board in April 2012.

5. Sir Robert Walmsley KCB, FREng

Sir Robert brings to Ultra's Board solid experience in the defence, security, energy and transport sectors. He has a deep knowledge of all of Ultra's main geographic markets and a substantial experience of government procurement.

Sir Robert was Chief of Defence Procurement at the UK Ministry of Defence (MoD), a post which he held from 1996 until his retirement from public service in 2003. Prior to his MoD appointment, Sir Robert had a distinguished career in the Royal Navy, where he rose to the rank of Vice Admiral in 1994 and served for two years as Controller of the Navy. Sir Robert is a Non-Executive Director of Cohort plc. He was appointed to the Board in January 2009.

6. Martin Broadhurst OBE MA C.Dir FIoD FRAeS

Martin has a wealth of valuable experience in the defence and aerospace markets, having run a large engineering organisation within the sector for fifteen years. He has demonstrable expertise and skill in growing international business and in expanding capabilities.

Martin joined Marshall Aerospace as a management trainee in 1975 and, following a number of roles with the company, including Production Director and Director of Programmes, was appointed as Chief Executive in February 1996. During his time as Chief Executive, he served on the Group Holdings Board and was Chairman of a number of subsidiary companies. Martin is a Non-Executive Director of Beagle Technology Group and Centre for Engineering Excellence; and a trustee of the Royal Aeronautical Society. He was appointed to the Board in July 2012.

7. John Hirst CBE BA DSc FCA MCT CCMI

John is a highly experienced leader of large global organisations, in both the private and public sector. He has a wealth of knowledge and expertise which he brings to Ultra's Board.

John was Chief Executive of the Met Office, a post he held from 2005 to 2014. Prior to this, John was CEO of Premier Farnell. Before this, he spent 19 years with ICI Plc, during which he was Chief Executive of two of ICI's Global businesses, ICI Performance Chemicals and ICI Autocolor, and was Group Treasurer. He was awarded a CBE in the 2014 New Year's Honours List for his national and international services to Meteorology. He is a Fellow of the Institute of Chartered Accountants, a Member of the Association of Corporate Treasurers and a companion of the Chartered British Institute of Management. John is a Non-Executive Director of Marsh UK, Jelf Plc, SME Insurance Services, Anglian Water, IMIS Global Ltd and White Square Chemical Inc. John was appointed to the Board in January 2015.

8. Sharon Harris LLB

Sharon brings corporate legal expertise to the Board role, together with plc experience in corporate governance, with a strong knowledge of the management and protection of intellectual property.

Sharon graduated from Kings College, London with a Law degree. She started her career at Norton Rose and has international plc experience gained in the FMCG, pharmaceutical, media and electronics sectors. She joined Ultra in November 2011 and was appointed Company Secretary in April 2012.

Governance
Chairman's governance statement

“The Board is confident that Ultra’s strategy, reinforced by Ultra’s culture of accountability and responsibility and supported by a robust governance framework, ensures Ultra remains a resilient and sustainable business.”

Dear shareholder,
Strong governance continues to be at the core of Ultra’s culture and operations. In September 2014, a revised UK corporate governance code was issued which applies to accounting periods commencing on or after 1 October 2014 (the Code). In the pages which follow, we have set out our governance policies and practices and included details of how the Group has complied with the Code.

The Board and its Remuneration, Audit and Nomination Committees have considered the Group’s policies and procedures in light of the revised Code. As a result, improvements have been made to the Group’s risk management and internal control procedures (the details of which are set out on pages **61** and **62**); and the Board has agreed a long-term viability statement (set out on page **27**).

In the year, we have continued our active engagement with the investor community (see page **62**) and taken account of our shareholder voting guidelines. From 2016 onwards, all awards granted to Executive Directors will be subject to a two-year post vesting holding period, whereby net of tax awards vesting cannot normally be sold until at least the fifth anniversary of the date of grant.

Mary Waldner (Group Finance Director) will leave Ultra on 16 March 2016. The Nomination Committee has been active in the search for a new Group Finance Director. Details of the Nomination Committee’s work in this regard are set out on page **59**. Succession planning for the Board and senior management has been a focus in 2015 (as described on page **60**) and will remain so in 2016.

Strong governance and high ethical standards are the hallmarks of a sustainable business. This is particularly the case during times of challenging market conditions. The Board is confident that Ultra’s strategy, reinforced by Ultra’s culture of accountability and responsibility and supported by a robust governance framework, ensures Ultra remains a resilient and sustainable business.

Douglas Caster CBE
Chairman
26 February 2016

1. Introduction
2. Strategic report
3. Governance
4. Group financials
5. Company financials
6. Five-year review

Governance

Corporate Governance Report

Compliance statement

Throughout the financial year ended 31 December 2015, the Board considers that it and the Company have complied with the provisions set out in the September 2014 edition of the UK Corporate Governance Code (the Code). The Code is issued by the Financial Reporting Council and is publicly available on their website (**www.frc.org.uk**). This corporate governance section of the Annual Report & Accounts describes how we have applied the main principles of the Code.

Role of the Board

The role of the Board is to provide effective leadership and direction in delivering the key corporate objective to outperform the market in terms of annual increases in shareholder return. The Executive Directors set the Group strategy which is subject to challenge before final agreement by the Board. The Board ensures that adequate controls are in place, including calibrating risk appetite and maintaining oversight of Ultra's risk management processes. The Board also receives and reviews regular Compliance Reports. The Board encourages the Group's businesses to behave ethically and properly at all times and engenders a culture of fairness to customers, suppliers and employees. It is the function of the Group's management, through the Chief Executive and his Executive Team, to run the operations of the Group.

In addition to the ten scheduled Board meetings, the Board held unscheduled Board meetings in the year. This enabled detailed discussions and a robust risk review of the termination of the Oman Airport IT contract, Ultra's strategy for the Middle East and the acquisition of the Electronic Products Division of Kratos Defense & Security Solutions (now known as Ultra Electronics Herley).

A summary of some of the Board's key responsibilities and activities is set out opposite and the full range of Board responsibilities are detailed in the document entitled 'Terms of References for Main Board' which is available from the Investors' section of the Group's website (**www.ultra-electronics.com**).

Board matters

At every Board meeting standing agenda items include:

- The Chief Executive's Report which covers the Group's operational performance, particular performance issues in each division and any compliance matters
- The Group Finance Director's Report which covers financial forecasts for the half and full year and reviews of: financial performance; banking covenants; and analysts' views of the Group, major shareholdings and major share buyers and sellers
- Major Project Reports
- Group Marketing Director's Report
- Human Resources Report
- Review of current acquisition activity and approval of any offers for proposed acquisitions

Other important topics which are covered on a routine basis during the year include:

- Approval of annual and interim financial statements and accompanying regulatory announcements
- Review and approval of the annual budget
- Approval of the Group's dividend policy, the payment of the interim dividend and the recommendation of the final dividend
- Review reports from the Board's Committees, including recommendations from the Audit Committee in respect of: the effectiveness of the Company's risk management and internal control statement; the adoption of the going concern statement; the long term viability statement; impairment and the re-appointment of the Auditors
- Review and approval of major capital investment projects and bids
- A full day Board meeting devoted wholly to the review of the five-year strategic plan and principal risks, with presentations given by the Executive Team and discussions held on significant matters identified in the proposed plan. Actions from this meeting are followed up in subsequent Board meetings and two scheduled half-day Board strategy meetings
- Six-monthly reviews of Compliance Reports prepared by Divisional Managing Directors and Presidents which summarise the compliance matters in the Business Performance Reports submitted each month by the business MDs and Presidents
- Annual reviews of health, safety and environment reports summarising the position across all Group businesses
- Effectiveness of internal controls
- Review of the risk register and the Group's insurance programme
- Post acquisition reviews
- Policy reviews including offset and Directors' expenses policy
- Board evaluation
- Consideration of Non-Executive Directors' fees
- Review of the terms of reference of the Board and the Board Committees
- Corporate governance updates

Other important matters addressed by the Board in 2015 included:

- Divisional changes and adoption of the market segment strategies (see page **12**)
- Proposal to close the defined benefit scheme to future accruals (see page **26**)
- Standardisation and shared services (see page **5**)
- Consideration of the Group's operations in the Middle East
- Risk Management Framework (see pages **61** and **62**)
- Succession and talent management
- Review of the Company's loan facilities
- The Cyber Protection Group's role in mitigating the Group's cyber security risk (see page **38**)
- Appointment of Investec Bank plc as joint corporate broker alongside J.P.Morgan Cazenove

How the way we are governed supports the delivery of our strategy
Good governance is crucial to ensuring we are well managed and can deliver our strategy.

The Board

Chairman: Douglas Caster; Senior Independent Director: Sir Robert Walmsley

All the Directors are collectively responsible for the success of Ultra. In addition, the Non-Executive Directors are responsible for exercising independent and objective judgement and for scrutinising and challenging management.

The Board is responsible for approving our strategy and policies, for oversight of risk and corporate governance, and for ensuring expected returns on investment are made from leveraging our portfolio strength. The Board is accountable to our shareholders for the proper conduct of the business and our long-term success. It represents the interests of all stakeholders.

Members of the Board and their biographies are shown on pages **52** and **53**.

The Board has delegated certain key responsibilities to **three Committees** (see below) and the **Chief Executive** (see below).

The responsibilities of each Committee are in line with the recommendations of the Code and the detailed terms of reference of each Committee are available from the Investors' section of the Group's website (**www.ultra-electronics.com**).

Nomination Committee

Chairman: Douglas Caster

Talented people are critical to the delivery of the Group's strategy. The Nomination Committee met four times in 2015 to:

- Recommend appointments to the Board and Board Committees
- Review the succession planning process for senior executives
- Commence the recruitment process for the Group Finance Director role (see page **59**)
- Review its terms of reference

The Board's policy on diversity is described on page **59**.

In 2016, the focus of the Nomination Committee will be to:

- Oversee the Group Finance Director recruitment process
- Review the developments made by the Company in improving talent management
- Review the Director induction process

Audit Committee

Chairman: John Hirst

To deliver the Group's strategy we must have sound financial and non-financial controls. The Audit Committee met five times in 2015.

Full details of the activities of the Audit Committee during 2015 are given in the Audit Committee Report on pages **65** to **67**.

In 2016, the focus of the Audit Committee will be to review:

- The bid process
- Project management of long-term contracts
- Business Continuity Planning and IT Disaster Recovery
- The embedding of the Risk Management Framework within the businesses

Remuneration Committee

Chairman: Martin Broadhurst

We seek to reward senior management competitively to enable Ultra to recruit, motivate and retain executives of a high calibre whilst avoiding making excessive remuneration payments. The Remuneration Committee met four times in 2015.

Full details of the activities of the Remuneration Committee during 2015 are given in the Remuneration Report on page **79**.

In 2016, the focus of the Remuneration Committee will be to review:

- The Directors' Remuneration Policy for submission to the shareholders at the 2017 AGM (i.e. at the end of the original three-year policy period)
- New employee share plans for shareholder approval at the 2017 AGM

Chief Executive: Rakesh Sharma

The Executive Team comprises:
Chief Executive; Group Finance Director; Group Marketing Director; Chief Operating Officer; Group Human Resources Director; Company Secretary & General Counsel; and the Divisional Managing Directors/Presidents of the three divisions

The Executive Team is the body through which the Chief Executive exercises the authority delegated to him by the Board. It considers major business issues and makes recommendations to the Chief Executive, and typically reviews those matters which are to be submitted to the Board for its consideration. The Chief Executive is responsible for establishing the Executive Team and chairing the Executive Team meetings.

Ultra is committed to ethical business conduct. In this regard, the Group has the benefit of an independent Ethics Overview Committee. The Group has issued a Policy Statement on Ethics and Business Conduct (available from the Corporate Responsibility section of the Group's website: (**www.ultra-electronics.com**)).

Ethics Overview Committee

Three independent members:
David Shattock (Chairman); Martin Bell; and Major General (retired) Tim Cross

Three Ultra members:
Chief Executive; Company Secretary & General Counsel; and Divisional Managing Director Communications & Security

Further details about the Ethics Overview Committee are given on page **49**.

Governance
Corporate Governance Report (continued)

Board meetings
Financial results for operating businesses, each division and the Group are provided to the Board monthly and presented at every scheduled Board meeting. Comprehensive briefing papers are circulated to the Directors in advance of each Board meeting to enable an informed debate to take place. Acquisition opportunities are presented to the Board by the appropriate Divisional Managing Director/President. This enables a full discussion of the merits and risks of any acquisition proposal to take place at an early stage. The Chief Executive and Group Finance Director explain the significance of any major impacts on the financial performance and draw the Board's attention to any significant trends or deviations from budget revealed by forecasts of future performance.

Other significant matters that require formal Board approval which are routinely presented by the appropriate business include major bids, updates on key strategic initiatives and major capital and private venture development expenditure proposals.

When a scheduled Board meeting is not held in the month, the Directors receive the following information: a summary financial report for the Group comprising consolidated financial information and business financial information; summary financial reports from each of the businesses; and a shareholder analysis summary report on Ultra.

The Executive Team as a whole meets the Board annually to present the proposed Strategic Plan for the next five years. This is then debated with the Directors, changes agreed and a final plan is approved. In addition, in line with the areas of focus from the 2014 Board evaluation (see page **60**), there were two additional annual half-day Board strategy sessions in the year.

The scheduled Board meetings are rotated around the sites of the operating businesses at which the Board undertake site tours and are given product demonstrations. During 2015, the Board visited four operating businesses in the UK. The Board held one of the Board meetings at one of its North American businesses, following a tour by the Non-Executive Directors of some of the North American operations.

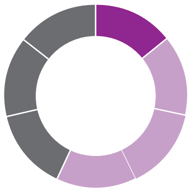
The Board receives presentations by Ultra's business units detailing recent performance, key opportunities and future forecasts. This gives the Non-Executive Directors a good practical insight into the operating businesses.

Product demonstrations and site tours take place, giving the Non-Executive Directors a good practical insight into operating businesses. They also conduct individual visits to businesses.

Meeting attendance 2015
The table below shows attendance by Directors at the Board and Committee meetings. To the extent Directors were unable to attend meetings, because unscheduled meetings were called at short notice or because of prior commitments, they received and read papers for consideration at the relevant meeting, relayed their comments in advance and, where necessary, followed up with the Chairman on the decisions made.

	Board		Audit Committee		Remuneration Committee		Nomination Committee	
	Actual (inclusive of unscheduled Board meetings)	Maximum possible	Actual	Maximum possible	Actual	Maximum possible	Actual	Maximum possible
Chairman								
Douglas Caster	**21**	21	**5***	5*	**4***	4*	**4**	4
Chief Executive								
Rakesh Sharma	**21**	21	**5***	5*	**3***	3*	**3***	3*
Executive Directors								
Mary Waldner[1]	**20**	21	**5***	5*	**-**	-	**-**	-
Mark Anderson[1]	**19**	21	**2***	2*	**-**	-	**-**	-
Non-Executive Directors								
Chris Bailey[1 2 3]	**10**	11	**2**	2	**1**	2	**1**	1
Martin Broadhurst[1]	**20**	21	**5**	5	**4**	4	**4**	4
John Hirst[1]	**20**	21	**3**	3	**3**	3	**3**	3
Sir Robert Walmsley[1 2]	**19**	21	**5**	5	**3**	4	**4**	4

[1] Mark Anderson and Sir Robert Walmsley were each unable to attend two unscheduled Board meetings and Chris Bailey, Martin Broadhurst, John Hirst and Mary Waldner were each unable to attend one unscheduled Board meeting.
[2] Chris Bailey and Sir Robert Walmsley were unable to attend one unscheduled Remuneration Committee meeting.
[3] Chris Bailey ceased to attend Board and Committee meetings following his resignation at the 2015 Annual General Meeting.
*By invitation



Board composition

Chairman	1
Executive Directors	3
Non-Executive Directors	3

Throughout 2015, the Board structure was in line with the Code.

Diversity

Ultra continues to follow its overriding policy of appointing the best person for a particular role, regardless of sex, race, nationality, disability, sexual orientation, age, marital status, religion or beliefs. The Board contends that a board composed of the right balance of skills, experience and diversity of views is best placed to support a company in its strategic objective. The Board has considered in detail the requirements of the Code regarding gender diversity. In selecting the best person for a role, the Board gives active consideration to the benefits of diversity, including gender diversity. However, setting diversity target aspirations, especially by specific dates, can distort the selection process and conflict with its preferred, diversity-aware 'best person for the role' approach. You can read more about Ultra's initiatives to improve diversity across the Group, including information on the gender split across the Board, Executive Team and the Group as a whole, in the sustainability sections of our Strategic Report on page **50**.

Board skills and experience

The Board has a balance of skills, understanding, perspectives and experience relevant to the Group's activities. The Board collectively possesses a deep understanding of the Group's core defence, security, transport and energy markets. This is complemented by its members' experience and expertise in other industries and disciplines including procurement, accountancy, financial management and growing international businesses. This range of skills and experience informs the Board's decision-making and enables it to provide effective leadership. The particular skills and experience that each Director brings to the Board are described in their biographies on pages **52** and **53**.

Executive Directors, excluding the Chief Executive, have been permitted to accept one appointment as a Non-Executive Director in another listed company. Going forward, the Group will extend this to include the Chief Executive. The Board considers that such roles enrich the skills and experience of its Executive Directors to the benefit of the Company. Executive Directors are permitted to retain any fees from such external appointments.

Board tenure and independence

	Tenure years	Independence	Experience on other plc boards
Chairman			
Douglas Caster	5	No	Yes*
Non-Executive Directors			
Martin Broadhurst	3.5	Yes	No
John Hirst	1	Yes	Yes
Sir Robert Walmsley	7	Yes	Yes
Executive Directors			
Rakesh Sharma	5	No	No
Mary Waldner	2.5	No	Yes
Mark Anderson	4	No	No

*Douglas Caster holds Non-Executive Director positions in Morgan Advanced Materials plc (since January 2015) and Metalysis Limited (since February 2014).

Board roles

There is a clear division of responsibilities between the Chairman, the Chief Executive and the Senior Independent Director. This formal division of responsibilities has been agreed by the Board and is summarised in a table which is available from the Investors' section of the Group's website (**www.ultra-electronics.com**).

Non-Executive Directors

Martin Broadhurst, John Hirst and Sir Robert Walmsley are the Group's independent Non-Executive Directors. Chris Bailey had served on the Board for over ten years and retired as Non-Executive Director at the 2015 Annual General Meeting. John Hirst became a Non-Executive Director on 1 January 2015. The Board considers all Non-Executive Directors to be independent. In assessing independence, the Board considers that they are independent of management and free from business and other relationships which could interfere with the exercise of independent judgment, now and in the future. The Chairman has also considered the Non-Executive Directors' performance in the year and has determined them to be effective and to have demonstrated commitment to their roles. The Board believes that any shareholdings of the Chairman and Non-Executive Directors serve to align their interests with those of all shareholders.

The key role of the Non-Executive Directors, along with the Chairman, is to provide an appropriate level of challenge and constructive criticism to the plans of the Executive Directors. The Non-Executive Directors met without the Chairman or Executive Directors being present during the year to discuss aspects relating to the Board and the Company and appropriate feedback was given.

On behalf of the Company, the Non-Executive Directors are active in developing relationships at a senior level with the Company's key suppliers, customers and business partners.

Insurance

The Group maintains an appropriate level of Directors and Officers Liability insurance cover in respect of legal action against its Directors.

Board appointments – the process

In making appointments to the Board, the Board, through the Nomination Committee, is careful to identify the skills, knowledge and experience needed for each role and to complement the existing skills mix provided by other Board members. To ensure selection from the widest possible talent pool, it is Ultra's normal practice to engage the services of independent external search consultants in recruiting new Directors.

Following a tender process the executive search firm Russell Reynolds Associates was engaged to identify potential candidates for the position of Group Finance Director following the notice from Mary Waldner of her intention to leave the Group. The search firm does not have any other connection with the Company. The role specification and selection criteria was determined by the Nomination Committee and required the candidate to: be a qualified accountant, have experience in corporate financial matters and have: extensive senior level accounting experience; significant leadership and managerial experience; technical appreciation and knowledge of long-term contract accounting; and strategic thinking skills. The curriculum vitaes of the shortlisted candidates will be considered by the Nomination Committee and a subcommittee will interview the short listed candidates and select those candidates to go through to final interview. All members of the Nomination Committee will be invited to attend the final interviews. Following this process, the Nomination Committee will meet to agree upon the successful candidate before any recommendation is put to the Board.

The recruitment process for the appointment of John Hirst as Non-Executive Director was set out in the 2014 Annual Report and Accounts.

Ultra's succession planning process is described in detail on page **48**.

1. Introduction
2. Strategic report
3. Governance
4. Group financials
5. Company financials
6. Five-year review

Governance
Corporate Governance Report (continued)

Directors' induction and training
All new appointments to the Board receive a comprehensive induction to the Group covering the Group's strategy, governance framework, policies and procedures, the products and services of the Group's businesses, the key markets in which the businesses operate, the key risks which the Group faces (together with the actions and plans which are in place to mitigate against these), corporate and organisational structure, financing principles and legal and regulatory issues.

Programmes of visits to Group businesses are arranged. It is important for these to encompass as many businesses as possible, since Ultra's businesses cover a broad range of capabilities. New Directors are encouraged to meet business and divisional management teams to gain a feel for the Group's style and culture. John Hirst joined Ultra as Non-Executive Director on 1 January 2015. In addition to receiving a full induction pack, he undertook an induction programme of visits to various businesses across the Group and meetings with management teams of those businesses. He also met with the Group's internal and external auditors.

The Directors' induction programme will be reviewed in 2016 in advance of the appointment of the new Group Finance Director.

The Company Secretary & General Counsel annually presents to the Board on corporate governance. The Board is briefed on significant changes in the law or governance codes affecting their duties as Directors. Experts present to the Board on specialist areas, such as pensions and tax. Specific training is arranged for Directors as and when appropriate. The Directors are able to call on independent professional advice at any time should this be necessary in order for them to carry out their duties.

Board evaluation
The Chairman commissions externally-facilitated annual Board evaluations. Board evaluations run on a two year cycle. One year, the effectiveness of the Board and its Committees is evaluated. The following year, individual Directors' performance is evaluated.

Following an evaluation of the effectiveness of the Board and its Committees in 2014, the 2014 Annual Report and Accounts set out the areas of focus going forward. An update on progress made on these actions is set out in the table below.

Board evaluation action points

Focus	Actions	Progress
Increased strategic focus	In addition to the annual off-site meeting dedicated to strategy, there will be two additional annual half-day Board strategy sessions. The Chief Executive will provide the Board with a written summary of strategic matters prior to each Board meeting. There will be an increased focus on strategy in the businesses' presentations to the Board.	Half-day Board strategy sessions were held in April and July and the full day Board strategy session focused on the strategy for the new market segments. The Chief Executive provides his reports in writing to the Board as part of the Board pack issued in advance of each meeting. Business presentations to the Board highlight how they fit with the applicable segment strategy.
Succession planning for senior managers	The Board will receive annually a report on the succession planning and career progression of senior employees.	The Nomination Committee met in July to discuss succession planning and career progression for senior employees and considered the skills and qualities needed to support the Group's organic growth and the tools and training available to develop these skills. Progress made in this area will be considered by the Nomination Committee in 2016.
Continued improvements to risk management processes	A review of the Company's risk management processes in light of the Code's new requirements will be undertaken.	The Group engaged PwC to carry out a review of risk management processes and their report was considered by the Board and the Audit Committee. Further details of the Group's management of risk are provided on pages **61** and **62**.

In November 2015, Mr Telfer of Auxesis Consulting Ltd undertook an assessment of individual Director's performance. All Directors completed a detailed questionnaire requiring them to give feedback on their fellow Board members' contribution. The objective of the process was to encourage the improved performance and effectiveness of the Board. A report of the results was given to the Chairman of the Board, detailing any significant points pertaining to the individual Directors and broader issues regarding the combined strengths and weaknesses of the Board. Mr Telfer reviewed the report with the Chairman to discuss possible actions arising and the feedback to be provided to individual Directors. Individual feedback reports were given to each Director. The review concluded that each Director contributed effectively and demonstrated commitment to the role. There is an appropriate balance of skills, experience, independence, diversity and knowledge of the Company to enable the Directors to discharge their respective duties and responsibilities effectively. Commitment of time by all Directors for Board and Committee meetings and other duties was also considered sufficient for the effective discharge of their responsibilities. The Chairman will meet with each Director to discuss their individual reports and the Board will discuss initiatives to enhance the operation of the Board.

Mr Telfer has considerable experience of working at board level. He was the Human Resources Director of Ultra up until June 2004 (when he left Ultra to set up his own consultancy) and so was able to facilitate the evaluation from a position of having a good understanding of the Group and its culture. He provides a valuable insight into Ultra's challenges and needs and is able to assess the Board and its Committees in the context of the Group's development.

Annual re-election of Directors
All the Directors will stand for re-election at the Annual General Meeting on 29 April 2016.

Conflicts of interest

The Company has in place procedures for managing conflicts and potential conflicts of interest. The Company's Articles of Association also contain provisions to allow the Directors to authorise conflicts or potential conflicts of interest so that a Director is not in breach of his or her duty under UK company law. If Directors become aware of a conflict or potential conflict of interest they should notify in line with the Company's Articles of Association. Directors have a continuing duty to update any changes to their conflicts of interest. Directors are excluded from the quorum and vote in respect of any matters in which they have a conflict of interest. No material conflicts were reported by Directors in 2015.

Risk management and internal control

The Board has overall responsibility for establishing, monitoring and maintaining an effective system of risk management and internal control. In accordance with the Code the Board confirms that:

- There is a continuing process for identifying, evaluating and managing the principal risks faced by the Group (see principal risks on pages **36** to **41**)
- The systems have been in place for the year under review and up to the date of approval of this Annual Report and Accounts
- The systems are regularly reviewed by the Board
- The systems accord with the FRC guidance on risk management, internal control and related financial business reporting

During 2015 the Board has directly, and through delegated authority to the Executive Team and the Audit Committee, overseen and reviewed the performance and evolution of the approach to risk management and internal control. Through this involvement, the Board is satisfied that the risk management and internal control systems are in place and effective.

Whilst the review did not identify any significant weaknesses in the system of internal control there were some improvements identified during the year to enhance further the overall approach to risk management. The particular enhancements made included:

- The implementation of a formal Risk Management Framework that sets out Ultra's approach to risk management
- A re-fresh of the strategic risk profile (using a more detailed risk assessment criteria) to reflect a robust assessment of the principal risks (see principal risks on pages **36** to **41**)
- The development of risk appetite statements and supporting metrics for each principal risk identified
- The introduction of Risk Champions to support the identification, capture, assessment and management of risk at each division

Each enhancement to our risk management approach has further embedded risk consideration as part of the culture of the Group.

This evolution of our risk maturity is something we will continue in 2016 with particular focus on:

- Ensuring consistent application of the new Risk Management Framework at a Divisional and individual business level
- Further work on considering risk in aggregation
- More detailed quantification, deep dives and scenario analysis on our principal risks
- On going review of the risk appetite metrics to identify any potential breaches before they arise

Risk management

The Board, supported by the Audit Committee and the Executive Team, has overall responsibility for implementing an effective risk management approach.

The overall approach is governed by the Risk Management Framework which is supported by a guiding principle of ensuring the consideration of risk is embedded into the culture and behaviours of the way Ultra operates.

The Risk Management Framework facilitates the following objectives:

- Identification, measurement, control and reporting of risks that can undermine the business model, future performance, solvency or liquidity of the Group
- Better allocation of efforts and resources for the management of principal and emerging risks
- Assurance from management that a particular risk is owned by the individual best positioned to control/mitigate that risk
- Driving business improvements and improved intelligence for key decision making
- Support and development of our reputation as a well governed and trusted organisation

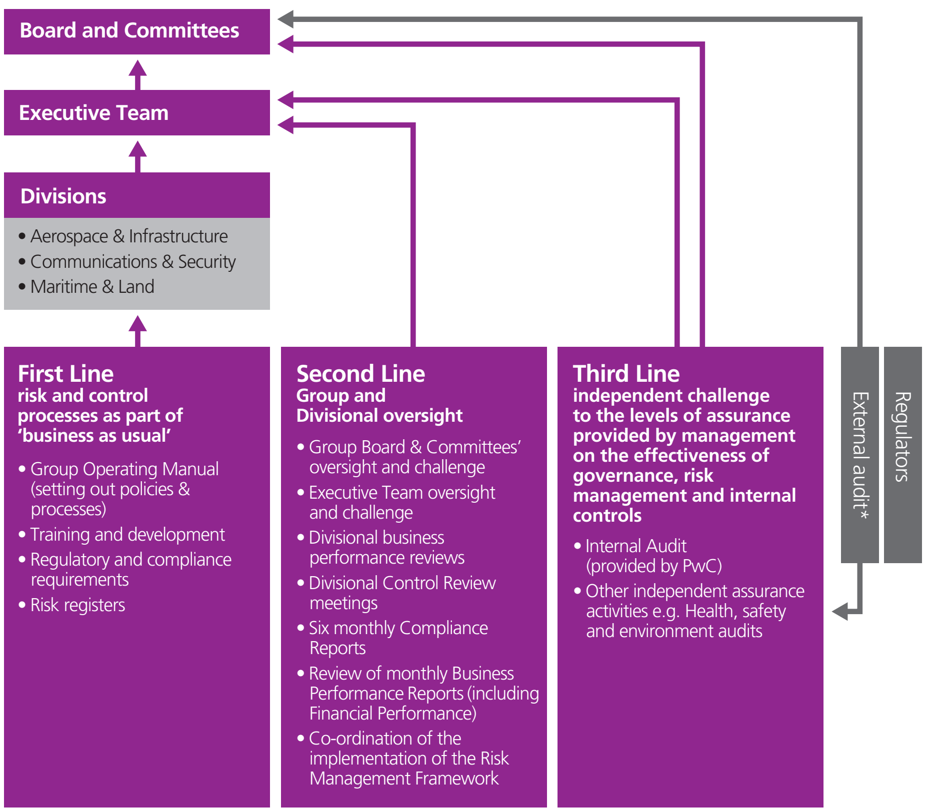
The key components of the Risk Management Framework are:

Oversight structure and accountability – The risk management oversight structure has been developed using the principles of the three lines of defence (a simple but well established governance and internal control model) and ensures risk is considered from both a top down and a bottom up perspective with risk information captured at a strategic, divisional and individual business levels.

Process – The risk management process is a consistently applied approach across each level of the business. It is focused on risk identification (using cause and effect analysis), inherent (pre controls) and residual (post controls) assessment, control identification and the development and implementation of further mitigation strategies.

As part of this process, risk appetite is considered for each of the principal risks, allowing the Board to clearly set out the nature and extent of the risk the Group is willing to accept in pursuit of the Group's strategic objectives.

The risk management process



*provided by Deloitte

1. Introduction
2. Strategic report
3. Governance
4. Group financials
5. Company financials
6. Five-year review

Governance
Corporate Governance Report (continued)

Risk Management (continued)

Escalation, monitoring and reporting – A clear escalation criteria is in place to ensure changes to risk exposure are notified through the governance structure as required. Risk leads are identified for all risks who have the responsibility for ongoing monitoring of the effectiveness of current controls and the progress against the implementation of further mitigating actions. The risk reporting flow is based on a combination of annual, bi-annual, quarterly and monthly reporting to the Board, Audit Committee, Executive Team and Divisional/individual businesses management teams.

Details of the Group's principal risks and how they are being managed or mitigated is provided on pages **36** to **41**.

Financial control

The Group has in place internal control and risk management arrangements in relation to the Group's financial reporting processes and the preparation of its consolidated accounts. The arrangements include procedures to ensure the maintenance of records which accurately and fairly reflect transactions to enable the preparation of financial statements in accordance with International Financial Reporting Standards or UK Generally Accepted Accounting Principles, as appropriate, with reasonable assurance. They also require reported data to be reviewed and reconciled, with appropriate monitoring internally and by the Audit Committee.

Business Performance Reports (comparing actuals, budget, forecasts and prior year) are prepared for all businesses on a monthly basis and reviewed where relevant by the Divisional Finance Director, Group Finance Director, members of the Executive Team and the Board.

When preparing and reviewing financial information, the businesses do not work to a materiality threshold. All variances judged to be significant are investigated and explained.

In addition to this, there is a Group-wide process specifically for monitoring financial controls and risks. Management have delegated control ownership to each of the businesses and established a framework for reporting whether the controls are designed and operating effectively. Every six months, Divisional Control Review (DCR) meetings, which are attended by the Group Finance Director, each Divisional Finance Director and PwC are held.

At the DCR meetings, the internal controls processes and issues for each business are discussed. These include:

- Results from the Senior Accounting Officer review and any tax audits
- Self-assessment against the Group Operating Manual
- Outstanding internal and external audits
- Segregation of duties and IT access audits
- Compliance with the Group's Information Security Policy

Summary results from these reviews are included in the Internal Controls Improvement Status Report, which is presented to the Audit Committee twice a year.

Operational controls

The Group Operating Manual (which is communicated across Ultra) sets out the mandatory Group policies and procedures to be followed.

The Managing Directors and Presidents, Finance Directors and Vice Presidents of Finance of each business are required to give a formal written representation to the Board each year confirming that they accept responsibility for maintaining effective internal controls in line with the Group Operating Manual and that they have disclosed full details of any fraud or suspected fraud within their business.

Internal audit

The Board maintains an internal audit process, carried out by PwC, to review financial and information systems control procedures throughout the Group. The internal audit plan is a combination of Group-wide risk-based reviews and a rolling rotational individual business programme. All significant individual businesses are audited at least once every two years, while other businesses are audited on a three-year cycle. In addition, all newly acquired individually operating businesses are audited within a year of their acquisition date. Where required, additional audits are identified during the year in response to changing priorities and requirements.

All internal audit findings are graded and appropriate remedial actions, responsibilities and timescales are agreed with management. Progress is monitored and reported through the Audit Committee.

Shareholder communication

Commitment to dialogue

The Board is committed to a high-quality dialogue with shareholders. The Executive Directors lead in this respect. The Chairman, Senior Independent Director and other Non-Executive Directors are available to meet with shareholders on request.

In 2015, the Remuneration Committee considered the views of one institutional shareholder on applying a holding requirement to long-term incentives and agreed to implement the changes outlined on page **68**.

The Company wrote to shareholders on 19 January 2016 advising them of the Company's decision to adopt FRS 101 "Reduced Disclosure Framework" (FRS 101) and to take advantage of the permitted election to the disclosure exemptions allowed under FRS 101. The consolidated financial statements of the Group continue to be prepared in accordance with International Finance Reporting Standards (IFRSs).

Annual programme

A full programme of engagement with shareholders, potential investors and analysts is undertaken each year by the Executive Directors. Ultra organises focused events and/or site visits to provide greater insight into the strengths and potential of its extensive portfolio of specialist capabilities. These range from introductory briefings on the Group as a whole to presentations on specific areas of capability.

Visits and presentations in the year included a presentation to shareholders and to analysts in June 2015. At this event the Directors gave presentations on the reorganisation of market segments, standardisation and shared services and the acquisition of what is now known as Ultra Electronics Herley. In addition, Ultra invited investors and members of the financial community to the Defence and Security Equipment International exhibition where a significant proportion of the Group's products and capabilities were exhibited.

Meetings are held with institutional investors and financial analysts after the release of the interim and full year financial results, at which detailed briefings are given. These briefings are also available from the Investors' section of the Group's website (**www.ultra-electronics.com**), together with copies of all regulatory announcements, press releases and copies of the published full year and Interim Reports and Accounts.

The Board is regularly updated by the Company's stock broker on analysts' and major shareholders' views on the Company. The Board receives a report at each Board meeting on any changes to the holdings of the Company's main institutional shareholders.

All shareholders are invited to attend the Annual General Meeting on 29 April 2016 where they have the opportunity to meet with Directors and to ask questions.

Voting at the Annual General Meeting is conducted by way of a show of hands. Proxy votes lodged for each Annual General Meeting are announced at the meeting and published on the Group's website (**www.ultra-electronics.com**). Electronic communication with shareholders is preferred wherever possible since this is both more efficient and environmentally friendly. However, shareholders may opt to receive hard copy communication if they wish.

Shareholder analysis

The majority of Ultra's shares are held by institutional shareholders. The Chairman, Chief Executive and other members of the Executive Team have significant holdings in the Company, including shares awarded through share option or long-term incentive schemes.

Shareholder analysis by category of shareholder as at 31 December 2015

Category	Holding	%
Unit trusts	41,531,922	59.09
Pension funds	8,001,477	11.38
Other managed funds	3,544,259	5.04
Sovereign wealth	1,662,153	2.36
Insurance companies	2,633,964	3.75
Private investor	1,788,139	2.54
Mutual fund	4,800,475	6.83
Investment trust	1,059,353	1.51
Custodians	556,970	0.79
Exchange-traded fund	890,246	1.27
Employees share scheme trustees	235,247	0.33
Charity	48,500	0.07
Local authority	236,713	0.34
Other	3,291,728	4.70
Total issued share capital	**70,281,146**	**100.00**

Shareholder analysis by size of shareholding as at 31 December 2015

Size of shareholding	Total number of holdings	% of holders	Total number of shares	% issued capital
1-50	134	7.92	2,931	0.00
51-100	101	5.97	8,376	0.01
101-250	358	21.17	65,348	0.09
251-500	260	15.38	92,931	0.13
501-1,000	251	14.84	177,813	0.25
1,001-5,000	288	17.03	607,720	0.86
5,001-10,000	45	2.66	313,380	0.45
10,001-25,000	73	4.32	1,170,646	1.67
25,001-50,000	48	2.84	1,702,451	2.42
Over 50,000	133	7.87	66,139,550	94.12
Total	**1,691**	**100.00**	**70,281,146**	**100.00**

Financial calendar

23 March 2016	Annual Report & Accounts published
7 April 2016	Ex-dividend date
8 April 2016	Record date
29 April 2016	Annual General Meeting
5 May 2016	Final dividend payment date
1 August 2016	Interim results announced
23 September 2016	Interim dividend payment date

1. Introduction
2. Strategic report
3. Governance
4. Group financials
5. Company financials
6. Five-year review

Governance
Corporate Governance Report (continued)

Directors' responsibilities statement
The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with IFRSs as adopted by the European Union and Article 4 of the International Accounting Standards Regulation (IAS) and have elected to prepare the Company's financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including FRS 101. Under company law, the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs and of the profit or loss of the Company as well as the undertakings included in the consolidation for that period.

In preparing the Company's financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgments and accounting estimates that are reasonable and prudent
- State whether applicable UK Accounting Standards have been followed subject to any material departures disclosed and explained in the financial statements
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- Properly select and apply accounting policies
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance
- Make an assessment of the Company's ability to continue as a going concern

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website (**www.ultra-electronics.com**). Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge, taken as a whole:

- The financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole
- The Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation, together with a description of the principal risks and uncertainties that they face
- The Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy

The Annual Report (including the Strategic Report and Directors' responsibilities statement) on pages **1** to **83** was approved by the Board on 26 February 2016 and signed on its behalf by:

Rakesh Sharma, Chief Executive
Mary Waldner, Group Finance Director

Governance
Audit Committee Report

As Chairman of the Audit Committee, I am pleased to present our report detailing the role and responsibilities of the Committee and its activities during the year.

John Hirst, Chairman of the Audit Committee

I am delighted to have assumed the role of Chairman of the Audit Committee (the Committee) this past year and I would like to thank Chris Bailey for his years of leadership of the Committee. Ultra is committed to ensuring that it has robust and effective risk management and control processes. As Chairman of the Committee, I am pleased to present our report detailing the role and responsibilities of the Committee and its activities during the year that support this. The Board's report on the systems of internal control and their effectiveness can be found in the Corporate Governance Report on pages **56** to **64**. An assessment of the Group's principal risks and uncertainties, can be found on pages **36** to **41** and together with the going concern and long-term viability statements, can be found in the Strategic Report on page **27**.

During the year, the Committee continued to review the appropriateness of the Group's system of risk management and internal controls, the robustness and integrity of the Group's financial reporting, along with both the internal and external audit processes.

A risk and rotational based approach is taken by the Company in determining its internal audit plan, thereby ensuring the plan is clearly linked to the Company's strategy and flexible enough to highlight and address emerging risks. The focus in 2015 continued to be on the Group's Business Continuity and IT Disaster Recovery processes, as well as working capital management and controls in integrating new businesses. In addition, the Company worked with PricewaterhouseCoopers LLP (PwC), the Company's internal auditor, to improve the Company's risk management processes in line with the Code. Further details on Ultra's risk management processes can be found on pages **61** and **62**.

In 2015, the significant issues at the forefront of the Committee's deliberations were: valuation and impairment testing of goodwill and intangible assets; and accounting and disclosure in relation to the changes to the Group's operations in the Middle East. The Committee also considered the impact that the Group's adoption of S3 would have in enhancing the Group's internal controls.

I am pleased to present the Committee's Report for 2015.

John Hirst, Chairman of the Audit Committee

Composition

The composition of the Committee is set out on page **58**. The Chairman of the Committee has the recent and relevant financial and accounting experience required by the Code. He is supported in his role by the other members of the Committee who have a wide range of business experience and expertise, as evidenced in their biographies on page **53**.

Meetings and attendance

The Committee met five times during the year under review. In addition to the members of the Committee, regular attendees were: the Chairman of the Board, the Chief Executive, the Group Finance Director and the Group Marketing Director. The Company Secretary & General Counsel acts as Secretary to the Committee. Deloitte LLP (Deloitte) is the Group's external auditor. To ensure full and open communication, Deloitte was represented at all scheduled Committee meetings, and the lead partner from PwC attended those meetings at which key findings from internal audit reports were reviewed by the Committee.

During 2015, the Chairman of the Committee met with Deloitte and PwC in the absence of Executive and Non-Executive Directors. In addition, the Committee met with Deloitte without Executive Directors present, where Deloitte reported on it's views of the Group's financial management process and any matters that they thought should be brought to the attention of the Committee.

Role

The Committee's main responsibilities include:

- Scrutinising the Group's annual and interim financial statements and accounts and reporting to the Board on the significant financial reporting issues and judgements made
- Reviewing the content of the Annual Report & Accounts and advising the Board whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy
- Reviewing the scope and effectiveness of the external audit process, including negotiating the terms of the external auditor's appointment, scope, fees and independence and supervising any audit tender process
- Reviewing the effectiveness of the internal audit function and the adequacy and effectiveness of the Group's system of internal control, including financial reporting, and the processes for assessing business risks and monitoring and managing the impact of the risks facing the Group

The Committee has written terms of reference which include all matters recommended by the Code. These terms of reference are reviewed and approved by the Board annually and are available on the Group's website (**www.ultra-electronics.com**).

The Board is kept fully informed of the Committee's work and the minutes of each Committee meeting are circulated to Board members.

Ultra is committed to ensuring it has robust and effective risk management and control processes.

1. Introduction
2. Strategic report
3. Governance
4. Group financials
5. Company financials
6. Five-year review

Governance
Audit Committee Report (continued)

Activities of the Committee during the year

Topic	What was considered
Financial reporting	Annual and interim financial statements and related results announcements Reports from the external auditor on the outcomes of their audit process Key accounting policies and practices adopted by the Group, key accounting judgments and matters that required the exercise of significant management judgment The going concern statement (see page **27**) The long-term viability statement (see page **27**)
Risk management	Review of the principal risks, the Group's risk appetite and risk metrics. Consideration of their alignment to the achievement of Ultra's strategic objectives Assessment of the key controls in place and future planned management actions to address the risks Approval of the updated Risk Management Framework Further details of the approach to risk management and the new Risk Management Framework can be found in the Corporate Governance Report on pages **61** and **62**
Internal controls	Reports on the internal control environment and risk management and their effectiveness Review of compliance with the Group's Business Continuity and IT Disaster Recovery Policies Internal Controls Improvement Status Report which summarise the results from the six monthly Divisional Control review meetings
Internal audit	Internal audit plan for the year Summary reports from the risk-based reviews Summary reports from the rotational reviews Progress reports on the implementation of remedial actions
Regulatory and accounting update	EU Audit Reform and the need for audit reports to contain key risk observations from 2016 Financial reporting update Adoption of FRS 101 Reduced Disclosure Framework
External auditor	The external auditor's engagement policy, independence and effectiveness Review of audit and non-audit fees The external audit plan for the year
Governance	The Committee's terms of reference

Significant financial judgements and financial reporting for 2015	How the Committee addressed these judgements
Oman Airport IT Contract termination and liquidation of Ithra	The Committee considered the judgements taken in accounting for the termination event and the liquidation including provisions for all known liabilities, revenue recognition, recoverability of assets, the treatment of the minority interest, and the associated disclosures presented in this Annual Report.
Revenue and profit recognition on the largest long-term contracts in the Group	The Committee assessed the risk control processes and approval practices adopted when determining revenue and profit recognition.
Valuation of goodwill and intangibles	The Committee reviewed the methodology and assumptions used to determine the balance sheet values. The Committee also considered reports from, and held discussions with, the external auditors.
Retirement benefit plans	The Committee reviewed the main assumptions used in determining the defined benefit post retirement obligation.

Internal audit
PwC are appointed by Ultra as its internal auditor. The Committee uses internal audit as its key resource for gaining independent assurance on the effectiveness of the system of internal control. The internal audit plan and resources are considered and monitored by the Committee, together with all internal control findings and remedial actions.

The lead partner of PwC reports directly to the Chairman of the Committee and presents the findings twice annually to the Committee. Progress reports on follow-up remedial actions are reported regularly to the Committee. PwC confirms whether appropriate action has been taken to address the risks when they next visit the business concerned.

The effectiveness of internal audit is assessed by the review of internal audit reports, meetings with the Chairman of the Committee without management being present and views from senior management and the Group Finance Director.

External auditor
The performance, effectiveness and independence of the Company's auditor, Deloitte, are reviewed annually by the Committee. The Committee considered the questions contained in a questionnaire issued by the Institute of Chartered Accountants of Scotland in October 2007 to assess performance, effectiveness and independence and concluded that Deloitte had been sufficiently transparent and incisive and the audits had been effective.

The Committee concluded that Deloitte was both independent and objective and that the re-appointment of Deloitte as external auditor should be recommended to the shareholders. Accordingly, a resolution to re-appoint Deloitte will be put to shareholders at the 2016 Annual General Meeting.

External auditor (continued)

The senior audit partner employed by Deloitte on the Group's audit is subject to a strict policy of regular rotation such that there is a change in this role at least once every five years. This is in accordance with professional practice guidelines. The current senior audit partner's tenure commenced in 2011 and therefore a new audit partner will be appointed in 2016. Deloitte was appointed in 2002. The Committee considers that for an organisation of the size and complexity of Ultra, the tendering of external audit must be well planned to ensure that the Group complies with best practice corporate governance as well as ensuring the Group receives a high quality, efficient and effective external audit service. In particular, the Committee does not consider it is appropriate to consider tendering the external audit at the same time as recruiting and inducting a new Group Finance Director and therefore considers it would be appropriate to conduct an external audit tender by no later than 2023 at which point Deloitte would be precluded from being Ultra's external auditor. The Company is in compliance with the requirements of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 and the Code.

There are no contractual obligations that restrict the Committee's choice of external auditor.

The auditor's engagement letter and the scope of the year's annual audit cycle is discussed in advance by the Committee, ensuring that any changes in circumstances arising since the previous year are taken into account. With respect to non-audit services undertaken by Deloitte, Ultra has a policy to ensure that the provision of such services do not impair Deloitte's independence or objectivity. The policy states that:

- non-audit services are restricted to regulatory reporting, consultancy services associated with financial restructuring, responding to new reporting requirements, due diligence assessments of potential acquisitions and minor consultancy work. In connection with due diligence work and tax consultancy, it is the Board's view that the auditor's familiarity with the Company's accounting practices and the techniques that are involved in the Company's long-term contracting activities serves them well in carrying out such work;
- when considering the use of the external auditor to undertake non-audit work, consideration must be given to the provisions of the Financial Reporting Council Guidance on Audit Committees with regard to the preservation of independence and objectivity;
- the external auditor must certify to the Company that they are acting independently;
- in providing a non-audit service, the external auditor should not:
  - audit their own work;
  - make management decisions for the Company;
  - create a mutuality of interest; or
  - find themselves in the role of advocate for Ultra;
- the Group Finance Director has authority to commission the external auditor to undertake non-audit work where there is a specific project with a cost that is not expected to exceed £50,000. Any individual assignments with an estimated fee in excess of £50,000 must be referred in advance to the Chairman of the Committee for his approval. All non-audit work has to be reported to the Committee at its next meeting; and
- before commissioning non-audit services, the Group Finance Director or the Chairman of the Committee, as appropriate, must ensure that there is no issue as regards independence and objectivity and that other potential providers are adequately considered.

The effectiveness of the external audit process is assessed by the Committee, which meets regularly throughout the year with the senior audit partner and senior audit managers. Key to the overall effectiveness of the process is that both the Company and the auditor make the other aware of accounting and financial reporting issues as and when they arise, and this exchange is not limited to the period in which formal audit and review engagements take place.

This general approach is supported by a formal feedback request process whereby each of the businesses in the Group are requested to feedback comments on the audit process, the performance of the auditor and any recommendations for the audit process going forward. A debrief meeting is then held with Deloitte to discuss the results of the feedback and agree on any measures for improvement of the audit process.

The Committee believes that sufficient and appropriate information is obtained from the feedback request to form an overall judgment on the effectiveness of the external audit process.

The fees paid to Deloitte in respect of audit and non-audit services are shown in note **98** to the Financial Statements.

The Group has a policy on employment of former employees of the external auditor. This requires that any such employment is considered on a case by case basis and takes into account the Auditing Practices Board's Ethical Standards on such appointments. Such appointment requires approval by a combination of the Group Finance Director, the Committee and the Board, depending on the seniority of the appointment.

Fraud

The internal audit process carried out by PwC, described on page **62**, and the Group's internal control framework help to protect the Group against fraud. Regular business reviews take place at all businesses, in which detailed balance sheet and cash flow reviews are carried out by the relevant Divisional Managing and Financial Directors. In addition, the Group Finance Director and Group Chief Operating Officer review the performance of the businesses with the Divisional team monthly and directly with the businesses at least twice a year. Significant differences between forecast and reported financial results are highlighted and require explanation by the business unit concerned. The Chief Executive and Group Marketing Director also attend such divisional/business reviews as the case requires. The internal control framework that is in place is supplemented by the external audit process which represents a second independent review of controls and procedures, with selective transaction testing of higher risk areas. There is a fraud reporting process in place. All cases of fraud would be immediately investigated and the situation reported to the Committee and the Board.

Whistleblowing

An independently hosted Employee Hotline (EthicsPoint) is used to provide a process for reporting ethical concerns. Such concerns can be filed anonymously. Employees are informed of this process through posters (which are translated into local languages) and through the Group intranet (which is accessible by all employees). Activities were undertaken in 2015 to republicise EthicsPoint to increase awareness and engender a culture where employees feel comfortable raising ethical dilemmas. Employee concerns are forwarded to the Chairman of the Committee or, in the case of issues covered by US security legislation, to the Chairman of the Security Committee of either Ultra's Special Security Agreement company or Ultra's Proxy Board company, as appropriate. During 2015, 13 reports were submitted (two in 2014) which were investigated and dealt with appropriately. Ultra views the increase in reports as an illustration of the success of its activities in 2015 to republicise EthicsPoint and create a more open and ethical workplace.

Anti-bribery

Ultra has robust anti-bribery policies and procedures in place. All Directors and employees are required to sign Ultra's code of conduct on anti-bribery and commit to act in accordance with it. Within one week of joining Ultra, all Directors and employees undertake anti-bribery training. Further anti-bribery training is given to targeted groups throughout the year. Compliance with the code of conduct on anti-bribery is closely monitored by a requirement for Ultra businesses to submit monthly business performance reports confirming compliance with the code of conduct and reporting any breaches. The Group intranet contains a statement from the Chief Executive regarding compliance with Ultra's anti-bribery policies.

The Audit Report was approved by the Board on 26 February 2016 and signed on its behalf by:

John Hirst, Chairman of the Audit Committee

1. Introduction
2. Strategic report
3. Governance
4. Group financials
5. Company financials
6. Five-year review

Governance

Remuneration Report

> As the Chairman of the Remuneration Committee, I am pleased to present the Remuneration Report for the financial year ended 31 December 2015

Martin Broadhurst, Chairman, Remuneration Committee

ANNUAL STATEMENT

Dear shareholder

As the Chairman of the Remuneration Committee, I am pleased to present the Remuneration Report, prepared by the Remuneration Committee (the Committee) and approved by the Board, for the financial year ended 31 December 2015. It has been prepared in accordance with Schedule 8 of The Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008 as amended in August 2013 and has been divided into the following three sections:

1. this **Annual Statement**, which summarises the major decisions on, and any substantial changes to, Directors' remuneration;
2. the **Directors' Remuneration Policy Report**, which sets out Ultra's policy on the remuneration of Executive and Non-Executive Directors; and
3. the **Annual Report on Remuneration**, which discloses how the Remuneration Policy will be implemented in the year ending 31 December 2016 and how it was implemented in the year ended 31 December 2015.

As the Committee is not seeking to make any changes to the Directors' Remuneration Policy Report for 2016, only the Annual Statement and Annual Report on Remuneration will be tabled for shareholder vote at the 2016 AGM.

Remuneration policy for 2016

The Directors' Remuneration Policy, as approved by the majority of shareholders at the 2015 AGM, will remain unchanged and therefore will apply to remuneration payable to Directors for 2016.

However, reflecting the Committee's desire to increase alignment between the Executive Directors and shareholders, the Committee has decided to enhance the existing approved policy by the introduction of a two-year post-vesting holding period which will be applied, at the Committee's discretion, to Long-Term Incentive Plan (LTIP) awards made in 2016 and thereafter. Therefore, while the LTIP vesting and performance period will continue to be set at three years, Executive Directors will be asked to retain the net of tax awards until at least the fifth anniversary of the date of grant. Consistent with past practice, LTIP awards for 2016 will be granted at 125% of salary for the Chief Executive and 100% of salary for other Executive Directors. In line with last year's awards, 20% of awards will vest for median TSR as measured against the constituents of the FTSE 250 (excluding investment trusts) increasing pro-rata to full vesting for upper quartile performance. In addition to the TSR targets, an EPS underpin must be achieved for awards to vest. For 2016, the EPS underpin will be reduced from 15% over three years to 9%, to reflect the challenging economic environment. Malus and clawback provisions will continue to operate.

In addition, the Committee determined that the salary review date should be defered from 1 January to 1 April to better align it with the Group's financial results. Executive Directors were not compensated for this three month deferral. The holding period and change to the salary review date will be incorporated formally into the Directors' Remuneration Policy for approval by shareholders at the 2017 AGM (i.e. the end of the original three-year policy period). The Committee also elected to defer the Chairman and other Non-Executive Directors fee review date to 1 April.

Finally, the Committee intends to relax the current policy in respect of the Chief Executive not being permitted to accept outside appointments as a non-executive director. As such, Rakesh Sharma will be given permission to seek one non-executive director role (in line with the other Executive Directors) and the Directors' Remuneration Policy will be amended at the 2017 AGM (and apply retrospectively if necessary), subject to shareholder approval.

Performance and reward during 2015

The continuing uncertainty in Ultra's core defence markets led it to adopt a prudent view of annual performance which it has delivered against. Revenue and underlying operating profit were £726.3m (2014: £713.7m) and £120.0m (2014: £118.1m) respectively; underlying earnings per share were 123.9p (2014: 123.1p); operating cash flow was £81.3m (2014: £83.1m); and total shareholder return was 6% (2014: 8%). Reflecting this, the Executive Directors earned an annual bonus for 2015 (see page **75**) (no bonus was paid for 2014). The 2013 LTIP awards which had been due to crystalise in 2016 based on three-year TSR and EPS performance to 31 December 2015 will not vest as a result of performance targets not being met.

Board change

As announced, Mary Waldner tendered her resignation from the Group in November 2015 and will leave on 16 March 2016 following the preliminary 2015 results announcement. The Nomination Committee is in the process of finding a replacement and, when appointed, their remuneration arrangements will be in line with the policy set out in this report and will be disclosed in full in next year's Annual Report on Remuneration.

Shareholder engagement

I am pleased to say that our voting result at the 2015 AGM was 97.03% in favour of the Directors' Remuneration Policy Report and 99.06% in favour of the Annual Statement and Annual Report on Remuneration.

In conclusion, the Board firmly considers that the Directors' Remuneration Policy continues to be aligned with the strategic aims of the Group in adding to shareholder value and supporting the long-term success of the Company.

Martin Broadhurst,
Chairman, Remuneration Committee

Revenue
£726.3m +1.8%
2014: £713.7m

Underlying operating profit
£120.0m +1.6%
2014: £118.1m

Underlying earnings per share
123.9p +0.6%
2014: 123.1p

Operating cash flow
£81.3m -2.2%
2014: £83.1m

Total shareholder return
+6%
2014: 8%

Remuneration Report
Directors' Remuneration Policy

The policy described in this section, which was originally approved by shareholders at the 2014 AGM, with minor amendments approved at the 2015 AGM, remains unchanged for the year ending 31 December 2016.

Policy overview
The Group's Remuneration Policy is to reward senior management competitively, enabling Ultra to recruit, motivate and retain executives of a high calibre, whilst avoiding making excessive remuneration payments. The remuneration of Executive Directors and senior managers is aligned with the Group's objectives and the interests of shareholders.

Future policy
The following information summarises the Directors' Remuneration Policy:

How the element supports our strategy	Operation of the element	Maximum potential	Performance targets
SALARY			
Reflects the value of the individual and their role and responsibilities Reflects underlying performance of the individual Provides an appropriate level of basic fixed income avoiding excessive risk arising from over reliance on variable income	Normally reviewed annually, effective 1 January Paid in cash on a monthly basis; pensionable Is compared with companies with similar characteristics and sector comparators Targeted at or below median Reviewed in the context of the salary increase budget across the Group	While there is no defined maximum salary, it is the Committee's policy to set pay for Executive Directors at industry competitive levels taking market capitalisation and annual sales into account Annual salary increases take into account: • Underlying performance of the individual • Underlying performance of the business • Underlying annual salary increases within the overall Group • Any changes to the scope of the role in terms of size or complexity • Underlying salary increases for similar industry roles It is recognised that annual salary increases may also include a 'catch up' element over and above the factors listed above to increase the salary towards or to a competitive industry level where the Executive Director was appointed with a salary significantly below the competitive level Annual salary increases for Executive Directors will not normally exceed the average increase awarded to other UK-based company employees although increases may be above this if there is an increase in: (i) the scale, scope or responsibility of the role; and/or (ii) the experience of the incumbent where this has a positive impact on Group performance	None

1. Introduction
2. Strategic report
3. Governance
4. Group financials
5. Company financials
6. Five-year review

*see footnote on page 136

Remuneration Report
Directors' Remuneration Policy (continued)

How the element supports our strategy	Operation of the element	Maximum potential	Performance targets
ANNUAL BONUS			
Provides focus on delivering/ exceeding annual budget Rewards and helps retain key executives and is aligned to the Group's risk profile Maximum bonus only payable for achieving demanding targets	Payable in cash Non-pensionable Malus and claw back provisions apply	100% of salary p.a.	At least 75% of bonus potential based on financial measures (e.g. headline profit before tax; and operating cash flow) No more than 25% based on non-financial strategic/personal targets No bonus will be paid in respect of the non-financial element of the bonus if the Committee considers the Company's financial performance to be unsatisfactory or there is an exceptional negative event during (or just after) the relevant financial year
LONG TERM INCENTIVE PLAN			
Aligned to main strategic objective of delivering long-term value creation Aligns Executive Directors' interests with those of shareholders Rewards and helps retain key executives and is aligned to the Group's risk profile	Share plan approved (as amended) by shareholders in April 2013 Discretionary annual grant of nil cost options or conditional share awards Malus and claw back provisions apply	Normal Limit: • 125% of salary p.a. for the Chief Executive • 100% of salary p.a. for other Executive Directors Exceptional Limit: • 150% of salary p.a., e.g. recruitment or retention of an employee Dividend equivalents may be payable on LTIP awards, in cash or shares, to the extent that awards vest	Performance measured over three years Relative Total Shareholder Return (TSR) targets (with an absolute EPS underpin) 20% of award vests at threshold performance
PENSION			
To provide competitive, yet cost-effective retirement benefits	Defined benefit provision, defined contribution and/or salary supplements paid on a cash neutral basis	The defined benefit scheme (which is closed to new employees) provides a benefit of two-thirds of a member's Final Pensionable Earnings if they have completed over 20 years' Pensionable Service at Normal Retirement Date. If Pensionable Service at Normal Retirement Date is less than this it will be calculated as 1/30th of Final Pensionable Earnings for each year Defined contribution/salary supplement rates up to a maximum of 20% of base salary	n/a
OTHER BENEFITS			
To provide benefits consistent with role	Benefits include: private medical cover; life insurance; critical care insurance; permanent health insurance; car and fuel allowance; relocation and expatriation expense; and other benefits payable where applicable	n/a	n/a

How the element supports our strategy	Operation of the element	Maximum potential	Performance targets
SHARE OWNERSHIP GUIDELINES			
To provide alignment of interests between Executive Directors and shareholders	Executive Directors are required to build and maintain a shareholding equivalent to one year's base salary (125% of base salary for the Chief Executive) through the retention of at least 50% of the post-tax shares received on the vesting of LTIP awards	n/a	Aim to hold a shareholding equal to 100% of base salary (125% for the Chief Executive)
ALL EMPLOYEE SHARE PLANS			
The Executive Directors are eligible to participate in the Company's HMRC approved All-Employee Share Ownership Plan (AESOP) and the Savings Related Share Option Scheme on the same terms as other employees To encourage employee share ownership and increase alignment with shareholders	Under the AESOP, UK employees are offered the opportunity to buy shares up to the prevailing HMRC limits per annum from pre-tax salary. Shares are then held in trust until the maturity date or until employment with Ultra ends Under the Savings Related Share Option Scheme, employees are entitled to save up to the prevailing HMRC limits or the lower limit set by Ultra per annum from net pay towards the purchase of options to buy Ultra shares	Under the AESOP up to the value of £1,500 per annum from pre-tax pay Under the Savings Related Share Option Scheme, up to £1,200 per annum from post-tax pay	n/a
NON-EXECUTIVE DIRECTOR FEES			
Reflects time commitments and responsibilities of each role Reflects fees paid by similar sized companies The Chairman's remuneration is set by the Remuneration Committee which meets without him to agree this. The remaining Non-Executive Directors' fees are proposed by a sub-committee of the Executive Directors and approved by the Board	Cash fee paid monthly Fees are reviewed on an annual basis Fixed 12 month contracts with no notice periods An additional fee is paid to the Chairman of the Audit, Remuneration and Nomination Committees and to the Senior Independent Director No additional fees are payable for any other duties to Non-Executive Directors	n/a	n/a

Notes to policy table:

(1) A description of how the Company intends to implement the policy in 2016 is set out in the Annual Report on Remuneration.

(2) The Remuneration Policy described above provides an overview of the structure that operates for the most senior executives in the Group. Lower levels of incentive operate for employees below executive level, with remuneration driven by market comparators and the impact of the role. Long-term incentives are reserved for those anticipated as having the greatest potential to influence the Group's earnings growth and share price performance, although as the Committee is aware of the benefits which wider employee share ownership can generate, all employees are encouraged to participate in the AESOP and Savings Related Share Option Scheme in the countries in which they are offered.

(3) The choice of the performance metrics applicable to the annual bonus scheme reflect the Committee's view that any incentive compensation should be appropriately challenging and largely tied to financial performance. The TSR and EPS performance conditions applicable to the LTIP were selected by the Committee on the basis that:
- TSR aligns the performance objectives of the Executive Directors (TSR is one of the Group's Key Performance Indicators) more closely with the interests of the shareholders;
- TSR is an entirely objective measure of relative performance;
- The use of TSR and EPS reflects the metrics most commonly used by other quoted companies;
- TSR reduces the complexity and cost of calculating the vesting result; and
- The EPS underpin ensures an appropriate level of profit growth is maintained by the Group.

(4) None of the employee share plans operate performance conditions.

(5) As highlighted above, Ultra has a share ownership policy which requires the Executive Directors to build up and maintain a target holding equal to 100% of base salary (125% for the Chief Executive). Details of the extent to which the Executive Directors had complied with this policy as at 31 December 2015 are set out on page **78**.

(6) For the avoidance of doubt, in approving this amended Directors' Remuneration Policy, authority was given to Ultra to honour any commitments entered into with current or former Directors (such as, but not limited to, the payment of a pension or the vesting/exercise of past share awards) that have been disclosed to and approved by shareholders in previous Remuneration Reports. Details of any payments to former Directors will be set out in the Annual Report on Remuneration as they arise.

(7) While the Directors' Remuneration Policy will remain unchanged and therefore will apply to remuneration payable to Directors for 2016, reflecting the Committee's desire to increase alignment between the Executive Directors and shareholders, the Committee has decided to enhance the existing approved policy by the introduction of a two-year post-vesting holding period which will be applied, at the Committee's discretion, to LTIP awards made in 2016 and thereafter. Therefore, while the LTIP performance period will continue to be measured over three years, Executive Directors will be asked to retain the net of tax awards until at least the fifth anniversary of the date of grant. The holding period will be incorporated formally into the Directors' Remuneration Policy at the 2017 AGM (i.e. the end of the original three-year policy period).

(8) Although the Directors' Remuneration Policy states that the base salary review date will normally be 1 January, the Remuneration Committee determined that the 2016 salary review date should be deferred until 1 April (and then annually thereafter) to better align it with the Group's financial results. Executive Directors were not compensated for this three month deferral to the effective date. This change to the salary review date will be incorporated permanently and formally into the Directors' Remuneration Policy at the 2017 AGM (i.e. the end of the original three year policy period).

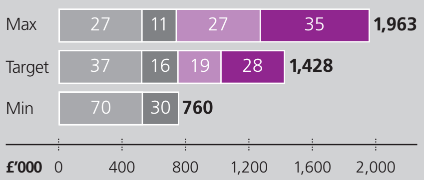
1. Introduction
2. Strategic report
3. Governance
4. Group financials
5. Company financials
6. Five-year review

Remuneration Report
Directors' Remuneration Policy (continued)

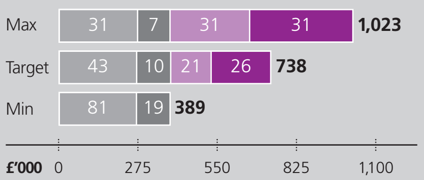
Remuneration scenarios for Executive Directors

The charts below show how the composition of the Executive Directors' remuneration packages varies at three performance levels, namely, at minimum (i.e. fixed pay including pensions and taxable benefits), target and maximum levels, under the policy set out in the table overleaf. The charts show the proportion of the total package comprised of each element.

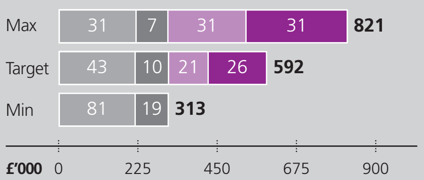
Chief Executive
Remuneration composition levels (%)



Group Finance Director
Remuneration composition levels (%)



Group Marketing Director
Remuneration composition levels (%)



■ Long-term share awards ■ Pensions/benefits
■ Annual bonus ■ Salary

Notes to remuneration scenarios:
(1) Base salary levels are based on those applying from 1 April 2016;
(2) Benefit and pension values for 2016 have been estimated;
(3) Annual Bonus outturn is assumed to be 50% of salary at target level. For maximum, outturn assumes a maximum bonus award level of 100% of salary; and
(4) LTIP Awards assume an LTIP grant policy of 125% of salary for the Chief Executive and 100% of salary for the other Executive Directors which vests in full at maximum performance, while 20% is assumed to vest at target level of performance. No share price appreciation has been included.

Director recruitment policy

The Nomination Committee normally considers both internal and external candidates before any new appointment is made. New Executive Directors are provided with remuneration consisting of base salary, short-term incentive, long-term incentive and other benefits.

Salary

Ultra's policy is to set pay for Executive Directors at industry competitive levels taking market capitalisation and annual sales into account. It is recognised that a new appointee may not have as much experience as someone at a competitive level and may therefore be offered a salary below competitive levels but at a level that is sufficient to attract the person. In exceptional circumstances, the Committee may exercise its discretion to offer an above industry competitive level salary in order to attract the best person.

Short-term incentives

Short-term incentives are offered in line with those paid to other Executive Directors. Maximum opportunities will be in line with current plan maximums for existing Executive Directors (i.e. 100% of salary p.a.).

Long-term incentives

Long-term incentives are offered in line with those paid to other Executive Directors. Maximum opportunities will be in line with current plan maximum for existing Executive Directors (i.e. up to 125% of salary p.a. or 150% of salary p.a. in exceptional circumstances).

Other benefits

Other benefits are offered in line with those paid to other Executive Directors.

Buy outs

To facilitate recruitment, the Committee may make an award to buy-out incentive arrangements forfeited on leaving a previous employer. In doing so, the Committee will take account of all relevant factors including any performance conditions attached to these awards and the time over which they would have vested or been paid. Ultra may make use of the flexibility provided in the Listing Rules (LR 9.4.2) to make awards if appropriate. Where possible, incentives will be bought out on a like-for-like basis with respect to vesting/payment dates, currency (i.e. cash versus shares) and the use of performance targets.

Non-Executive Directors

The approach to the recruitment of Non-Executive Directors is to pay an annual fixed fee, after considering existing Non-Executive Directors fee levels, market levels and expected time commitment. In deciding whether to accept any fee increase the Non-Executive Directors consider Company performance.

Executive Director service contracts

The Group's policy is to ensure that the Executive Directors' service contracts have a notice period of one year, which the Committee considers appropriately reflects both current market practice and the balance between the interests of the Group and each Executive Director. The following table provides more information on each Executive Director's service contract:

Name	Original date of contract	Notice period
R. Sharma	21 Apr 2011	12 months
M. Waldner	1 Jul 2013	12 months
M. Anderson	11 Apr 2012	12 months

No Executive Directors have provisions in their contracts for compensation on early termination other than for the notice period.

External appointments of Executive Directors

Executive Directors may accept not more than one external appointment as a Non-Executive Director. Up to 50% of any time spent undertaking such external duties can be taken as additional unpaid leave with the remainder being treated as annual holiday.

Executive Director exit policy

Ultra may terminate an Executive Director's contract early with contractual notice or by way of a payment in lieu of notice, at its discretion. Neither notice nor a payment in lieu of notice will be given in the event of gross misconduct. Payments in lieu of notice will equate to the basic salary and benefits payable during the notice period or, if notice has already been given, the remainder of the notice period. Payment in lieu of notice will be made by way of a lump sum or by phased instalments over the notice period. Where payments are phased, if an employee gains employment during the notice period, payments would be reduced. There is no contractual entitlement to annual incentive payments in respect of the notice period. An annual bonus may be payable with respect to the period of the financial year served although it will be pro-rated for time and paid at the normal payment date as defined by the bonus scheme rules.

Any share-based entitlements granted to an Executive Director under the Group's share plans will be determined based on the relevant plan rules. The default treatment under the 2007 LTIP is that any outstanding awards lapse on cessation of employment. However, if a participant ceases to hold office or employment because of death or for any other circumstance, at the discretion of the Committee, 'good leaver' status may be applied. For good leavers, the Committee can decide that awards will vest on the date they would normally have vested had the participant not ceased to hold office or employment.

Executive Director exit policy (continued)
Alternatively, the Committee can decide that awards will vest on cessation. In both cases, the award will vest subject to the satisfaction of the relevant performance conditions at that time and a pro rata reduction to reflect the period of time from the date of grant of the award to the date of cessation relative to the normal three year vesting period. However, the Committee can decide not to apply a pro rata reduction if it regards it as inappropriate to do so in any particular case.

Non-Executive Director appointment letters
The Non-Executive Directors have appointment letters fixed for 12 months with no notice period. Details of their appointment letters are in the table below:

Name	Date of renewal	Notice period
D. Caster	22 Apr 2016	Nil
M. Broadhurst	3 Jul 2016	Nil
J. Hirst	1 Jan 2017	Nil
Sir Robert Walmsley	1 Jan 2017	Nil

There are no provisions in their appointment letters for compensation on early termination.

How employment conditions elsewhere in the Group are considered
Base salary increases take into account a number of factors including the underlying base salary increases within the overall Group. Pay is only set centrally for Executive Directors, Executive Team members, Divisional staff, Business Managing Directors/Presidents, UK Directors and Head Office staff. All other salaries are set within the operating businesses. In all cases there are two levels of approval. The Committee does not consult with employees when setting the remuneration of Executive Directors. It uses independent comparison metrics to benchmark remuneration with other companies.

How shareholders' views are taken into account
The Committee considers shareholder feedback received during the year. At the 2015 Annual General Meeting, 99.06% of our shareholders voted in favour of the Annual Statement and Annual Report on Remuneration and 97.03% voted for the Directors' Remuneration Policy.

Malus and clawback policy
Consistent with best practice, Ultra operates malus (i.e. the ability to reclaim deferred remuneration prior to payment/vesting) and clawback (i.e. the ability to reclaim amounts paid) provisions in respect of the annual bonus and LTIP. The triggers which may result in the malus and/or clawback provisions being invoked cover misstatement, error in respect of the calculation of a payment, where an individual has (or would have) been dismissed for gross misconduct and where there has been an exceptional negative event.

99.06%

Our voting result at the 2015 Annual General Meeting was 99.06% in favour of the Annual Statement and Annual Report on Remuneration...

97.03%

...and 97.03% in favour of the Directors' Remuneration Policy

Remuneration Report
Annual Report on Remuneration

Implementation of the Directors' Remuneration Policy in 2016

A summary of how the Directors' Remuneration Policy will be applied for the year ending 31 December 2016 is set out below.

Salaries

While the normal base salary review date is 1 January, the Committee determined that the 2016 salary review date should be deferred until 1 April 2016 to better align it with the Group's financial results. Executive Directors were not compensated for this three month deferral to the effective date. It is intended that this change to the salary review date will apply going forward and be incorporated permanently and formally into the Directors' Remuneration Policy at the 2017 AGM (i.e. the end of the original three year policy period).

Current Executive Director salary levels are as follows:

	2016 Salary £'000	2015 Salary £'000	Increase awarded from 1 April 2016 %
R. Sharma	**535**	522	2.5
M. Waldner	**317**	317	-
M. Anderson	**254**	248	2.5

Both Rakesh Sharma and Mark Anderson will receive an inflationary base salary increase of 2.5% from 1 April 2016, in line with the average increase awarded to the workforce as a whole. As Mary Waldner announced her resignation from the Company, her salary would remain unchanged.

Directors' pension entitlements

The Group will continue to operate a defined benefit pension scheme arrangement for Rakesh Sharma until 5 April 2016 (when the defined benefit scheme will close) with provision based on a calculation by the scheme actuary. A full review of pension provision for Rakesh Sharma will be carried out in advance of the next Directors' Remuneration Policy review prior to the 2017 AGM. Mark Anderson and Mary Waldner will continue to participate in the defined contribution scheme, receiving annual company contributions of up to 18% of salary (with Mary Waldner's contribution pro-rated up to cessation).

Non-Executive Directors' fees

The Chairman and other Non-Executive Directors' fees will increase by 2.5% from 1 April 2016, in line with inflation and the average increase awarded to the workforce.

Annual bonus for 2016

The maximum bonus for Executive Directors in 2016 will continue to be 100% of base salary.

Consistent with the prior year, a maximum of 20% of salary will be payable for the achievement of an agreed profit target, a maximum of 60% payable for achievement of an agreed operating cash flow target, and a maximum 20% of salary will be payable for the achievement of strategic non-financial measures. No bonus will be paid in respect of the non-financial element of the bonus if the Committee considers the Company's financial performance to be unsatisfactory or there is an exceptional negative event during (or just after) the relevant financial year. As the Committee considers that commercial sensitivities restrict the disclosure of forward-looking annual bonus targets, retrospective disclosure of the targets will be provided in next year's Annual Report on Remuneration.

Long-term awards to be granted in 2016

Consistent with the Directors' Remuneration Policy, the Committee intends to grant annual LTIP awards to Executive Directors in the form of shares worth 125% of salary for the Chief Executive and 100% of salary for other Executive Directors during 2016 (with the exception of Mary Waldner who is due to leave the company in 2016).

As per last year's grant, 20% of awards will vest at median TSR ranking, increasing to 100% vesting for an upper quartile TSR ranking, measured against the constituents of the FTSE 250 (excluding investment trusts). In addition to the TSR target, there is an underpin requiring an average growth of EPS (after adjustments to exclude gains or losses on financial instruments and the amortisation of intangibles arising on acquisition). For the 2016 awards, this will be reduced from 15% over the three-year performance period to 9% over the three-year performance period to reflect the challenging economic environment.

From 2016 onwards, all awards granted to Executive Directors will also be subject to a two-year post-vesting holding period, whereby net of tax awards vesting cannot normally be sold until at least the fifth anniversary of the date of grant.

Single total figure of remuneration – Audited

Directors' emoluments are detailed below:

	Basic salary /fees	Benefits[1]	Pension[2]	Subtotal	Annual performance bonus[3]	LTIP[4]	Subtotal	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2015								
Executive Directors								
R. Sharma	522	26	189	737	460	-	460	1,197
M. Waldner	317	15	57	389	279	-	279	668
M. Anderson	248	19	45	312	201	-	201	513
Non-Executive Directors								
D. Caster	192	-	-	192	-	-	-	192
C. Bailey	20	-	-	20	-	-	-	20
M. Broadhurst	55	-	-	55	-	-	-	55
J. Hirst	55	-	-	55	-	-	-	55
Sir Robert Walmsley	53	-	-	53	-	-	-	53
Total	1,462	60	291	1,813	940	-	940	2,753

[1] Benefits comprise: taxable car benefit (in respect of Rakesh Sharma only), car allowance (in respect of Mary Waldner and Mark Anderson), taxable fuel benefit/fuel allowance (excluding Mary Waldner), life assurance and private medical insurance.

[2] Pensions: Rakesh Sharma's pension is calculated in accordance with the rules of the defined benefit scheme as set out in the policy table on page **70**. Mary Waldner and Mark Anderson, who are members of the defined contribution scheme, received pension contributions of up to 18% of basic salary. Included within pensions are cash supplements given in lieu of pension contributions where the latter have exceeded the annual allowance or the lifetime allowance for the individual Director under the relevant pension scheme.

[3] Annual performance bonus was £940,000.

[4] The 2013 LTIP awards which had been due to crystalise in 2016 will not vest and the aggregate gain made by the Directors under the LTIP during the year was £nil.

	Basic salary /fees	Benefits[1]	Pension[2]	Subtotal	Annual performance bonus[3]	LTIP[4]	Subtotal	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2014								
Executive Directors								
R. Sharma	474	26	180	680	-	-	-	680
M. Waldner	302	15	54	371	-	-	-	371
M. Anderson	225	13	23	261	-	-	-	261
Non-Executive Directors								
D. Caster	192	-	-	192	-	-	-	192
C. Bailey	59	-	-	59	-	-	-	59
M. Broadhurst	51	-	-	51	-	-	-	51
Sir Robert Walmsley	48	-	-	48	-	-	-	48
Total	1,351	54	257	1,662	-	-	-	1,662

[1] Benefits comprise: taxable car benefit (in respect of Rakesh Sharma only), car allowance (in respect of Mary Waldner and Mark Anderson), taxable fuel benefit/fuel allowance (excluding Mary Waldner), life assurance and private medical insurance.

[2] Pensions: Rakesh Sharma's pension is calculated in accordance with the rules of the defined benefit scheme as set out in the policy table on page **70**. Mary Waldner and Mark Anderson, who are members of the defined contribution scheme, received pension contributions of up to 18% of basic salary. Included within pensions are cash supplements given in lieu of pension contributions where the latter have exceeded the annual allowance or the lifetime allowance for the individual Director under the relevant pension scheme.

[3] Annual performance bonus was £nil.

[4] The 2012 LTIP award which had been due to crystallise in 2015 did not vest and the aggregate gain made by the Directors under the LTIP during the year was £nil.

Annual bonus for year under review – Audited

Annual bonuses in relation to 2015 were based upon the achievement of a sliding scale of underlying profit before tax and operating cash flow targets, as well as individual strategic objectives. Financial targets were derived from the annual budgets approved by the Board. They were adjusted where appropriate to provide an appropriate degree of "stretch" challenge and incentive to outperform. Profit and cash are two of the Key Performance Indicators by which the Group is measured. Please refer to pages **28** and **29** for details.

The bonus targets set by the Committee for 2015 were a maximum of 20% of salary (subject to the achievement of £111.8m profit before tax and loss on fair value movements on derivatives and amortisation of intangibles on acquisition), and a maximum of 60% of salary (subject to achieving an operating cash flow of £77.7m after capitalised development costs, capital expenditure, purchase of long-term incentive plan shares and the Committee exercising its discretion on movements in working capital to ensure working capital management throughout the financial year was in the short and long term interests of the Company). The remaining 20% of the bonus potential reflected strategic goals.

Remuneration Report
Annual Report on Remuneration (continued)

Annual bonus for year under review – Audited (continued)
The Committee assessed the achievement of performance against each target as follows:

	Threshold* £'000	Maximum £'000	Actual achieved £'000	Bonus payable %
Underlying profit before tax	100,620	111,800	112,425	20%
Operating cash flow	49,500	77,700	81,314	51%

*Both threshold profit and operating cash flow targets must be exceeded for any payment

In addition, the Committee assessed performance against the strategic goals which were based on the: (i) completion of an organisational efficiency review; (ii) implementation of the segment re-organisation, (iii) key contract negotiations; (iv) enhancement of investor relations; (v) review of the Business Continuity Plans; (vi) book to bill ratio; and (vii) performance of sales and marketing. The Committee determined that bonuses of 17.2%, 17.0% and 10.1% of salary (max 20%) should be payable to Rakesh Sharma, Mary Waldner and Mark Anderson respectively.

In assessing the strategic targets, the Committee retained discretion not to make a payment if it considered that Ultra's financial performance was unsatisfactory or there was an exceptional negative event during (or just after) the relevant financial year.

LTIP vesting for year under review – Audited
The LTIP awards granted in 2013 were based on performance to the year ended 31 December 2015. As disclosed in previous Annual Reports, the performance condition for this award was as follows:

Metric	Performance condition	Threshold target	Stretch target	Actual	% Vesting
Total Shareholder Return (TSR)	TSR against constituents of the FTSE 250 Index (excluding investment trusts). 20% vesting for median performance, increasing pro rata to 100% vesting for upper quartile performance or above. TSR measured over three financial years with a three month average at the start and end of the performance period	Median ranking	Upper quartile ranking	< Median	0%
Earnings Per Share Underpin	In addition to the main TSR condition, an "underpin" requires average annual growth of 5% p.a. over the performance period. In the event that this underpin is not met, the level of vesting falls to zero	5% per annum	n/a	2013: 1.3% 2014: (3.1%) 2015: 0.6%	n/a
Total					**0%**

The award details for those Executive Directors granted 2013 LTIP awards are therefore as follows:

Executive	Number of shares at grant	Number of shares to vest	Number of shares to lapse	Total	Estimated value[1] £'000
R. Sharma	32,631	-	32,631	-	-
M. Waldner	11,775	-	11,775	-	-
M. Anderson	11,908	-	11,908	-	-

[1] The estimated value of the vested shares is based on the average share price during the three months to 31 December 2015.

Share awards granted during the year – Audited

	Scheme	Date of grant	Basis of award	Face value £	Vesting at threshold	Vesting at maximum	Performance period
R. Sharma[1]	LTIP*	18 March 2015	125% of salary	652,500	20%	100%	3 years to 31 December 2017
M. Waldner[1]	LTIP*	18 March 2015	100% of salary	317,000	20%	100%	3 years to 31 December 2017
M. Anderson[1]	LTIP*	18 March 2015	100% of salary	248,000	20%	100%	3 years to 31 December 2017

*Structured as a conditional award
[1] In addition, Rakesh Sharma purchased 168 shares, Mary Waldner purchased 35 partnership shares and Mark Anderson purchased 105 partnership shares under the AESOP during 2015.

Share awards granted during the year – Audited (continued)

For awards presented overleaf, 20% of awards will vest for a median TSR ranking, increasing to 100% vesting for an upper quartile TSR ranking, measured against the constituents of the FTSE 250 (excluding investment trusts). In addition to the TSR target, there is an underpin requiring an average growth of EPS (after adjustments to exclude gains or losses on financial instruments and the amortisation of intangibles arising on acquisition) of 15% over the three year performance period.

Change in Chief Executive's remuneration

The following table illustrates the change (as a percentage) in elements of the Chief Executive's remuneration from 2014 to 2015, and compares that to the average remuneration of employees of the Group excluding the Chief Executive in the UK, who were employed on 1 January 2014 and 1 January 2015. This group best reflects the remuneration environment of the Chief Executive.

	Chief Executive % change	All UK employees % change
Salary	10.13	2.26
Taxable benefits	4.37	2.50
Bonus	*	-13.70

*Increase from £nil to £460,000

Relative importance of spend on pay

The following table shows the Group's actual spend on pay (for all employees) relative to other financial indicators:

	2015 £m	2014 £m	Change %
Staff costs[1]	**240.2**	240.0	0.1
Dividends[2]	**32.3**	30.9	4.5
Revenue[3]	**726.3**	713.7	1.8
Statutory profit before tax[3]	**34.8**	21.5	62.0

[1] £2.4m (2014: £1.3m) of the staff costs figures relate to pay for the Executive Directors.
[2] The dividends figures relate to amounts payable in respect of the relevant financial year.
[3] Although not required, revenue and statutory profit before tax have also been provided as this disclosure is considered to add further context to the annual spend on pay number.

Total defined benefit pension entitlements – Audited

Under the defined benefit scheme, a pension equal to two-thirds of salary at retirement is provided at the normal retirement age of 63 years. Where pensionable service is less than 20 years, the pension is calculated at one-thirtieth of the retirement salary for each year of service. With the Group's consent, Executive Directors may retire from age 55. After age 58, Group consent to early retirement is not required. The pension is reduced in the event of early retirement. In the event of death-in-service, a spouse's pension of 33% of pensionable earnings is payable, together with an allowance for dependent children up to a maximum of 33% of pensionable earnings where relevant. On the death of a retired Executive Director, a spouse's pension of 50% of the Executive Director's pension is payable. Once the pension is in payment, the part of the Executive Director's pension above the Guaranteed Minimum Pension will be increased each year in line with the increase in the retail price index, capped at 7.5% for service prior to 1 April 2008 and at 5% thereafter, above which increases are at the Trustees' and the Group's discretion.

No Executives accrued direct benefits under defined benefit schemes during the year. As Rakesh Sharma ceased accruing a direct benefit from 6 April 2014, his pension provision is currently determined on an annual basis by the scheme actuary such that it is equivalent in value to the value of defined benefits formerly accrued.

The defined benefit scheme will close from 5 April 2016. A full review of pension provision for Rakesh Sharma will be carried out in advance of the next Directors' Remuneration Policy review prior to the 2017 AGM.

Payments to past Directors – Audited

There were no payments made to past Directors during 2015.

Loss of office payments – Audited

There were no loss of office payments made to Directors during 2015.

Remuneration Report
Annual Report on Remuneration (continued)

Statement of Directors' shareholdings – Audited

	Legally owned		LTIP awards[1]	AESOP		SAYE			% Share ownership guidelines	Share ownership guideline met
	2015	2014	Unvested	Restricted[2]	Unrestricted[3]	Under option	Exercised	Total		Y/N
Executive Directors										
R. Sharma	41,510	41,342	102,244	2,922	-	433	646	147,755	157%	Y
M. Waldner	57	22	46,364	57	-	-	-	46,478	0.4%	N
M. Anderson	442	337	38,355	172	-	372	270	39,611	4%	N
Non-Executive Directors										
D. Caster	300,000	751,188	-	-	-	-	-	300,000	-	-
C. Bailey[4]	-	-	-	-	-	-	-	-	-	-
M. Broadhurst	1,000	1,000	-	-	-	-	-	1,000	-	-
J. Hirst[4]	2,000	-	-	-	-	-	-	2,000	-	-
Sir Robert Walmsley	1,600	1,600	-	-	-	-	-	1,600	-	-

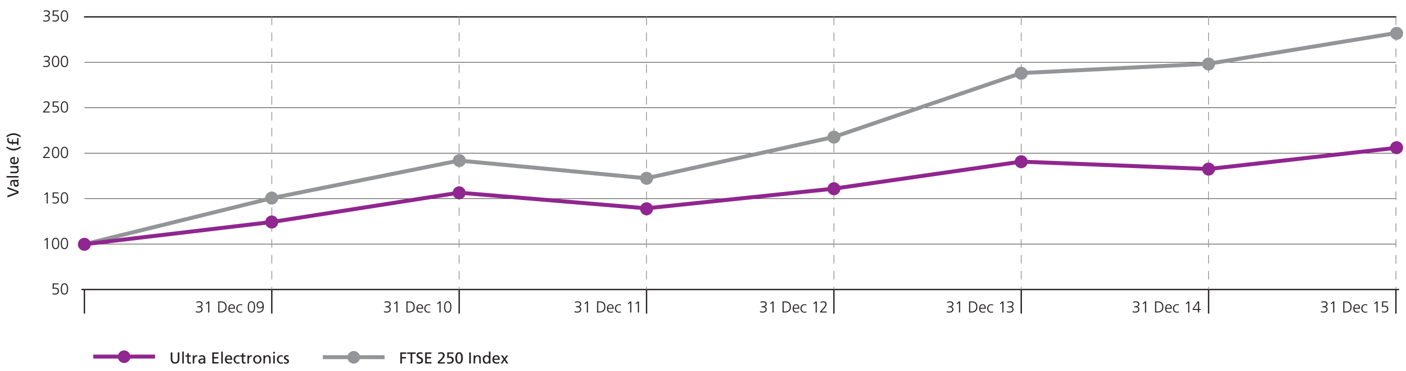
[1] There were no vested LTIP share awards within the period. In addition, this interest in LTIP awards as at 31 December 2015 includes the 2013 award (32,631 shares under award for Rakesh Sharma, 11,775 shares under award for Mary Waldner and 11,908 shares under award for Mark Anderson) which, as a result of not meeting performance conditions to 31 December 2015, will lapse in 2016.
[2] The restricted shares under the AESOP are held in the Ultra Electronics Holdings plc Employee Benefit Trust.
[3] The unrestricted shares under the AESOP have been released from the Ultra Electronics Holdings plc Employee Benefit Trust.
[4] John Hirst joined the Company on 1 January 2015. Chris Bailey stepped down from the Board on 30 April 2015.

Total shareholder return graph and single figure remuneration table

The graph below shows the TSR performance of Ultra in comparison with the FTSE 250 Index over the past seven years. The graph shows the value at the end of 2015 of £100 invested at the start of the evaluation period, in Ultra and in the Index. The Committee considers the FTSE 250 to be relevant index for the TSR comparison as Ultra is a member of the index and because together the index members represent a broad range of UK-quoted companies.

Total shareholder return – compared to FTSE 250 Index

Source: Thomson Reuters Datastream



The table below presents single figure remuneration for the Chief Executive over the past seven years, together with past annual bonus payouts and relevant LTIP vesting figures.

	Year ended	Total remuneration	Annual bonus	LTIP
		£'000	% max. payout	% max. payout
R. Sharma	31 December 2015	1,197	88	-
R. Sharma	31 December 2014	680	-	-
R. Sharma	31 December 2013	612	-	-
R. Sharma	31 December 2012	597	-	-
R. Sharma[1]	31 December 2011	722	76	-
D. Caster[2]	31 December 2011	141	-	-
D. Caster	31 December 2010	1,068	46	81
D. Caster	31 December 2009	1,512	67	100

[1] Chief Executive from 21 April 2011.
[2] Chief Executive to 21 April 2011.

Shareholder voting at the last AGM

At the 2015 Annual General Meeting, the 2014 Directors' Remuneration Report received the following votes from shareholders:

	Annual Statement and Annual Report on Remuneration		Remuneration Policy	
	Total number of votes	% of votes cast	Total number of votes	% of votes cast
Votes for	**60,014,105**	99.06	**58,779,001**	97.03
Votes against	**567,167**	0.94	**1,802,054**	2.97
Total votes cast (for and against)	**60,581,272**	100	**60,581,055**	100
Votes withheld	**10,139**		**10,353**	
Total votes cast (including withheld votes)	**60,591,411**		**60,591,408**	

Directors' interests under Long-Term Incentive Plans

Details of the Directors' interests in these arrangements are given below:

Interests under the Ultra Electronics Long-Term Incentive Plan 2007

	M. Anderson	R. Sharma	M. Waldner	Market price of shares granted	Crystallising dates of outstanding awards
2012 award	7,273	24,634	-	£17.05	March 2015
2013 March award	11,908	26,722	-	£17.21	March 2016
2013 August award	-	5,909	11,775	£19.46	March 2016
2014 award	12,240	32,234	16,430	£18.38	March 2017
Interests at 1 January 2015	31,421	89,499	28,205		
2012 awards lapsed during the year	(7,273)	(24,634)	-		
2015 award	14,207	37,379	18,159	£17.79	March 2018
Interests at 31 December 2015	**38,355**[1]	**102,244**[1]	**46,364**[1]		

[1] This interest in LTIP awards as at 31 December 2015 includes the 2013 award (32,631 shares under award for Rakesh Sharma, 11,775 shares under award for Mary Waldner and 11,908 shares under award for Mark Anderson) which, as a result of not meeting performance conditions to 31 December 2015, will lapse in 2016.

The 2012 award lapsed during the year as a result of the performance targets not being met. Ultra's share price on 31 December 2015 was £19.76. The range during 2015 was £16.35 to £20.26.

Directors' interests under the All-Employee arrangements

Name of Director	Interests as at 1 January 2015	Shares acquired during year	Interests as at 31 December 2015	Shares acquired from 1 January 2016 to 26 February 2016	Interests as at 28 February 2015
R. Sharma	2,754	**168**	**2,922**	**15**	**2,937**
M. Waldner	22	**35**	**57**	**5**	**62**
M. Anderson	67	**105**	**172**	**15**	**187**

During the year, the Share Ownership Plan Trust, established and operated in connection with the AESOP, purchased 33,691 (2014: 33,401) Ultra Electronics Holdings plc. shares, with a nominal value of £1,685 (2014: £1,670) for £593,178 (2014: £597,645).

The role and composition of the Remuneration Committee

Role

The role of the Committee is to:

- determine and agree with the Board the framework and broad policy for the remuneration of the Executive Directors, Chairman of the Board and senior management reporting to the Executive Directors (the Executive Team);
- ensure that the Executive Directors are fairly rewarded for their individual contributions to the Group's overall performance with due regard to the interests of shareholders and to the financial and commercial health of the Group; and
- ensure that contractual arrangements, including the termination of Executive Directors, are fair both to the individuals concerned and to the Group.

The Committee's terms of reference include all matters indicated by the Code and are approved and reviewed by the Board annually. The terms of reference are available on the Group's website (**www.ultra-electronics.com**).

Composition

Martin Broadhurst was Chairman of the Committee and Sir Robert Walmsley was a member throughout the year. Chris Bailey was a member of the Committee until his retirement on 30 April 2015. John Hirst joined the Committee on 2 March 2015.

Sharon Harris continued to act as Secretary to the Committee. Although not Committee members, the Chairman, Chief Executive and Group HR Director normally attend Committee meetings by invitation, except where matters directly relating to their own remuneration are discussed.

Remuneration Report
Annual Report on Remuneration (continued)

The role and composition of the Remuneration Committee (continued)

Advice

Wholly independent advice on executive remuneration and share schemes is received from New Bridge Street, part of Aon plc. New Bridge Street is a member of the Remuneration Consultants Group and is a signatory to its Code of Conduct. New Bridge Street was appointed by the Committee after a tender process and, during the year, provided the Group with advice on the operation of Ultra's LTIP and other share schemes, remuneration benchmarking services and an annual update on market and best practice. During 2015, insurance broking services were also provided to the Group by other subsidiaries of Aon plc which the Committee considers in no way prejudices New Bridge Street's position as the Committee's independent advisers. Fees charged by New Bridge Street for advice provided to the Committee for 2015 amounted to £47,571 (excluding VAT). Pension advisory services were provided to the Committee and the Group by Towers Watson. Fees charged by Towers Watson for advice provided to the Committee for 2015 amounted to £138,795 (excluding VAT), 75% of which was related to the closure of the defined benefit pension scheme (see page **26**). In addition, the Committee consults the Chief Executive with regard to the remuneration and benefits packages offered to Executive Directors (other than in relation to his own remuneration and benefits package) and members of the Executive Team.

The 2016 Annual General Meeting

The Committee remains of the view the current Directors' Remuneration Policy is fair and balanced between employees and shareholders and that there is strong alignment to the Group's strategy. As such, the Committee encourages shareholders to vote in favour of the Annual Statement and Annual Report on Remuneration resolution at the 2016 AGM. The Remuneration Report was approved by the Board on 26 February 2016 and signed on its behalf by:

Martin Broadhurst, Chairman of the Remuneration Committee

Directors' Report

For the year ended 31 December 2015

> The Directors present their annual report on the affairs of the Group, together with the accounts and independent auditor's report, for the year ended 31 December 2015.

Sharon Harris, Company Secretary & General Counsel

Ultra Electronics Holdings plc is the Group holding company and it is incorporated in the United Kingdom under the Companies Act 1985.

The Directors present their Annual Report on the affairs of the Group, together with the Accounts and independent auditor's report for the year ended 31 December 2015. Details in relation to health and safety, the environment and greenhouse gas emissions, business ethics and employment practices are included in the Sustainability section on pages **42** to **51** of the Strategic Report. The Corporate Governance Report on pages **54** to **64** forms part of this report, and the financial risk management objectives and policies can be found in note 23.

Strategic Report

In accordance with the Companies Act 2006 (the Act) Ultra is required to set out information which helps the shareholders assess how the Directors have performed their duty to promote the success of the Group, together with a fair review of the Group's business and a description of the principal risks and uncertainties facing the Group. The information that satisfies these requirements can be found in the Strategic Report on pages **36** to **41**.

Results and dividends

The Group results and dividends are as follows:

		2015 £'000
Balance on retained earnings, beginning of year		246,132
Total comprehensive income for the year		22,949
Dividends:	2014 final paid of 31.1p per share	(21,695)
	2015 interim paid of 13.8p per share	(9,637)
	Equity-settled employee share schemes	979
Balance on retained earnings, end of year		**238,728**

The final 2015 dividend of 32.3p per share is proposed to be paid on 5 May 2016 to shareholders on the register of members on 8 April 2016. The interim dividend was paid on 25 September 2015, making a total of 46.1p (2014: 44.3p) per share in the year.

Future developments

A review of the activities and future developments of the Group is contained in the Chief Executive's review on pages **4** to **7**.

Research and development

The Directors are committed to maintaining a significant level of research and development expenditure in order to expand the Group's range of proprietary products. During the year a total of £146.6 million (2014: £157.1 million) was spent on engineering and business development of which £110.6 million (2014: £115.9 million) was funded by customers and £36.0 million (2014: £41.2 million) by the Group.

Supplier payment policy

Individual operating businesses are responsible for agreeing the terms and conditions under which they conduct business transactions with their suppliers. It is Group policy that payments to suppliers are made in accordance with those terms, provided that the supplier is also complying with all relevant terms and conditions. Trade payable days of the Group for the year ended 31 December 2015 were 60 days (2014: 64 days) based on the ratio of Group trade payables at the end of the year to the amounts invoiced during the year by suppliers.

Employment policy

It is the policy of Ultra to create a working environment in which there is no discrimination and all employment decisions are based entirely on merit and the ability of people to perform their intended roles. Ultra aims to continue to build a workforce that is recruited from the widest possible talent pool (see page **48**).

Political expenditure

Neither the Company nor any of its subsidiaries have made any political donations during the year.

Directors and their interests

The Directors who served throughout the year and to the date of signing these financial statements (see biographies on page **53**), and their interests in the shares and share options of Ultra at 26 February 2016 are shown in the Annual Report on Remuneration (see pages **74** to **80**).

Directors' indemnities

The Group has made qualifying third party indemnity provisions for the benefit of its Directors which were made during the year and remain in force at the date of this report.

Directors’ Report (continued)

Branches

The Company and its subsidiaries have established branches, where appropriate, in a number of countries outside the UK. Their results are, however, not material to the Group’s financial results.

Contractual arrangements

The Group contracts with a large number of customers in order to sell its wide portfolio of specialist capabilities to a broad range of customers around the world. The Group’s largest customers are the US Department of Defense and UK Ministry of Defence. A wide range of separate contracts are entered into with these customers by different Ultra businesses through different project offices and project teams. The Group also contracts with numerous suppliers across the world and manages these arrangements to ensure that it is not over-dependent on a single supplier. This is normally achieved through dual sourcing specialist components.

Purchase of own shares

During the year Ultra purchased no (2014: nil) ordinary shares and no (2014: nil) ordinary shares were distributed following vesting of awards under the Ultra Electronics Long-Term Incentive Plan. At 31 December 2015, the Group held 235,245 ordinary shares under the Ultra Electronics Long-Term Incentive Plan (representing 0.3% of the ordinary shares in issue as at 31 December 2015).

Substantial shareholdings

As at 26 February 2016, Ultra had been notified, in accordance with Chapter 5 of the Disclosure and Transparency rules, of the following voting rights as shareholders of Ultra:

	Nature of holding	Percentage of ordinary share capital	Number of 5p ordinary shares	Date of announcement
Aberdeen Asset Management	Indirect	10.75	7,785,256	26 August 2015
J O Hambro Capital Management Limited	Direct	4.98	3,487,440	10 July 2015
Ameriprise Financial Inc	Direct & Indirect	4.56	3,192,374	1 July 2015
FIL Limited	Indirect	5.77	4,042,906	29 June 2015
Schroders plc	Indirect	4.683	3,269,563	25 April 2014
Artemis Investment Management LLP	Direct & Indirect	5.07	3,535,035	23 October 2013
Blackrock Inc	Indirect	4.2	2,910,296	15 April 2010

Capital structure

Details of the authorised and issued share capital, together with details of the movements in Ultra’s issued share capital during the year are shown in note 27. Ultra has one class of ordinary shares which carry no right to fixed income and each share carries the right to one vote at general meetings of Ultra.

There are no specific restrictions either on the size of a holding or on the transfer of shares, which are both governed by the general provisions of the Company’s Articles of Association and prevailing legislation.

Details of employee share schemes are set out in note 27. No person has any special rights of control over Ultra’s share capital and all issued shares are fully paid.

With regard to the appointment and replacement of Directors, Ultra is governed by its Articles of Association, the UK Corporate Governance Code, the Act and related legislation. The Articles of Association themselves may be amended by special resolution of the shareholders. The powers of Directors are described in the ‘Terms of Reference for the Board’ which is available from the Investors’ section on the Group website (**www.ultra-electronics.com**).

Annual General Meeting

The next Annual General Meeting of Ultra will be held at 10.00 a.m. on 29 April 2016 at 417 Bridport Road, Greenford, Middlesex UB6 8UA. A separate circular providing details of the Annual General Meeting has been sent to shareholders with the Annual Report and Accounts.

Auditor

Each of the Directors at the date of approval of this Report confirms that:

(1) So far as the Director is aware, there is no relevant audit information of which Ultra’s auditor is unaware; and

(2) The Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that Ultra’s auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Act.

The Directors’ Report was approved by the Board on 26 February 2016 and signed on its behalf by:

Sharon Harris, Company Secretary & General Counsel
Registered Office: 417 Bridport Road, Greenford, Middlesex UB6 8UA Registered Number: 2830397

Executives and advisors

Executive Team members

Rakesh Sharma
Chief Executive

Mark Anderson
Group Marketing Director

Mike Baptist
Divisional Managing Director
Communications & Security

Sharon Harris
Company Secretary & General Counsel

Carlos Santiago
Chief Operating Officer

Graeme Stacey
Divisional Managing Director
Aerospace & Infrastructure

Bill Terry
Divisional Managing Director
Maritime & Land

Keith Thomson
Group Human Resources Director

Mary Waldner
Group Finance Director

Business MDs and Presidents

Olugbenga Erinle
President
3eTI

Bob Judd
President
3 Phoenix

John McAlonan
President
Advanced Tactical Systems

Paul Owen
Managing Director
Airport Systems

Doug Burd
Managing Director
Avalon Systems
& Ultra Electronics, Australia

Mike Williams
Managing Director
Command & Control Systems

Gavin Newport
Managing Director
Communication & Integrated Systems

Rob McDonald
Managing Director
Controls

Pete Crawford
President
EMS

Paul Fardellone
President
Flightline Systems

René Bélanger
President
Forensic Technology

Tom Cross
Managing Director
GigaSat

Andy Matko
Managing Director
ID

Ken Walker
President
Maritime Systems

Nick Gaines
Managing Director
Nuclear Control Systems

Dan Upp
President
Nuclear Sensors & Process Instrumentation

Bill Terry
President
Ocean Systems

Jon Everett
Managing Director
PMES

Mike Clayton
Managing Director
Precision Air & Land Systems

Michael Spencer
President
ProLogic

Ross Parsell
Managing Director
Sonar Systems

Iwan Jemczyk
President
TCS

Joe Peters
President
USSI

External auditor

Deloitte LLP
Abbots House
Abbey Street
Reading RG1 3BD

Principal bankers

The Royal Bank of Scotland plc
135 Bishopsgate
London EC2M 3UR

Solicitors

Slaughter & May
One Bunhill Row
London EC1Y 8YY

Osborne Clarke
2 Temple Back East
Temple Quay
Bristol BS1 6EG

Financial advisors

Moelis & Company
First Floor, Condor House
10 St. Paul's Churchyard
London EC4M 8AL

JPMorgan Cazenove Limited
25 Bank Street, Canary Wharf
London E14 5JP

Stockbrokers

JPMorgan Cazenove Limited
25 Bank Street, Canary Wharf
London E14 5JP

Investec Bank plc
26 Gresham Street
London EC2V 7QP

Registrars

Equiniti
Aspect House
Spencer Road, Lancing
West Sussex BN99 6DA

1. Introduction
2. Strategic report
3. Governance
4. Group financials
5. Company financials
6. Five-year review

Independent auditor's report

To the members of Ultra Electronics Holdings plc

Opinion on financial statements of Ultra Electronics Holdings plc

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2015 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity, and the related notes 1 to 48. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

Going concern and the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the group

As required by the Listing Rules we have reviewed the Directors' statement regarding the appropriateness of the going concern basis of accounting and the Directors' statement on the longer-term viability of the Group, which are both contained within the strategic report on page **27** to the financial statements.

We have nothing material to add or draw attention to in relation to:

- the Directors' confirmation on page **27** that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages **37** to **41** that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement in the statement of accounting policies on page **123** to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- the Director's explanation on page **27** as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

Risk	How the scope of our audit responded to the risk
Ithra related provisions Refer to page **129** (critical accounting judgements and key sources of estimation uncertainty – assessment of Ithra related provisions); and page **66** (Audit Committee report – significant judgements considered). During the period, the Oman Airport IT Contract was terminated and subsequently Ithra (a jointly owned subsidiary in Oman) was placed into voluntary liquidation. At 31 December 2014, the Group recognised a £37.2m provision against contract receivables and a £9.7m provision for other termination costs. At 31 December 2015 management continues to provide for all known liabilities, where they can be reliably estimated. A liquidator was apponted for Ithra and is pursuing claims against the customer on behalf of interested parties, consequently there remains significant uncertainty regarding the likely outcome of these negotations. The material and uncertain nature of these balances means that we consider the accuracy of these estimated values to be a key audit risk.	Our audit work assessed the adequacy of the design and implementation of controls over the accuracy of Ithra related provisions. To challenge management's judgements we have reviewed correspondence relating to the contract termination by the customer, and subsequently with the liquidator appointed for Ithra. In addition, we have reviewed legal correspondence between the Group and its external legal counsel. We have obtained third party evidence for all known costs to be incurred including specific legal and supplier liabilities. For costs incurred during the year, we have traced a sample back to supporting third party evidence, and used these actual costs incurred to challenge the accuracy of anticipated costs to come. We have continued to assess the recoverability of contract balances and associated costs of recovering these contract balances through our review of correspondence relating to the negotiations and the likely timing of any receipt or agreed settlement process.
Revenue recognition Refer to page **128** (critical accounting judgements and key sources of estimation uncertainty – assessment of contract accounting); page **125** (accounting policies – revenue recognition); and page **66** (Audit Committee report – significant judgements considered). Revenue recognition is a risk area, specifically in relation to: • Significant long term contracts. Subject to meeting certain criteria, Ultra Electronics adopts long term contract accounting for a number of its contracts. Revenue recognised on this basis in the year was £371.6m. In these circumstances, a number of judgements are undertaken which specifically impact the extent of revenue and profit recognised, including: determing the total contract value; estimating the costs to completion and within this judgements relating to the provision for the cost of mitigating technical risks and meeting future milestones; and assessing the percentage of contract completion at the balance sheet date.	Our audit work assessed the adequacy of the design and implementation of controls over long-term contract accounting. To confirm that revenue and profit recognised to date are based on the current best estimate of the degree of work performed under the contract, we selected a sample of contracts and reviewed the contract risk registers and evidence for the progress made against the contract, such as milestone completion, to provide evidence over the judgement taken when providing for the cost of mitigating technical risks and meeting future milestones. We also sought to verify the costs to complete by agreeing to evidence of committed spend, budgeted rates or actual costs incurred to date. We understood and challenged management's assumptions by referring to evidence including signed contract terms and latest project status reports, and discussed contract progress and future risks with contract engineers. We also assessed the reliability of management estimates through consideration of the historical accuracy of prior period management estimates. For each contract selected for testing, we made enquiries as to any unusual contract terms or side agreements separate to the original contract, in addition to detail testing of a sample of billings and costs incurred to date. **Revenue recognition** continues overleaf >

Independent auditor's report (continued)

To the members of Ultra Electronics Holdings plc

Our assessment of risks of material misstatement (continued)

Risk	How the scope of our audit responded to the risk
Revenue recognition (continued) • Delivery of goods, due to the complex contractual terms with regards to the transfer of risk and reward that arise within the Aerospace and Defence industry and therefore whether revenue has been appropriately recognised. The complexity is increased as individual business units enter into different contractual terms with different customers for similar products.	Our audit work assessed the adequacy of the design and implementation of controls around revenue recognition. We reviewed contractual evidence to understand how the specific terms in respect of the transfer of risk and reward had been met. Then we performed a sample test of sales recognised either side of the year end, and outstanding trade receivables to substantiate whether the appropriate terms of the relevant contracts had been satisfied and that the risks and rewards associated with the contract had passed to the customer. We used external evidence, such as shipping documentation or client acceptance documentation to confirm that revenue had been recognised in the appropriate period.
Goodwill and other intangible assets Refer to page **129** (critical accounting judgements and key sources of estimation uncertainty – goodwill impairment); page **126** (accounting policies – intangible assets); and page **66** (Audit Committee report – significant judgements considered). The Group recognised £375.9m of goodwill and £173.6m of acquired intangibles at 31 December 2015. There is a risk regarding the potential impairment of the carrying value of these assets given the judgements management are required to make in respect of the assumptions used to determine their recoverable amount. This is further heightened by the challenging economic environment in which the Group operates and the decline in organic revenue and organic underlying operating profit for the Group in 2015. The key judgements include identification of cash generating units and challenging the level at which management monitor goodwill for impairment purposes given the change in methodology in the period from an individual CGU level to a group of CGUs, growth rates in future cashflow forecasts both short term and longer term, discount rates applied to these forecasts, and determining the impact of reasonably possible changes in these assumptions.	Our audit work assessed the adequacy of the design and implementation of controls over monitoring the carrying value of goodwill and acquired intangibles. We challenged management's revised approach to the level at which goodwill is monitored for impairment purposes through a review of the level at which cashflows are internally reported by management, evidence of the Group's capabilities through its go-to-market strategy, and confirmation of management's revised internal process for monitoring goodwill for impairment. We further challenged the risk of management bias by recalculating the annual assessment of goodwill impairment under the previous methodology where goodwill was allocated to individual CGUs. We challenged the assumptions used by management in their impairment assessment by using valuation specialists within the audit team to benchmark the discount rate against independently available data, together with peer group analysis, our understanding of the secured orders underpinning the Group's cashflow forecasts, and the historical performance of the businesses. Having audited the assumptions, we checked that the impairment model had been prepared on the basis of management's assumptions and was arithmetically accurate. We challenged the appropriateness of management's sensitivities based on our work performed on the key assumptions, and recalculated these sensitised scenarios. With regards to the disclosures within the Annual Report, we are satisfied that they appropriately reflect the facts and circumstances within management's assessment of impairment over goodwill and acquired intangibles, with sufficient explanation provided for the change in level at which goodwill is monitored.

Our assessment of risks of material misstatement (continued)

Risk	How the scope of our audit responded to the risk
Acquisition accounting Refer to page **129** (critical accounting judgements and key sources of estimation uncertainty – acquisition accounting); page **124** (accounting policies – business combinations); and page **66** (Audit Committee report – significant issues considered). During the year, the Group entered into two business combinations, being the Electronic Products Division of Kratos Defense & Security Solutions and Furnace Parts LLC. In aggregate, £172.5m was paid in respect of these acquisitions. There is a risk that acquisitions are not accounted for correctly in line with IFRS 3 'Business Combinations'. The risk relates to the assumptions and assertions used by management to forecast future trading performance to determine both the fair value of acquired assets and future contingent consideration payments.	Our audit work assessed the adequacy of the design and implementation of controls over acquisition accounting. For the current year acquisitions, we made use of our valuations specialists to support our review of the acquisition accounting, and in particular the valuation of acquired intangible assets identified. We obtained calculations for the fair value adjustments for these acquisitions and assessed whether the period of assessment was correct as well as confirming that the adjustment was supported by actual trading data. There was no contingent consideration on the current year acquisitions. We confirmed this against the signed sale and purchase agreements. For historical acqusitions we compared the forecast contingent consideration positions to the post year end trading results, approved budgets and historical levels of settlement.
Pensions Refer to page **129** (critical accounting judgements and key sources of estimation uncertainty – pensions); page **125** (accounting policies – pensions); and page **66** (Audit Committee report – significant issues considered). The Group operates four defined benefit pension schemes, for which there is judgement required in determining the valuation as recorded at the balance sheet date, in accordance with IAS 19 'Employee Benefits'. At 31 December 2015, these four schemes had a total net IAS 19 deficit of £84.8m. The valuation is based on a number of assumptions on both a micro and a macro-economic level as disclosed in the notes to the accounts.	Our audit work assessed the adequacy of the design and implementation of controls over the accounting for defined benefit pension schemes. We included pension specialists within our audit team to assess the appropriateness of the assumptions through benchmarking to industry data, and methodology used to value the defined benefit pension schemes at the balance sheet date. In addition, we circularised the independent actuary and investment managers responsible for managing the pension fund to confirm the source inputs into the pension valuation. This provided assurance over the completeness of the pension assets and the valuation for which we further agreed a sample to publically available asset valuations.

The risks described above have not changed from prior year, with the exception that we have no longer included the significant risk in relation to completeness of warranty provisions due to the nature of the Group's warranty commitments going forwards. The description of risks should be read in conjunction with the significant issues considered by the Audit Committee discussed on page **66**.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditor's report (continued)

To the members of Ultra Electronics Holdings plc

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We have used professional judgement in determining an appropriate materiality benchmark. This includes consideration of alternative benchmarks.

Underlying pre-tax profit is a key performance measure for the Group and it is therefore an appropriate basis on which to determine materiality. However we do adjust underlying pre-tax profit as presented by management, by deducting amortisation of acquired intangibles. The Group has established a track record of making acquisitions and hence we consider amortisation of acquired intangibles to be relevant when considering our basis for determining materiality.

On this basis, we determined materiality for the group to be £5.7 million (2014: £6.2 million), which represents 7% (2014: 7%) of adjusted underlying pre-tax profit. The decrease in materiality is due to a larger amortisation of acquired intangible assets in 2015 due to the acquisitions in the period. The determined materiality equates to 2% (2014: 2%) of equity.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £114,000 (2014: £124,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we focused our Group audit scope primarily on the audit work at 24 (2014: 25) locations, 14 (2014: 14) of these were subject to a full audit, whilst the remaining 10 (2014: 11) were subject to either an audit of specified account balances or specified audit procedures where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations at those locations.

These 24 (2014: 25) locations represent the principal business units and account for 85% (2014: 87%) of the Group's net assets, 90% (2014: 91%) of the Group's revenue and 85% (2014: 91%) of the Group's underlying operating profit. They also provided an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work at the 24 (2014: 25) units was executed at levels of materiality applicable to each individual entity which were lower than Group materiality.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

The Group audit team follows a programme of planned visits that has been designed so that the Senior Statutory Auditor or another senior member of the Group audit team visits each of the significant overseas components locations at least once every three years. Every year, regardless of whether we have visited or not, we include the component audit partner and other senior members of the component audit team in our team briefing, direct the scope of their work for the purposes of our Group audit, discuss their risk assessment and review documentation of the findings from their work

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exceptions

Adequacy of explanations received and accounting records
Under the Companies Act 2006 we are required to report to you if, in our opinion

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration
Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Corporate Governance Statement
Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the Company's compliance with certain provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report
Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team [and independent partner reviews].

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Kerr Mitchell FCA, Senior Statutory Auditor
for and on behalf of **Deloitte LLP**
Chartered Accountants and Statutory Auditor
Reading, United Kingdom
26 February 2016

Group highlights

For the year ended 31 December 2015

	2015 £'000	2014 £'000	Change %
Revenue	**726,286**	713,741	1.8
Underlying operating profit*	**119,972**	118,066	1.6
Operating profit	**66,425**	39,543	68.0
Underlying profit before tax*	**112,425**	112,034	0.4
Profit before tax	**34,761**	21,462	62.0

	2015 pence	2014 pence	Change %
Underlying earnings per share*	**123.9**	123.1	0.6
Basic earnings per share	**35.7**	29.8	19.8
Dividend per share	**46.1**	44.3	4.1

* Ultra uses underlying figures as key performance indicators. Underlying figures are stated before the Oman contract termination and liquidation related costs, amortisation charges relating to acquired intangibles, the S3 programme, impairment charges, adjustments to deferred consideration net of acquisition related costs, defined benefit pension interest charges, unwinding of discounts on provisions and the revaluation of financial instruments based on their fair values. A reconciliation between operating profit and underlying operating profit, and between profit before tax and underlying profit before tax is shown in note 2 to the accounts. A reconciliation between basic earnings per share and underlying earnings per share is shown in note 13.

Consolidated income statement
For the year ended 31 December 2015

	Note	2015 £'000	2014 £'000
Revenue	3	**726,286**	713,741
Cost of sales		**(499,510)**	(494,294)
Gross profit		**226,776**	219,447
Other operating income	4	**2,198**	4,748
Distribution costs		**(1,604)**	(1,893)
Administrative expenses		**(143,007)**	(137,698)
Share of (loss)/profit from associate	16	**(581)**	1,957
Other operating expenses	5	**(2,931)**	(1,149)
Contingent consideration (charge)/release		**(1,101)**	8,364
Impairment charges	6	**(8,462)**	(7,355)
S3 programme	2	**(4,863)**	-
Oman contract termination costs	7	**-**	(46,878)
Operating profit	6	**66,425**	39,543
Deemed disposal of Ithra	7	**(16,447)**	-
Investment revenue	9	**190**	108
Finance costs	10	**(15,407)**	(18,189)
Profit before tax		**34,761**	21,462
Tax	11	**(9,772)**	(14,964)
Profit for the year		**24,989**	6,498
Attributable to:			
Owners of the Company		**24,989**	20,799
Non-controlling interests		**-**	(14,301)
Earnings per ordinary share (pence)			
Basic	13	**35.7**	29.8
Diluted	13	**35.6**	29.7

The accompanying notes are an integral part of this consolidated income statement. All results are derived from continuing operations.

Consolidated statement of comprehensive income
For the year ended 31 December 2015

	Note	2015 £'000	2014 £'000
Profit for the year		**24,989**	6,498
Items that will not be reclassified to profit or loss:			
Actuarial loss on defined benefit pension schemes	31	**(2,530)**	(5,704)
Tax relating to items that will not be reclassified	11	**478**	1,299
Total items that will not be reclassified to profit or loss		**(2,052)**	(4,405)
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		**11,995**	10,974
Reclassification of exchange differences on deemed disposal of Ithra	7	**2,696**	-
Loss on loans used in net investment hedges		**(12,578)**	(4,161)
Tax relating to items that may be reclassified	11	**12**	(804)
Total items that may be reclassified to profit or loss		**2,125**	6,009
Other comprehensive income for the year		**73**	1,604
Total comprehensive income for the year	28	**25,062**	8,102
Attributable to:			
Owners of the Company		**25,190**	22,407
Non-controlling interests		**(128)**	(14,305)

The accompanying notes are an integral part of this consolidated statement of comprehensive income.

Consolidated balance sheet
31 December 2015

	Note	2015 £'000	2014 £'000
Non-current assets			
Goodwill	14	**375,885**	298,960
Other intangible assets	15	**193,123**	162,512
Property, plant and equipment	16	**68,183**	62,569
Interest in associate	17	**-**	8,105
Deferred tax assets	25	**5,935**	4,494
Derivative financial instruments	23	**426**	1,117
Trade and other receivables	20	**15,239**	4,694
		658,791	542,451
Current assets			
Inventories	18	**81,816**	73,745
Trade and other receivables	20	**197,387**	190,186
Tax assets		**9,169**	1,814
Cash and cash equivalents		**45,474**	41,259
Derivative financial instruments	23	**921**	1,725
Assets classified as held for sale	36	**8,795**	-
		343,562	308,729
Total assets		**1,002,353**	851,180
Current liabilities			
Trade and other payables	21	**(199,942)**	(231,954)
Tax liabilities		**(7,149)**	(7,166)
Derivative financial instruments	23	**(3,530)**	(1,920)
Liabilities classified as held for sale	36	**(3,011)**	-
Short-term provisions	26	**(24,363)**	(27,105)
		(237,995)	(268,145)
Non-current liabilities			
Retirement benefit obligations	31	**(84,819)**	(87,263)
Other payables	21	**(6,996)**	(9,512)
Deferred tax liabilities	25	**(7,168)**	(6,192)
Derivative financial instruments	23	**(2,561)**	(1,678)
Borrowings	22	**(341,046)**	(170,754)
Long-term provisions	26	**(4,925)**	(4,190)
		(447,515)	(279,589)
Total liabilities		**(685,510)**	(547,734)
Net assets		**316,843**	303,446
Equity			
Share capital	27	**3,514**	3,498
Share premium account	28	**61,052**	56,131
Own shares	28	**(2,581)**	(2,581)
Hedging reserve	28	**(25,908)**	(13,330)
Translation reserve	28	**42,038**	27,219
Retained earnings	28	**238,728**	246,132
Equity attributable to equity holders of the company		**316,843**	317,069
Non-controlling interest	28	**-**	(13,623)
Total equity		**316,843**	303,446

The financial statements of Ultra Electronics Holdings plc, registered number 2830397, were approved by the Board of Directors and authorised for issue on 26 February 2016.

On behalf of the Board
R. Sharma, Chief Executive
M. Waldner, Finance Director

The accompanying notes are an integral part of this consolidated balance sheet.

Consolidated cash flow statement

For the year ended 31 December 2015

	Note	**2015 £'000**	2014 £'000
Net cash flow from operating activities	29	**47,778**	68,717
Investing activities			
Interest received		**190**	108
Dividends received from equity accounted investments		**5,343**	1,619
Purchase of property, plant and equipment		**(4,597)**	(8,362)
Proceeds from disposal of property, plant and equipment		**1,466**	55
Expenditure on product development and other intangibles		**(1,761)**	(9,289)
Acquisition of subsidiary undertakings	32	**(172,539)**	(111,285)
Net cash acquired with subsidiary undertakings	32	**724**	6,737
Net cash used in investing activities		**(171,174)**	(120,417)
Financing activities			
Issue of share capital		**4,937**	2,231
Dividends paid		**(31,332)**	(29,722)
Loan syndication costs		**(1,347)**	(1,495)
Repayments of borrowings		**(160,532)**	(68,331)
Proceeds from borrowings		**317,586**	162,387
Increase in loan to associate		**-**	(1,654)
Repayment of obligations under finance leases		**-**	(63)
Net cash from financing activities		**129,312**	63,353
Net increase in cash and cash equivalents	29	**5,916**	11,653
Cash and cash equivalents at beginning of year		**41,259**	30,570
Effect of foreign exchange rate changes		**(1,701)**	(964)
Cash and cash equivalents at end of year		**45,474**	41,259

The accompanying notes are an integral part of this consolidated cash flow statement.

Consolidated statement of changes in equity

For the year ended 31 December 2015

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 schemes	16	4,921	-	-	-	967	-	5,904
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 2014	**3,490**	**53,908**	**(2,581)**	**(9,169)**	**16,240**	**258,609**	**682**	**321,179**
Profit for the year	-	-	-	-	-	20,799	(14,301)	6,498
Other comprehensive income for the year	-	-	-	(4,161)	10,979	(5,210)	(4)	1,604
Total comprehensive income for the year	**-**	**-**	**-**	**(4,161)**	**10,979**	**15,589**	**(14,305)**	**8,102**
Equity-settled employee share schemes	8	2,223	-	-	-	1,783	-	4,014
Dividend to shareholders	-	-	-	-	-	(29,722)	-	(29,722)
Tax on share-based payment transactions	-	-	-	-	-	(127)	-	(127)
Balance at 31 December 2014	**3,498**	**56,131**	**(2,581)**	**(13,330)**	**27,219**	**246,132**	**(13,623)**	**303,446**

Notes to accounts – Group
31 December 2015

1 Segment information

For management purposes, the Group is organised into three operating segments – Aerospace & Infrastructure, Communications & Security and Maritime & Land. These segments are consistent with the internal reporting as reviewed by the Chief Executive. Each segment includes businesses with similar operating and market characteristics.

	2015			2014 As restated*		
	External revenue £'000	**Inter segment £'000**	**Total £'000**	External revenue £'000	Inter segment £'000	Total £'000
Revenue						
Aerospace & Infrastructure	**193,224**	**8,880**	**202,104**	198,597	13,345	211,942
Communications & Security	**239,261**	**5,692**	**244,953**	224,449	8,129	232,578
Maritime & Land	**293,801**	**21,351**	**315,152**	290,695	13,917	304,612
Eliminations	**-**	**(35,923)**	**(35,923)**	-	(35,391)	(35,391)
Consolidated revenue	**726,286**	**-**	**726,286**	713,741	-	713,741

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

	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 deferred consideration net of acquisition costs	**(91)**	**(9,306)**	**(19)**	**(9,416)**
S3 programme	**(460)**	**(3,895)**	**(508)**	**(4,863)**
Impairment charges *(see note 6)*	**(2,693)**	**(5,769)**	**-**	**(8,462)**
Operating profit/(loss)	**22,268**	**(676)**	**44,833**	**66,425**
Deemed disposal of Ithra *(see note 7)*				**(16,447)**
Investment revenue				**190**
Finance costs				**(15,407)**
Profit before tax				**34,761**
Tax				**(9,772)**
Profit after tax				**24,989**

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

	2014 As restated*			
	Aerospace & Infrastructure £'000	Communications & Security £'000	Maritime & Land £'000	Total £'000
Underlying operating profit	29,593	37,017	51,456	118,066
Amortisation of intangibles arising on acquisition	(3,901)	(17,209)	(7,681)	(28,791)
Adjustments to deferred consideration net of acquisition costs†	(406)	5,293	(386)	4,501
Oman contract termination costs *(see note 7)*	(46,878)	-	-	(46,878)
Impairment charges *(see note 14)*	(7,355)	-	-	(7,355)
Operating (loss)/profit	(28,947)	25,101	43,389	39,543
Investment revenue				108
Finance costs				(18,189)
Profit before tax				21,462
Tax				(14,964)
Profit after tax				6,498

† A provision of £8,364,000 was released in 2014 relating to the GigaSat earn-out agreement for which the 2014 targets were not met. GigaSat is in the Communications & Security division.

*During the year the Group amended its internal organisation to better reflect the markets that the Group addresses so that business groupings better reflect its capabilities, evolving product offerings and market facing segments. As a result of this, the composition of the Group's reportable segments has changed. As such, in line with IFRS 8, the corresponding information for the prior year has been restated. Previously results were reported as Aircraft & Vehicle Systems, Information & Power Systems and Tactical & Sonar Systems, they are now reported as Aerospace & Infrastructure, Communications & Security and Maritime & Land.

1 Segment information (continued)

Capital expenditure, additions to intangibles, depreciation and amortisation

	Capital expenditure and additions to intangibles (excluding goodwill and acquired intangibles)		Depreciation and amortisation	
	2015 £'000	2014 £'000 As restated*	**2015 £'000**	2014 £'000 As restated*
Aerospace & Infrastructure	**2,498**	7,882	**7,074**	8,655
Communications & Security	**1,915**	4,994	**27,815**	21,890
Maritime & Land	**1,945**	4,775	**10,697**	12,484
Total	**6,358**	17,651	**45,586**	43,029

The 2015 depreciation and amortisation expense includes £34,627,000 of amortisation charges (2014: £32,202,000) and £10,959,000 of property, plant and equipment depreciation charges (2014: £10,827,000).

Total assets by segment

	2015 £'000	2014 £'000 As restated*
Aerospace & Infrastructure	**233,949**	241,927
Communications & Security	**460,980**	320,390
Maritime & Land	**245,499**	238,454
	940,428	800,771
Unallocated	**61,925**	50,409
Consolidated total assets	**1,002,353**	851,180

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

Total liabilities by segment

	2015 £'000	2014 £'000 As restated*
Aerospace & Infrastructure	**79,791**	99,464
Communications & Security	**71,162**	81,591
Maritime & Land	**92,573**	97,434
	243,526	278,489
Unallocated	**441,984**	269,245
Consolidated total liabilities	**685,510**	547,734

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

Revenue by destination

The following table provides an analysis of the Group's sales by geographical market:

	2015 £'000	2014 £'000
United Kingdom	**211,641**	227,419
Continental Europe	**74,592**	70,186
Canada	**16,690**	15,051
USA	**323,883**	296,736
Rest of World	**99,480**	104,349
	726,286	713,741

During the year there were two direct customers (2014: two), that individually accounted for greater than 10% of the Group's total turnover. Sales to these customers in 2015 were £80.6m and £134.0m (2014: £79.6m and £144.0m) across all segments.

*During the year the Group amended its internal organisation to better reflect the markets that the Group addresses so that business groupings better reflect its capabilities, evolving product offerings and market facing segments. As a result of this, the composition of the Group's reportable segments has changed. As such, in line with IFRS 8, the corresponding information for the prior year has been restated. Previously results were reported as Aircraft & Vehicle Systems, Information & Power Systems and Tactical & Sonar Systems, they are now reported as Aerospace & Infrastructure, Communications & Security and Maritime & Land.

1 Segment information (continued)

Other information (by geographic location)

	Non current assets		Total assets		Additions to Property, Plant & Equipment and intangible assets (excluding acquisitions)	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000	2015 £'000	2014 £'000
United Kingdom	223,076	221,461	373,408	376,744	4,031	9,876
USA	341,943	215,030	453,780	291,203	1,834	4,805
Canada	84,238	88,205	105,755	113,856	413	2,537
Rest of World	3,173	12,144	7,485	18,968	80	433
	652,430	536,840	940,428	800,771	6,358	17,651
Unallocated	6,361	5,611	61,925	50,409	-	-
	658,791	542,451	1,002,353	851,180	6,358	17,651

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:

	2015 £'000	2014 £'000
Operating profit	66,425	39,543
Amortisation of intangibles arising on acquisition *(see note 15)*	30,806	28,791
Impairment charges *(see note 6)*	8,462	7,355
Adjustments to contingent consideration net of acquisition related costs	9,416	(4,501)
S3 programme	4,863	-
Oman contract termination costs *(see note 7)*	-	46,878
Underlying operating profit	119,972	118,066
Profit before tax	34,761	21,462
Amortisation of intangibles arising on acquisition *(see note 15)*	30,806	28,791
Impairment charges *(see note 6)*	8,462	7,355
Adjustments to contingent consideration net of acquisition related costs	9,416	(4,501)
Unwinding of discount on provisions *(see note 10)*	641	1,172
Loss on fair value movements of derivatives *(see note 23)*	3,988	7,243
Net interest charge on defined benefit pensions *(see note 10)*	3,041	3,634
S3 programme	4,863	-
Deemed disposal of Ithra *(see note 7)*	16,447	-
Oman contract termination costs *(see note 7)*	-	46,878
Underlying profit before tax	112,425	112,034
Cash generated by operations *(see note 29)*	71,339	96,067
Purchase of property, plant and equipment	(4,597)	(8,362)
Proceeds on disposal of property, plant and equipment	1,466	55
Expenditure on product development and other intangibles	(1,761)	(9,289)
Dividend from equity accounted investment	5,343	1,619
S3 programme	2,233	-
Acquisition related payments	7,291	2,982
Underlying operating cash flow	81,314	83,072

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. See page 128 for further details.

3 Revenue

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

	2015 £'000	2014 £'000
Sales of goods	354,719	326,613
Revenue from long term contracts	371,567	387,128
	726,286	713,741

4 Other operating income

Amounts included in other operating income were as follows:

	2015 £'000	2014 £'000
Foreign exchange gains	**2,198**	4,748
	2,198	4,748

5 Other operating expenses

Amounts included in other operating expenses were as follows:

	2015 £'000	2014 £'000
Amortisation of development costs	**1,220**	780
Foreign exchange losses	**1,711**	369
	2,931	1,149

6 Operating profit

Operating profit is stated after charging/(crediting):

	2015 £'000	2014 £'000
Raw materials and other bought in inventories expensed in the year	**220,379**	218,256
Staff costs *(see note 8)*	**240,243**	239,985
Depreciation and amounts written off property, plant and equipment	**10,959**	10,827
Amortisation of internally generated intangible assets	**1,220**	780
Amortisation of acquired intangible assets (and other intangibles)	**33,407**	31,422
Impairment of goodwill *(see note 14)*	**-**	7,355
Impairment of acquired intangible assets *(see note 15)*	**5,769**	-
Impairment of loan to associate *(see note 17)*	**2,693**	-
Government grant income *(see note 24)*	**(3,714)**	(1,931)
Net foreign exchange gain	**(2,509)**	(1,169)
Profit on disposal of property, plant and equipment	**(559)**	(3)
Operating lease rentals		
– plant and machinery	**1,518**	1,405
– other	**12,139**	12,219
Research and development costs	**35,126**	36,149
Auditor's remuneration for statutory audit work (including expenses)	**915**	780

The Company only audit fee included in the Group audit fee shown above was £20,000 (2014: £20,000).

Analysis of auditor's remuneration

	2015 £'000	2014 £'000
Fees payable for the audit of the annual accounts	**206**	183
Fees payable for the audit of subsidiaries	**709**	597
Total for statutory Group audit services	**915**	780
Analysis of non-audit services:		
Audit related services	**24**	-
Tax compliance	**3**	10
Other tax advisory services	**-**	-
Corporate finance services – due diligence	**360**	436
Other services	**-**	15
Total for non-audit services	**387**	461

7 Deemed disposal of Ithra

On 4 March 2015, '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 meets the IFRS 10 criteria for consolidation as a subsidiary of the Group and is, consequently, a deemed disposal as at 4 March 2015.

During 2014 the full expected cost of the Oman contract termination of £46,878,000 was charged to the consolidated income statement and impacted the Group's profit for the year in 2014. The loss attributable to the Oman Investment Corporation ('OIC') non-controlling interest of £14,301,000 was credited to reserves as mandated by IFRS 10 para B94. Upon deemed disposal, the existing non-controlling interest of £13,751,000 is not permitted to be debited back against reserves, even though the cost has already been reflected in full on the face of the 2014 income statement, and is consequently recycled through the income statement, together with £2,696,000 of foreign exchange losses recorded in the translation reserve over the life of the entity. The net charge booked to exceptional Oman termination related costs in the 2015 income statement is as follows:

	2015 £'000	2014 £'000
Contract termination provisions	-	46,878
Non-controlling interest elimination	13,751	-
Release of translation reserve	2,696	-
Oman termination related costs	16,447	46,878

8 Staff costs

Particulars of employees (including Executive Directors) are shown below.
Employee costs during the year amounted to:

	2015 £'000	2014 £'000
Wages and salaries	209,228	209,639
Social security costs	19,796	18,518
Pension costs	11,219	11,828
	240,243	239,985

The average monthly number of persons employed by the Group during the year was as follows:

	2015 Number	2014 Number
Production	2,149	1,875
Engineering	1,746	1,936
Selling	322	304
Support services	626	672
	4,843	4,787

Information on Directors' remuneration is given in the section of the Remuneration Report described as having been audited and those elements required by the Companies Act 2006 and the Financial Conduct Authority form part of these accounts.

9 Investment revenue

	2015 £'000	2014 £'000
Bank interest	190	108
	190	108

10 Finance costs

	2015 £'000	2014 £'000
Amortisation of finance costs of debt	649	662
Interest payable on bank loans, overdrafts and other loans	7,088	5,478
Total borrowing costs	7,737	6,140
Retirement benefit scheme finance cost	3,041	3,634
Unwinding of discount on provisions	641	1,172
Fair value movement on derivatives	3,988	7,243
	15,407	18,189

11 Tax

	2015 £'000	2014 £'000
UK taxes		
Corporation tax	6,555	9,145
Adjustment in respect of prior years	(2,245)	(722)
	4,310	8,423
Overseas taxes		
Current taxation	9,435	8,373
Adjustment in respect of prior years	(620)	(875)
	8,815	7,498
Total current tax	13,125	15,921
Deferred tax		
Origination and reversal of temporary differences	(6,505)	(957)
Derecognition of deferred tax assets	1,799	-
UK tax rate change	1,353	-
Total deferred tax credit	(3,353)	(957)
Total tax charge	9,772	14,964

Corporation tax in the UK is calculated at 20.25% (2014: 21.5%) of the estimated assessable profit for the year.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

In addition to the amount charged to the income statement, the following amounts relating to tax have been recognised directly in other comprehensive income:

	2015 £'000	2014 £'000
Current tax		
Net investment hedges	-	(804)
Deferred tax		
Arising on income and expenses recognised in other comprehensive income:		
Actuarial loss on defined benefit pension schemes	478	1,299
Total income tax charge recognised directly in other comprehensive income	478	495

In addition to the amount charged to the income statement and other comprehensive income, the following amounts relating to tax have been recognised directly in equity:

	2015 £'000	2014 £'000
Current tax		
Excess tax deductions related to share based payments on exercised options	-	26
Deferred tax		
Change in estimated excess tax deductions related to share-based payments	12	(153)
Total income tax recognised directly in equity	12	(127)

The difference between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2015 £'000	2014 £'000
Group profit before tax	34,761	21,462
Tax on Group profit at standard UK corporation tax rate of 20.25% (2014: 21.5%)	7,039	4,614
Tax effects of:		
Income/expenses that are not taxable/allowable in determining taxable profits	597	606
Effect of change in UK tax rate	1,353	-
Losses for which no deferred tax asset recognised	1,237	-
Change in unrecognised deferred tax assets	1,799	5,391
Different tax rates of subsidiaries operating in other jurisdictions	528	6,395
Adjustments in respect of prior years	(2,781)	(2,042)
Tax expense for the year	9,772	14,964

12 Dividends

Amounts recognised as distributions to equity holders in the year:

	2015 £'000	2014 £'000
Final dividend for the year ended 31 December 2014 of 31.1p (2013: 29.5p) per share	21,695	20,528
Interim dividend for the year ended 31 December 2015 of 13.8p (2014: 13.2p) per share	9,637	9,194
	31,332	29,722
Proposed final dividend for the year ended 31 December 2015 of 32.3p (2014: 31.1p) per share	22,625	21,685

The 2015 proposed final dividend of 32.3p per share is planned to be paid on 5 May 2016 to shareholders on the register at 8 April 2016. It was approved by the Board after 31 December 2015 and has not been included as a liability as at 31 December 2015.

13 Earnings per share

	2015 pence	2014 pence
Basic underlying *(see below)*	123.9	123.1
Diluted underlying *(see below)*	123.8	122.8
Basic	35.7	29.8
Diluted	35.6	29.7

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

	2015 £'000	2014 £'000
Earnings		
Earnings for the purposes of basic earnings per share being profit for the year	24,989	20,799
Underlying earnings		
Profit for the year	24,989	20,799
Loss on fair value movements on derivatives (net of tax)	3,180	5,794
Amortisation of intangibles arising on acquisition (net of tax)	21,195	20,417
Unwinding of discount on provisions (net of tax)	641	1,172
Acquisition-related costs net of contingent consideration (net of tax)	8,403	(4,960)
Net interest charge on defined benefit pensions (net of tax)	2,425	2,851
Impairment charges (net of tax)	6,270	7,355
Oman contract termination costs (net of tax)	-	46,878
S3 programme (net of tax)	3,281	-
Deemed disposal of Ithra (net of tax)	16,447	-
Elimination of non-underlying non-controlling interest	-	(14,301)
Earnings for the purposes of underlying earnings per share	86,831	86,005

The adjustments to profit are explained in note 2.

	2015 Number of shares	2014 Number of shares
The weighted average number of shares is given below:		
Number of shares used for basic earnings per share	70,056,025	69,864,755
Effect of dilutive potential ordinary shares – share options	89,021	158,862
Number of shares used for fully diluted earnings per share	70,145,046	70,023,617

	2015 £'000	2014 £'000
Underlying profit before tax	112,425	112,034
Tax rate applied for the purposes of underlying earnings per share	22.77%	23.23%

14 Goodwill

	2015 £'000	2014 £'000
Cost		
At 1 January	348,598	293,988
Exchange differences	8,627	6,471
Recognised on acquisition of subsidiaries	70,579	47,601
Other changes	362	538
At 31 December	428,166	348,598

14 Goodwill (continued)

	2015 £'000	2014 £'000
Accumulated impairment losses		
At 1 January	**(49,638)**	(41,873)
Exchange differences	**(2,643)**	(410)
Impairment of goodwill	**-**	(7,355)
Carrying amount at 31 December	**375,885**	298,960

Other changes in 2015 relate to the re-assessment of initial fair values. Other changes in 2014 relate to a deferred consideration release relating to a 2006 acquisition and a fair value adjustment relating to a 2013 acquisition.

Goodwill is allocated to the Group's Cash Generating Units (CGUs) which comprise its individual business units. Goodwill is initially allocated, in the year a business is acquired, to CGUs expected to benefit from the acquisition. Subsequent adjustments are made to this allocation to the extent operations to which goodwill relates are transferred between CGUs. The size of a CGU varies but is never larger than a reportable operating segment.

In 2015 the Group amended its internal organisation to better reflect the markets that the Group addresses so that business groupings reflect its capabilities, evolving product offerings and market-facing-segments. The market-facing-segments are; Aerospace, Infrastructure, Nuclear, Communications, C2ISR, Maritime, Land and Underwater Warfare. The reporting structure has been altered in a way that changes the composition of one or more CGUs to which goodwill has been allocated, and consequently goodwill has been reallocated to these market-facing-segments. These represent the lowest level at which the goodwill is monitored for internal management purposes. Goodwill has been allocated to CGU groupings as set out below:

	2015 Discount rate %	2014 Discount rate %	2015 £'000	2014 £'000 As restated
Aerospace	**10.4**	10.8	**32,310**	32,193
Infrastructure	**10.4**	11.8	**28,971**	29,224
Nuclear	**10.4**	11.8	**17,305**	13,685
Aerospace & Infrastructure			**78,586**	75,102
Communications	**10.4 to 12.9**	10.8 to 11.8	**87,393**	86,343
C2ISR	**10.4 to 12.9**	10.8 to 12.5	**107,524**	38,137
Communications & Security			**194,917**	124,480
Maritime	**10.4**	10.8	**31,690**	30,618
Underwater Warfare	**10.4 to 12.9**	10.8 to 13.7	**70,692**	68,760
Maritime & Land			**102,382**	99,378
Total – Ultra Electronics			**375,885**	298,960

As a result of this change in internal operation, the composition of the Group's reportable segments has changed. As such, in line with IFRS 8, the corresponding information for the prior year has been restated. Previously results were reported as the following divisions; Aircraft & Vehicle Systems, Information & Power Systems and Tactical & Sonar Systems. They are now reported as Aerospace & Infrastructure, Communications & Security and Maritime & Land.

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 and forecast gross margins. Management estimates the discount rate using pre-tax rates that reflect current market assessments of the time value of money and risks specific to the Group, being the Weighted Average Cost of Capital (WACC). The WACC is then risk-adjusted to reflect risks specific to each business. The pre-tax discount rate used during 2015 varied between 10.4% and 12.9% (2014: 10.8% to 13.7%). 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-2020 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.

14 Goodwill (continued)

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 £7.2m. Sensitivity (ii) results in a £0.5m 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.

During the prior-year, the value-in-use of the Blue Sky Group CGU was lower than the carrying value of the CGU's net operating assets and consequently an impairment charge of £7.4m was recorded in administrative expenses in 2014. Following the impairment charge, the carrying value of goodwill for the Blue Sky Group CGU was £nil. As set out in note 2, the £7.4m impairment charge was included in 2014 as part of the non-underlying operating results of the Group. Blue Sky Group is within the Aerospace & Infrastructure operating segment.

15 Other intangible assets

	Acquired intangibles						
	Customer relationships £'000	Intellectual property £'000	Profit in order book £'000	Other acquired £'000	Internally generated capitalised development costs £'000	Other intangibles £'000	Total £'000
Cost							
At 1 January 2014	163,166	72,135	23,966	2,386	23,120	20,237	305,010
Foreign exchange differences	7,083	3,177	669	95	645	663	12,332
Acquired on acquistion of subsidiary undertakings	31,905	16,156	2,306	2,366	-	448	53,181
Additions	-	-	-	-	5,020	4,269	9,289
Transfers from inventories	-	-	-	-	1,335	-	1,335
Disposals	-	-	-	-	-	(45)	(45)
At 1 January 2015	**202,154**	**91,468**	**26,941**	**4,847**	**30,120**	**25,572**	**381,102**
Foreign exchange differences	5,893	2,741	621	(33)	632	532	10,386
Acquired on acquistion of subsidiary undertakings	42,789	19,115	3,321	2,832	-	-	68,057
Additions	-	-	-	-	939	822	1,761
Reclassified as held for sale	-	-	-	-	(5,264)	-	(5,264)
Disposals	-	-	-	-	(3,192)	(397)	(3,589)
At 31 December 2015	**250,836**	**113,324**	**30,883**	**7,646**	**23,235**	**26,529**	**452,453**
Accumulated amortisation							
At 1 January 2014	(91,657)	(35,988)	(23,014)	(1,038)	(14,104)	(13,764)	(179,565)
Foreign exchange differences	(3,863)	(1,716)	(634)	(54)	(221)	(380)	(6,868)
Disposals	-	-	-	-	-	45	45
Charge	(17,268)	(8,652)	(2,313)	(558)	(780)	(2,631)	(32,202)
At 1 January 2015	**(112,788)**	**(46,356)**	**(25,961)**	**(1,650)**	**(15,105)**	**(16,730)**	**(218,590)**
Foreign exchange differences	(3,691)	(1,577)	(442)	(47)	(270)	(244)	(6,271)
Reclassified as held for sale	-	-	-	-	2,338	-	2,338
Impairment charges	(5,769)	-	-	-	-	-	(5,769)
Disposals	-	-	-	-	3,192	397	3,589
Charge	(19,710)	(8,828)	(1,460)	(808)	(1,220)	(2,601)	(34,627)
At 31 December 2015	**(141,958)**	**(56,761)**	**(27,863)**	**(2,505)**	**(11,065)**	**(19,178)**	**(259,330)**
Carrying amount							
At 31 December 2015	**108,878**	**56,563**	**3,020**	**5,141**	**12,170**	**7,351**	**193,123**
At 31 December 2014	89,366	45,112	980	3,197	15,015	8,842	162,512

'Other intangibles' represents software, patents and trademarks. Of the £7,351,000 (2014: £8,842,000) net book value, £448,000 (2014: £504,000) related to patents and trademarks. The amortisation of intangible assets charge is included within administrative expenses. The impairment charge was incurred in the SOTECH business due to the reduced US domestic legal intercept business following the repeal of the US Patriot Act. The remaining intangible assets are carried at their value-in-use. Intangible assets, other than goodwill, are amortised over their estimated useful lives, typically as follows:

Customer relationships	5 to 21 years
Intellectual property	5 to 10 years
Profit in acquired order book	1 to 3 years
Other acquired	1 to 5 years
Development costs	2 to 10 years
Other intangibles:	3 to 5 years
Software	3 to 5 years
Patents and trademarks	10 to 20 years

16 Property, plant and equipment

	Land and Buildings			
	Freehold £'000	Short leasehold £'000	Plant and machinery £'000	Total £'000
Cost				
At 1 January 2014	30,311	20,777	92,478	143,566
Foreign exchange differences	329	538	2,230	3,097
Acquisitions	2,793	383	1,787	4,963
Additions	983	579	6,800	8,362
Disposals	-	(1,057)	(3,070)	(4,127)
At 1 January 2015	**34,416**	**21,220**	**100,225**	**155,861**
Foreign exchange differences	(275)	531	2,056	2,312
Acquisitions	5,146	376	7,144	12,666
Additions	134	1,408	3,055	4,597
Classified as held for sale	-	-	(1,751)	(1,751)
Disposals	(2,398)	(43)	(2,782)	(5,223)
At 31 December 2015	**37,023**	**23,492**	**107,947**	**168,462**
Accumulated Depreciation				
At 1 January 2014	(5,534)	(8,672)	(70,214)	(84,420)
Foreign exchange differences	(72)	(331)	(1,717)	(2,120)
Charge	(1,121)	(2,059)	(7,647)	(10,827)
Disposals	-	1,062	3,013	4,075
At 1 January 2015	**(6,727)**	**(10,000)**	**(76,565)**	**(93,292)**
Foreign exchange differences	246	(305)	(1,361)	(1,420)
Charge	(1,623)	(2,037)	(7,299)	(10,959)
Classified as held for sale	-	-	827	827
Disposals	1,891	(1)	2,675	4,565
At 31 December 2015	**(6,213)**	**(12,343)**	**(81,723)**	**(100,279)**
Carrying amount				
At 31 December 2015	**30,810**	**11,149**	**26,224**	**68,183**
At 31 December 2014	27,689	11,220	23,660	62,569

Freehold land amounting to £6,464,000 (2014: £3,502,000) has not been depreciated. Included within Land and Buildings is £nil (2014: £nil) of assets in the course of construction.

17 Interest in associate

	2015 £'000	2014 £'000
The value of the Group's investment is made up as follows:		
Total assets	**-**	15,085
Total liabilities	**-**	(6,980)
Interest in associate	**-**	8,105

	2015 £'000	2014 £'000
Total revenue of associate	**3,511**	41,340
Group's share of (loss)/profit recognised	**(581)**	1,957

The Group's interest in associate is represented by its 49% holding of ordinary shares in Al Shaheen Adventure LLC ("ASA"), a Company incorporated in the UAE. The Group has significant influence over the entity but does not control it, consequently ASA has been accounted using the equity method of accounting. The associate's year end is 31 December 2015.

During the year Ultra received an interim cash dividend of £5,343,000 and will receive a further final dividend of £2,530,000 upon the receipt by ASA of certain outstanding third-party trade receivables, or 30 June 2017, whichever is earlier. The declared final dividend has been recorded by the Group in other receivables due in less than 1 year. On 30 December 2015, the Group reached agreement to transfer the whole of its 49% equity interest in ASA to Emirates Advanced Investments Group ("EAI").

The carrying amount of the Group's investment in ASA and loan receivable balance *(see note 33)* have been written down to £nil at 31 December 2015 to reflect the fair value of the remaining interest. Consequently, a non-underlying impairment charge of £2,693,000 has been recorded in 2015 as disclosed in note 6.

18 Inventories

	2015 £'000	2014 £'000
Raw materials and consumables	**51,561**	44,226
Work in progress	**19,598**	18,462
Finished goods and goods for resale	**10,657**	11,057
	81,816	73,745

The amount of any write down of inventory recognised as an expense in the year was £3,168,000 (2014: £3,051,000).

19 Long-term contract balances

	2015 £'000	2014 £'000
Contracts in progress at the balance sheet date:		
Amounts due from contract customers included in trade and other receivables	**96,856**	82,662
Amounts due to contract customers included in trade and other payables	**(59,729)**	(70,138)
	37,127	12,524
Contract costs incurred plus recognised profits less recognised losses to date	**1,568,778**	1,546,394

Advances received from customers for contract work amounted to £56,643,000 (2014: £68,391,000).

20 Trade and other receivables

Non-current	2015 £'000	2014 £'000
Trade receivables	**-**	7,279
Provisions against receivables	**-**	(6,884)
Amounts due from contract customers *(note 19)*	**15,239**	4,299
	15,239	4,694

Current	2015 £'000	2014 £'000
Trade receivables	**93,016**	92,617
Provisions against receivables	**(959)**	(1,043)
Net trade receivables	**92,057**	91,574
Amounts due from contract customers	**81,617**	110,612
Provisions against amounts due from contract customers	**-**	(32,249)
Net amounts due from contract customers *(note 19)*	**81,617**	78,363
Other receivables	**9,328**	10,547
Prepayments and accrued income	**14,385**	9,702
	197,387	190,186

Trade receivables do not carry interest. The average credit period on sale of goods is 28 days (2014: 35 days).

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

The ageing profile of unprovided overdue trade receivables was as follows:

	2015 £'000	Related provision £'000	Total £'000	2014 £'000	Related provision £'000	Total £'000
1 to 3 months	**20,039**	**(315)**	**19,724**	15,877	(311)	15,566
4 to 6 months	**1,067**	**(76)**	**991**	1,433	(49)	1,384
7 to 9 months	**591**	**(276)**	**315**	269	(165)	104
Over 9 months	**292**	**(292)**	**-**	518	(518)	-
Total overdue	**21,989**	**(959)**	**21,030**	18,097	(1,043)	17,054

The Group provides against its trade receivables where there are serious doubts as to future recoverability based on prior experience, on assessment of the current economic climate and on the length of time that the receivable has been overdue. All trade receivables that have been overdue for more than a year are provided for in full.

20 Trade and other receivables (continued)

Movement in the provision for trade receivables was as follows:

Current	2015 £'000	2014 £'000
Balance at beginning of year	1,043	1,605
Foreign exchange differences	(24)	9
Increase in provision for trade receivables regarded as potentially uncollectable	217	546
Decrease in provision for trade receivables recovered during the year	(277)	(1,117)
Balance at end of year	959	1,043

Non-current	2015 £'000	2014 £'000
Balance at beginning of year	6,884	-
(Decrease)/Increase in provision for trade receivables regarded as potentially uncollectable	(6,884)	6,884
Balance at end of year	-	6,884

Credit risk

Credit risk is defined as the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group mitigates this risk of financial loss by only dealing with creditworthy counterparties.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

Whilst the Group has elements of concentration of credit risk, with exposure to a number of large counter parties and customers, the customers are mainly government agencies or multi-national organisations with whom the Group has long term business relationships. The Group has a small number of customers with individually significant amounts outstanding. These customers are considered to have low credit risk. As set out in note 7, the Oman Airport IT contract has been terminated. Specific provisions were recorded against the associated receivables balances.

Ongoing credit evaluation is performed on the financial condition of accounts receivable and when appropriate action is taken to minimise the Group's credit risk.

The carrying amount of financial assets recorded in the financial statements *(see note 23)* net of any allowances for losses represents the Group's maximum exposure to credit risk.

21 Trade and other payables

	2015 £'000	2014 £'000
Amounts included in current liabilities:		
Trade payables	70,701	92,855
Amounts due to contract customers *(note 19)*	58,104	69,257
Other payables	27,157	23,924
Accruals and deferred income	43,980	45,918
	199,942	231,954
Amounts included in non current liabilities:		
Amounts due to contract customers *(note 19)*	1,625	881
Other payables	570	5,607
Accruals and deferred income	4,801	3,024
	6,996	9,512

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

22 Borrowings

	2015 £'000	2014 £'000
Amounts due after more than one year:		
Bank loans	289,521	120,177
Unsecured loan notes	47,236	44,849
Loans from government	4,289	5,728
	341,046	170,754
Total borrowings:		
Amount due for settlement within 12 months	-	-
Amount due for settlement after 12 months	341,046	170,754
	341,046	170,754

23 Financial instruments and financial risk management

Derivative 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.

Fair value measurements recognised in the balance sheet

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); and
- Level 3 fair value measurements are those derived from valuation techniques that includes 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.

Fair value measurements recognised in the balance sheet

	Level 2 £'000	2015 Total £'000
Financial assets at fair value		
Foreign exchange derivative financial instruments (through profit and loss)	**1,347**	**1,347**
Financial liabilities at fair value		
Foreign exchange derivative financial instruments (through profit and loss)	**6,091**	**6,091**

	Level 2 £'000	2014 Total £'000
Financial assets at fair value		
Foreign exchange derivative financial instruments (through profit and loss)	2,842	2,842
Financial liabilities at fair value		
Foreign exchange derivative financial instruments (through profit and loss)	3,598	3,598

	Current assets/(liability) 2015 £'000	Current assets/(liability) 2014 £'000	Non-current assets/(liability) 2015 £'000	Non-current assets/(liability) 2014 £'000
Financial assets/(liabilities) carried at fair value through profit or loss				
Foreign exchange currency liabilities	**(3,530)**	(1,920)	**(2,561)**	(1,678)
Foreign exchange currency assets	**921**	1,725	**426**	1,117

Financial assets

The financial assets of the Group were as follows:

	2015 £'000	2014 £'000
Cash and cash equivalents	**45,474**	41,259
Currency derivatives used for hedging	**1,347**	2,842
Amounts due from contract customers	**96,856**	82,662
Other receivables	**9,328**	10,547
Trade receivables	**92,057**	91,969
Prepayments and accrual income	**14,385**	9,702

The Directors consider that the carrying amount for all financial assets approximates to their fair value.

Financial liabilities

The financial liabilities of the Group were as follows:

	2015 £'000	2014 £'000
Currency derivatives used for hedging	**6,091**	3,598
Other financial liabilities:		
Bank loans and overdrafts	**289,521**	120,177
Loan notes	**47,236**	44,849
Government loans	**4,289**	5,728
Trade payables	**70,701**	92,855
Amounts due to contract customers	**59,729**	70,138
Deferred consideration	**4,676**	6,108
Other payables	**27,727**	29,531
Accruals	**29,153**	28,222

The Directors consider that the carrying amount for all financial liabilities approximates to their fair value.

1. Introduction
2. Strategic report
3. Governance
4. Group financials
5. Company financials
6. Five-year review

23 Financial instruments and financial risk management (continued)

Liquidity risk

The Group maintains committed banking facilities with core banks to provide prudent levels of borrowing headroom.

The Group's banking facilities are provided by a small group of banks, led by The Royal Bank of Scotland. During the year there were three facilities in place. The first provides £100 million of revolving credit and was due to expire in December 2017; during the year the terms were amended to extend the expiry date to August 2019 and to reduce the applicable margin to match that of the £200 million revolving credit facility. The second facility, which was put in place in August 2014 provides £200 million of revolving credit which expires in August 2019. Both facilities are denominated in Sterling, US dollars, Canadian dollars, Australian dollars and Euros and are used for balance sheet and operational needs. A USD225 million term loan facility, which expires in August 2019, was put in place at the time of the Herley acquisition. The same covenants are in place across the three facilities.

A further £15 million overdraft is available for short-term working capital funding.

All bank loans are unsecured. Interest was predominantly charged at 1.00% (2014: 1.00%) over base or contracted rate.

At 31 December 2015, the Group had available £159,756,000 (2014: £177,956,000) of undrawn, committed borrowing facilities.

The Group is strongly cash-generative and the funds generated by operating companies are managed regionally to fund short-term local working capital requirements. Where additional funding is required, this is provided centrally through the Group's committed banking facilities.

The Group, through its Canadian subsidiary Ultra Electronics Tactical Communication Systems (UETCS), participates in two Canadian programmes that provide government support in relation to the development of certain of its products. Further disclosure is provided in note 24.

In July 2011 the Group negotiated a private shelf agreement with Prudential Investment Management, Inc. which allowed the Group to issue loan notes up to a value of USD150 million and with a maturity date of up to 10 years. USD10 million of loan notes were issued in 2011 with a maturity date of July 2018 and a further USD60 million of loan notes were issued in January 2012 with a maturity date of January 2019. In January 2014 the Group agreed an amendment to extend the private shelf agreement for a three year period. Consequently loan notes can now be issued up until 2 January 2017. The amendment also increased the size of the shelf agreement so USD125 million of notes remain available for issue. As at 31 December 2014 USD125 million remained available under the shelf agreement.

The following table details the Group's remaining contractual maturity for its financial liabilities:

	Within 1 year £'000	1 to 2 years £'000	2 to 5 years £'000	Over 5 years £'000	**Total £'000**
2015					
Bank loans and overdrafts	**4,923**	**4,242**	**299,095**	**-**	**308,260**
Loan notes	**1,701**	**1,701**	**48,902**	**-**	**52,304**
Government loans	**-**	**-**	**-**	**4,289**	**4,289**
Trade payables	**70,701**	**-**	**-**	**-**	**70,701**
Currency derivatives used for hedging	**3,530**	**1,634**	**927**	**-**	**6,091**
Deferred consideration	**869**	**3,221**	**586**	**-**	**4,676**
Accruals	**27,178**	**842**	**860**	**273**	**29,153**
2014					
Bank loans and overdrafts	1,563	1,563	125,971	-	129,097
Loan notes	1,615	1,615	48,045	-	51,275
Government loans	-	-	-	5,728	5,728
Trade payables	92,855	-	-	-	92,855
Currency derivatives used for hedging	1,920	1,678	-	-	3,598
Deferred consideration	3,459	2,234	415	-	6,108
Accruals	25,196	1,853	967	206	28,222

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 22 to the Accounts, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the Group Statement of Changes in Equity.

The Group is not subject to externally imposed capital requirements.

Currency risk

The Group uses currency derivatives in the form of forward currency contracts to hedge its foreign currency transaction risk. The currencies giving rise to this risk are primarily US dollars and Canadian dollars.

At 31 December 2015, the net fair value of the Group's currency derivatives is estimated to be a liability of approximately £4,744,000 (2014: liability £756,000), comprising £1,347,000 assets (2014: £2,842,000) and £6,091,000 liabilities (2014: £3,598,000). The loss on derivative financial instruments included in the Group's consolidated income statement for the period was £3,988,000 (2014: loss £7,243,000).

23 Financial instruments and financial risk management (continued)

The net notional, or net contracted amounts of foreign currency related forward sales contracts, classified by year of maturity are shown below.

	Not exceeding 1 year £'000	Between 1 year and 5 years £'000	Over 5 years £'000	Total £'000
2015				
US dollars/Sterling	**49,682**	**73,379**	**-**	**123,061**
Euro/other currencies	**4,590**	**7,745**	**1,740**	**14,075**
Total	**54,272**	**81,124**	**1,740**	**137,136**
2014				
US dollars/Sterling	56,470	46,771	-	103,241
Euro/other currencies	7,332	3,889	2,604	13,825
Total	63,802	50,660	2,604	117,066

Net investment hedges

At the year end the Group had net investments in US companies where the associated foreign currency translation risk is hedged by external borrowings in US dollars. The value of the borrowings does not exceed the net investments, meeting the conditions required to qualify as effective hedges. The value of the net investment hedge was US$325m (2014: US$120m).

Interest rate risk

During the year the Group entered into interest rate swaps to manage its exposure to interest rate movements on its bank borrowings. The interest rate swaps, denominated in US dollars, have been entered into to achieve an appropriate mix of fixed and floating rate exposure reflecting the Group's policy. The swaps mature in July 2019 and have a fixed swap rate, including the bank margin, of 1.232%. The floating rates are US dollar LIBOR. At the year end the nominal amounts of the interest rate swaps were US dollar 120m (2014: nil). The hedging contracts fix US dollar 120m of borrowings to December 2016, reducing to US Dollar 90m by December 2017, US dollar 60m by December 2018 and to US dollar 45m by July 2019.

The interest rate swaps were designated effective cash flow hedges and the change in fair value is charged to equity. At 31 December 2015, the net fair value of interest rate swaps was £198,000 (2014: nil). The amount recycled from the income statement during the year was £nil and has been charged to interest cost in the year (2014: £nil).

The fair value will be realised in the income statement on a quarterly basis over the next 3.5 years. The Group also has US dollar 70m of fixed rate debt with Pricoa at an interest rate of 3.60%, due for repayment in July 2018 and January 2019.

The interest rate swaps and fixed rate Pricoa debt were entered into to achieve an appropriate mix of fixed and floating rate exposure reflecting the Group's policy.

The effective interest rates and repricing dates of the Group's financial assets and liabilities were as follows:

	Effective interest rate	Total £'000	Within 1 year £'000	1 to 2 years £'000	2 to 5 years £'000	5+ years £'000
2015						
Cash and cash equivalents	**0.43%**	**45,474**	**45,474**	**-**	**-**	**-**
Loan notes	**3.60%**	**47,236**	**-**	**-**	**47,236**	**-**
Unsecured bank loans	**1.69%**	**289,521**	**-**	**-**	**289,521**	**-**
Government loans	**4.43%**	**4,289**	**-**	**-**	**-**	**4,289**
2014						
Cash and cash equivalents	0.31%	41,259	41,259	-	-	-
Loan notes	3.60%	44,849	-	-	44,849	-
Unsecured bank loans	1.28%	120,177	-	-	120,177	-
Government loans	4.43%	5,728	-	-	-	5,728

Market risk sensitivity analysis

Interest rate risk

During 2015 the Group's net borrowings were predominantly at floating interest rates. The Group has estimated the impact on the income statement of a 1% increase in market interest rates, from the average rates applicable during 2015. There is no significant difference between the amount recharged to the income statement and equity in the year.

	Profit before tax £'000
2015	**1% change**
Interest rate sensitivity	**(1,870)**
2014	
Interest rate sensitivity	(1,043)

23 Financial instruments and financial risk management (continued)

Currency risks

The Group has estimated the impact on the income statement and equity of a 10% and 25% strengthening or weakening of average actual and transactional currency rates applicable during the year and a 10% and 25% change in the foreign exchange rates applicable for valuing foreign exchange derivative instruments.

	10% strengthening		10% weakening		25% strengthening		25% weakening	
	Profit before tax £'000	Equity £'000	Profit before tax £'000	Equity £'000	Profit before tax £'000	Equity £'000	Profit before tax £'000	Equity £'000
2015								
Transaction	**5,792**	**5,792**	**(5,792)**	**(5,792)**	**14,481**	**14,481**	**(14,481)**	**(14,481)**
P&L translation	**1,734**	**415**	**(1,734)**	**(415)**	**4,334**	**1,037**	**(4,334)**	**(1,037)**
Foreign exchange derivatives	**(12,825)**	**(12,825)**	**11,307**	**11,307**	**(36,043)**	**(36,043)**	**27,665**	**27,665**
Total foreign exchange	**(5,299)**	**(6,618)**	**3,781**	**5,100**	**(17,228)**	**(20,525)**	**8,850**	**12,147**
2014								
Transaction	6,815	6,815	(6,815)	(6,815)	17,038	17,038	(17,038)	(17,038)
P&L translation	1,998	1,994	(1,998)	(1,994)	4,996	4,985	(4,996)	(4,985)
Foreign exchange derivatives	(12,330)	(12,330)	9,759	9,759	(37,623)	(37,623)	28,065	28,065
Total foreign exchange	(3,517)	(3,521)	946	950	(15,589)	(15,600)	6,031	6,042

24 Government grants and loans

The Group through its Canadian subsidiaries Ultra Electronics Tactical Communication Systems (UETCS) and Ultra Electronics Maritime Systems (UEMS) participates in three Canadian programmes that provide government support in relation to the development of certain of its products.

Under the Strategic Aerospace and Defence Initiative (SADI), the Canadian Federal Government provides a long-term funding arrangement in respect of certain eligible research and development project costs. Under this arrangement, up to $32m will be provided to UETCS and reimbursed at favourable rates of interest over the period to 2030. Up to $8m will be provided to UEMS and reimbursed at favourable rates of interest over the period 2020 to 2033. The benefit of the below market rate of interest has been calculated as the difference between the proceeds received and the fair value of the loans and has been credited to profit in the year. The fair value of the loans have been calculated using a market interest rate for a similar instrument.

Following delays on some of the UETCS programme, an extension of the funding is under negotiation. The revised repayment profile and re-assessment of the discount rate has resulted in a reduction of the loan element and increase in the grant element during the year and a reduction in capitalised development.

UETCS also participates in the Investissement Quebec (IQ) research and development programme, whereby IQ shares in the cost of research and development of certain specified new products. Under this arrangement IQ will finance up to $14m of eligible costs associated with these specified projects. This funding is repayable under a royalty arrangement over the period 2014 to 2021 if these products are successfully brought to market. Royalties only become payable when sales of these products are made. As there is no minimum repayment, funding received in respect of the IQ programme has been included in the income statement.

Amounts recognised in the financial statements in respect of these programmes were as follows:

	2015 £'000	2014 £'000
Fair value of SADI loan brought forward	**5,728**	4,337
Contributions	**662**	687
Re-assessment as grant income	**(2,249)**	-
Reduction in capitalised development	**(784)**	-
Interest charged to finance costs	**953**	823
Foreign exchange differences	**(21)**	(119)
Fair value of SADI loan carried forward	**4,289**	5,728

Government grants credited to profit in the year

	2015 £'000	2014 £'000
SADI	**3,551**	1,709
Other†	**163**	222
	3,714	1,931

†Ultra Electronics Limited received a £163,000 (2014: £222,000) grant from the Technology Strategy Board in the year.

25 Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting period.

	Accelerated† tax depreciation £'000	Employee share options costs £'000	Derivatives £'000	Retirement benefit obligations £'000	Goodwill £'000	Other £'000	**Total £'000**
At 1 January 2014	(16,629)	699	(1,298)	17,324	(735)	5,564	4,925
Credit/(charge) to income	3,386	(127)	1,449	(1,016)	(832)	(1,903)	957
Credit/(charge) to other comprehensive income	-	-	-	1,299	-	-	1,299
Charge direct to equity	-	(153)	-	-	-	-	(153)
Exchange differences	(121)	-	-	-	(169)	278	(12)
Arising on acquisition	(8,373)	-	-	-	-	(341)	(8,714)
At 1 January 2015	**(21,737)**	**419**	**151**	**17,607**	**(1,736)**	**3,598**	**(1,698)**
Credit/(charge) to income	9,595	140	808	(2,715)	(5,452)	1,063	3,439
Credit/(charge) to other comprehensive income	-	-	-	478	-	-	478
Charge direct to equity	-	12	-	-	-	-	12
Exchange differences	499	-	-	-	(380)	-	119
Arising on acquisition	(3,416)	-	-	-	(167)	-	(3,583)
At 31 December 2015	**(15,059)**	**571**	**959**	**15,370**	**(7,735)**	**4,661**	**(1,233)**

	2015 £'000	2014 £'000
Non current assets	**5,935**	4,494
Non current liabilities	**(7,168)**	(6,192)
	(1,233)	(1,698)

†Relates to property, plant and equipment and intangible assets.

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so.

The Group has not recognised deferred tax assets of £11.3 million (2014: £9.5 million) relating to tax losses, due to uncertainty as to their recoverability. There are no temporary differences which arise in respect of undistributed earnings.

The main rate of UK corporation tax reduced from 21% to 20% on 1 April 2015.

26 Provisions

	Warranties £'000	**Contract related provisions £'000**	**Total £'000**
At 1 January 2015	4,616	26,679	31,295
Created	1,749	4,976	6,725
Reversed	(1,151)	(3,355)	(4,506)
Utilised	(1,242)	(3,522)	(4,764)
Classified as held for sale	(227)	-	(227)
Unwinding of discount	-	641	641
Exchange differences	40	84	124
At 31 December 2015	**3,785**	**25,503**	**29,288**
Included in current liabilities	2,247	22,116	24,363
Included in non-current liabilities	1,538	3,387	4,925
	3,785	**25,503**	**29,288**

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. Contract related provisions also include 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: £514,000 of the provision was utilised in the year when the 2015 Forensic Technology earn-out target was met. As at 31 December 2015 the remaining contingent consideration provision is £3,428,000 (2014: £3,276,000), payment of which is contingent on earnings targets for the Forensic Technology and 3Phoenix acquisitions through until December 2016, and for contingent payments relating to the ICE WheelTug certification.

27 Share capital and share options

	2015		2014	
	No.	**£'000**	No.	£'000
Authorised:				
5p ordinary shares	**90,000,000**	**4,500**	90,000,000	4,500
Allotted, called-up and fully paid:				
5p ordinary shares	**70,281,146**	**3,514**	69,962,055	3,498

319,091 ordinary shares having a nominal value of £15,955 were allotted during the year under the terms of the Group's various Share Option Schemes. The aggregate consideration received was £4,937,000.

Share options

During the year to 31 December 2015, the Group operated the following equity-settled share option schemes:

1. Savings-Related Share Option Schemes

A Savings-Related Share Option Scheme is open to all US employees and provides for a purchase price equal to the average of the daily average market price on the five days before the grant less 10%. The vesting period is two years. If the options remain unexercised after a period of three months from the date of maturity, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

A Savings-Related Share Option Scheme is open to all Canadian employees and provides for a purchase price equal to the daily average market price on the five days before the grant less 10%. The vesting period is three years. If the options remain unexercised after a period of six months from the date of maturity, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

A Savings-Related Share Option Scheme is open to all UK employees and provides for a purchase price equal to the daily average market price on the day before grant less 10%. The vesting periods are three and five years. If the options remain unexercised after a period of six months from the date of maturity, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

At 31 December 2015, share options outstanding under the Savings Related Share Option Schemes were as follows:

Options granted	Number of shares 2015	2014	Option price (£)	Exercise dates
2013 – US scheme	**41,145**	51,191	17.16	September 2015 - December 2015
2014 – US scheme	**34,611**	35,730	15.94	September 2016 - December 2016
2015 – US scheme	**45,195**	-	14.85	September 2017 - December 2017
2012 – Canadian scheme	**15,196**	29,802	13.79	September 2015 - March 2016
2013 – Canadian scheme	**2,918**	3,113	16.80	October 2016 - April 2017
2014 – Canadian scheme	**8,649**	9,204	16.13	October 2017 - April 2018
2015 – Canadian scheme	**11,684**	-	16.12	December 2018 - June 2019
2009 – UK 5 year scheme	**-**	1,622	11.48	December 2014 - June 2015
2010 – UK 5 year scheme	**2,777**	9,567	15.54	December 2015 - June 2016
2011 – UK 3 year scheme	**-**	3,995	13.33	December 2014 - June 2015
2011 – UK 5 year scheme	**15,685**	16,847	13.33	December 2016 - June 2017
2012 – UK 3 year scheme	**4,849**	24,047	13.85	December 2015 - June 2016
2012 – UK 5 year scheme	**28,159**	30,602	13.85	December 2017 - June 2018
2013 – UK 3 year scheme	**22,418**	26,539	16.80	December 2016 - June 2017
2013 – UK 5 year scheme	**15,657**	16,869	16.80	December 2018 - June 2019
2014 – UK 3 year scheme	**15,915**	17,979	16.13	December 2017 - June 2018
2014 – UK 5 year scheme	**11,320**	13,193	16.13	December 2019 - June 2020
2015 – UK 3 year scheme	**15,303**	-	16.12	December 2018 - June 2019
2015 – UK 5 year scheme	**7,936**	-	16.12	December 2020 - June 2021

27 Share capital and share options (continued)

2. Company Share Option Plan

The Company Share Option Plan provides share options for nominated employees in the UK. The purchase price is set at a mid-market price on the date of grant. This is an approved scheme and vesting is unconditional. Options vest after three years and lapse after ten years from the date of grant.

At 31 December 2015, share options outstanding under the Company Share Option Plan were as follows:

Options granted	Number of shares 2015	2014	Option price (£)	Exercise dates
2005	-	2,472	7.28	March 2008 - March 2015
2006	**968**	968	10.32	February 2009 - February 2016
2007	**3,858**	3,858	12.07	May 2010 - May 2017
2008	**2,261**	2,261	12.00	March 2011 - March 2018
2009	**2,564**	4,922	11.90	March 2012 - March 2019
2010	**9,386**	14,278	14.83	March 2013 - March 2020
2011	**13,902**	22,455	16.97	March 2014 - March 2021
2012	**12,237**	29,484	17.10	March 2015 - March 2022
2013	**45,095**	58,075	17.18	March 2016 - March 2023
2014	**29,289**	34,377	18.29	March 2017 - March 2024
2015	**16,070**	-	17.31	March 2018 - March 2025

3. Executive Share Option Scheme

The Executive Share Option Scheme provides share options for nominated employees in the UK, US and Canada. The purchase price is set at a mid-market price on the date of grant. This is an unapproved scheme and vesting is unconditional. Options vest after three years and lapse after seven years from the date of grant.

At 31 December 2015, share options outstanding under the Executive Share Option Scheme were as follows:

Options granted	Number of shares 2015	2014	Option price (£)	Exercise dates
2008	-	16,408	12.00	March 2011 - March 2015
2009	**21,759**	50,632	11.90	March 2012 - March 2016
2010	**40,555**	46,608	14.83	March 2013 - March 2017
2011	**76,160**	112,534	16.97	March 2014 - March 2018
2011	-	8,183	15.70	August 2014 - August 2018
2012	**112,255**	167,258	17.10	March 2015 - March 2019
2013	**141,767**	181,251	17.18	March 2016 - March 2020
2014	**176,015**	196,303	18.29	March 2017 - March 2021
2015	**152,819**	-	17.31	March 2018 - March 2022

4. Long-Term Incentive Plan

Details in relation to the Ultra Electronics Long-Term Incentive Plan 2007 awards to Executive Directors are included in the Directors' Remuneration report on pages **68** to **80**. In April 2015 LTIPs were awarded to nominated employees. The awards will vest in March 2018 upon achievement of certain performance targets and are conditional upon continued employment.

5. All Share Based Payment Arrangements

The number and weighted average exercise price of share options for all share based payment arrangements (including LTIP) are as follows:

	Weighted average exercise price (£) 2015	Number of options 2015	Weighted average exercise price (£) 2014	Number of options 2014
Beginning of year	**13.10**	**1,573,266**	12.34	1,456,124
Granted during the year	**9.21**	**467,218**	13.04	427,995
Forfeited during the year	**7.38**	**(232,588)**	12.83	(25,877)
Expired during the year	**15.62**	**(94,066)**	3.70	(136,892)
Exercised during the year	**14.89**	**(160,418)**	14.17	(148,084)
Outstanding at the end of the year	**12.45**	**1,553,412**	13.10	1,573,266
Exercisable at the end of the year	**16.11**	**359,872**	14.93	283,013

The Group recognised total expenses of £967,000 (2014: £1,783,000) in relation to equity-settled, share-based payment transactions. Expected volatility was determined by calculating the historical volatility of the Group's share price.

Share options were exercised on a regular basis throughout the year. The weighted average share price during the year was £17.92. The fair value of options granted during the year that are expected to vest was £2,878,631 (2014: £1,725,239).

27 Share capital and share options (continued)

The Group's equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. The fair value for all schemes other than the 2012, 2013, 2014, and 2015 March LTIP schemes are measured by use of the Black Scholes option pricing model using the following assumptions:

	Share save*	CSOP*	ESOS*	LTIP*†
				2015
Weighted average share price (£)	17.04	17.40	17.41	17.10
Weighted average exercise price (£)	15.89	17.36	17.38	n/a
Expected volatility %	22.4	25.0	24.2	18.7
Expected option life (years)	3.5	6	5	3
Risk-free interest rate %	0.8	1.6	1.2	0.7
Expected dividends %	2.4	1.8	2.3	0.0

	Share save*	CSOP*	ESOS*	LTIP*
				2014
Weighted average share price (£)	16.03	17.14	17.44	n/a
Weighted average exercise price (£)	14.81	17.37	17.40	n/a
Expected volatility %	24.5	25.3	24.9	n/a
Expected option life (years)	3.6	6	5	n/a
Risk-free interest rate %	1.1	1.6	1.2	n/a
Expected dividends %	2.3	1.7	2.2	n/a

*Figures in the above table show an average across the invested schemes at year end.
†April 2015 LTIP.

For the 2012, 2013, 2014 and 2015 March LTIP awards, the stochastic model has been used to calculate the fair value of the awards at grant date as this is the most accurate way of modelling the TSR performance condition. The fair value of these schemes has been calculated using the following assumptions:

	2015	2014
Exercise price (£)	**n/a**	n/a
Share price at grant (£)	**17.79**	17.83
Expected option life (years)	**3.0**	3.0
Expected volatility %	**21.9**	23.1
Expected dividend yield %	**-**	-
Risk-free interest rate %	**0.7**	1.0

Figures in the above table show an average across the schemes.

The weighted average fair value of options granted during the year was £6.57 (2014: £4.44).

The weighted average remaining contractual life of share options was 3.6 years (2014: 3.7 years).

28 Equity

	Share capital £'000	Share premium account £'000	Reserve for own shares £'000	Hedging reserve £'000	Translation reserve £'000	Retained earnings £'000	Non controlling interests £'000	Total equity £'000
Balance at 1 January 2014	3,490	53,908	(2,581)	(9,169)	16,240	258,609	682	321,179
Total comprehensive income for the year	-	-	-	(4,161)	10,979	15,589	(14,305)	8,102
Equity-settled employee share scheme	8	2,223	-	-	-	1,656	-	3,887
Dividends to shareholders	-	-	-	-	-	(29,722)	-	(29,722)
Balance at 1 January 2015	3,498	56,131	(2,581)	(13,330)	27,219	246,132	(13,623)	303,446
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 scheme	**16**	**4,921**	**-**	**-**	**-**	**979**	**-**	**5,916**
Dividends to shareholders	**-**	**-**	**-**	**-**	**-**	**(31,332)**	**-**	**(31,332)**
Balance at 31 December 2015	**3,514**	**61,052**	**(2,581)**	**(25,908)**	**42,038**	**238,728**	**-**	**316,843**

The share premium account represents the premium arising on the issue of equity shares.

The 'own shares reserve' represents the cost of shares in Ultra Electronics Holdings plc purchased in the market and held by the Ultra Electronics Employee Trust to satisfy options under the Group's Long-Term Incentive Plan ("LTIP") share schemes. At 31 December 2015, the number of own shares held was 235,245 (2014: 235,245).

29 Notes to the cash flow statement

	2015 £'000	2014 £'000
Operating profit	**66,425**	39,543
Adjustments for:		
Depreciation of property, plant and equipment	**10,959**	10,827
Amortisation of intangible assets	**34,627**	32,202
Impairment charges	**8,462**	7,355
Cost of equity-settled employee share schemes	**967**	1,783
Adjustment for pension funding	**(8,015)**	(8,448)
Profit on disposal of property, plant and equipment	**(559)**	(3)
Share of loss/(profit) from associate	**581**	(1,957)
(Decrease)/increase in provisions	**(2,073)**	2,564
Operating cash flow before movements in working capital	**111,374**	83,866
Decrease in inventories	**6,607**	(4,443)
(Increase)/decrease in receivables	**(2,261)**	73,977
Decrease in payables	**(44,381)**	(57,333)
Cash generated by operations	**71,339**	96,067
Income taxes paid	**(17,252)**	(22,899)
Interest paid	**(6,309)**	(4,451)
Net cash from operating activities	**47,778**	68,717

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

	2015 £'000	2014 £'000
Net increase in cash and cash equivalents	**5,916**	11,653
Cash inflow from movement in debt and finance leasing	**(157,054)**	(94,817)
Change in net debt arising from cash flows	**(151,138)**	(83,164)
Loan syndication costs	**1,347**	1,495
Amortisation of finance costs of debt	**(649)**	(662)
Other non-cash movements	**(872)**	-
Translation differences	**(14,765)**	(5,007)
Movement in net debt in the year	**(166,077)**	(87,338)
Net debt at start of year	**(129,495)**	(42,157)
Net debt at end of year	**(295,572)**	(129,495)

Net debt comprised the following:

	2015 £'000	2014 £'000
Cash and cash equivalents	**45,474**	41,259
Borrowings	**(341,046)**	(170,754)
	(295,572)	(129,495)

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

30 Other financial commitments

a) Capital commitments

At the end of the year capital commitments were:

	2015 £'000	2014 £'000
Contracted but not provided	**515**	720

b) Lease commitments

At 31 December 2015, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2015 £'000	2014 £'000
Within one year	**12,475**	11,980
Between one and five years	**35,001**	33,305
After five years	**10,096**	17,029
	57,572	62,314

31 Retirement benefit schemes

Some UK employees of the Group are members of the Ultra Electronics Limited defined benefit scheme which was established on 1 March 1994. The scheme is a final salary scheme with the majority of members accruing 1/60th of their final pensionable earnings for each year of pensionable service. The scheme was closed to new members in 2003. A new defined contribution plan was introduced for other employees and new joiners in the UK. The latest full actuarial valuation of the defined benefit scheme was carried out as at 6 April 2013. The Group also operates two defined contribution schemes for overseas employees. In addition to these schemes, the Group's Tactical Communication Systems business based in Montreal, Canada, has three defined benefit schemes and the Swiss business of the Forensic Technology group has a defined benefit scheme. During 2015 a consultation took place with the members on a proposal to close the UK defined benefit scheme to future benefit accrual from 5 April 2016. Following the end of the consultation and discussion with the Trustee, it was announced to members on 1 February 2016 that the Company had agreed with the Trustee the terms under which the scheme is to be closed and that the proposed closure would go ahead.

Defined contribution schemes

The total cost charged to income in respect of the defined contribution schemes was £4,765,000 (2014: £4,696,000).

Defined benefit schemes

All the defined benefit schemes were actuarially assessed at 31 December 2015 using the 'projected unit' method.

In the UK, Ultra Electronics Limited sponsors the Ultra Electronics Pension Scheme, a funded defined benefit pension scheme. The scheme is administered within a trust which is legally separate from the Company. Trustees are appointed by both the Company and the scheme's membership and act in the interest of the scheme and all relevant stakeholders, including the members and the Company. The Trustees are also responsible for the investment of the scheme's assets.

This scheme provides pensions and lump sums to members on retirement and to their dependants on death. Members who leave service before retirement are entitled to a deferred pension.

Active members of the scheme pay contributions via salary sacrifice and the Company pays the balance of the cost as determined by regular actuarial valuations. The Trustees are required to use prudent assumptions to value the liabilities and costs of the scheme whereas the accounting assumptions must be best estimates.

Responsibility for making good any deficit within the scheme lies with the Company and this introduces a number of risks for the Company. The major risks are: interest rate risk; inflation risk; investment risk and longevity risk. The Company and Trustees are aware of these risks and manage them through appropriate investment and funding strategies. The Trustees manage governance and operational risks through a number of internal controls policies, including a risk register.

The scheme is subject to regular actuarial valuations, which are usually carried out every three years. The last actuarial valuation of the scheme was at 6 April 2013. The next actuarial valuation is due to be carried out with an effective date of 6 April 2016. These actuarial valuations are carried out in accordance with the requirements of the Pensions Act 2004 and so include deliberate margins for prudence. This contrasts with these accounting disclosures, which are determined using best estimate assumptions.

The results of the 6 April 2013 valuation have been projected to 31 December 2015 by a qualified independent actuary. The figures in the following disclosure were measured using the Projected Unit Method.

Key financial assumptions used in the valuation of these schemes were as follows:

	UK 2015	**Canada 2015**	**Switzerland 2015**	UK 2014	Canada 2014	Switzerland 2014
Discount rate	**3.75%**	**3.75%**	**0.80%**	3.65%	3.65%	1.50%
Inflation rate – RPI	**3.05%**	**3.05%**	**0.80%**	3.05%	3.05%	1.40%
Inflation rate – CPI	**2.05%**	**2.05%**	**0.80%**	2.05%	2.05%	1.40%
Expected rate of salary increases	**3.30%**	**3.30%**	**1.00%**	3.30%	3.30%	1.00%
Future pension increases (pre 6/4/08)	**2.85%**	**n/a**	**n/a**	2.85%	3.05%	1.40%
Future pension increases (post 6/4/08)	**1.90%**	**n/a**	**n/a**	1.90%	n/a	n/a

For each of these assumptions there is a range of possible values. Relatively small changes in some of these variables can have a significant impact on the level of the total obligation. For the UK scheme, a 0.1% increase in the inflation assumption to 3.15% and a 0.1% decrease in the discount rate to 3.65% would increase the scheme's liabilities by 1.4% and 1.9% respectively. If the members' life expectancy were to increase by 1 year, the scheme liabilities would increase by 3.3%. The average duration of the scheme liabilities is 20 years (2014: 19 years).

The key demographic assumption used was in relation to the mortality rates of current and future pensioners. Due to the size of the scheme the mortality rates were based on standard tables, namely:

Current pensioners	95% SAPS S1PMA/105% SAPS S1PFA c2002 MC1% imps from 2002
Future pensioners	95% SAPS S1PMA/105% SAPS S1PFA c2002 MC1% imps from 2002

The mortality assumptions used in the valuation of the UK scheme make appropriate allowance for future improvements in longevity and are set out below:

	2015	2014
Current pensioners (at 65) – males	**22 years**	22 years
Current pensioners (at 65) – females	**24 years**	24 years
Future pensioners (at 65) – males	**24 years**	24 years
Future pensioners (at 65) – females	**26 years**	26 years

31 Retirement benefit schemes (continued)

Amounts recognised in the income statement in respect of the Group's defined benefit schemes were as follows:

	UK 2015 £m	Canada 2015 £m	Switzerland 2015 £m	Total 2015 £m	UK 2014 £m	Canada 2014 £m	Switzerland 2014 £m	Total 2014 £m
Current service cost	4.9	0.1	0.3	5.3	4.9	0.1	0.1	5.1
Administration expenses	0.5	0.1	-	0.6	0.5	0.1	-	0.6
Interest on pension scheme liabilities	11.2	0.3	0.1	11.6	12.0	0.4	-	12.4
Expected return on pension scheme assets	(8.2)	(0.3)	(0.1)	(8.6)	(8.4)	(0.4)	-	(8.8)
	8.4	0.2	0.3	8.9	9.0	0.2	0.1	9.3

Of the current service cost for the year, £3.9 million (2014: £3.8 million) has been included in cost of sales, and £1.4 million (2014: £1.3 million) has been included in administrative expenses.

Actuarial gains and losses have been reported in the statement of comprehensive income.

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

	UK 2015 £m	Canada 2015 £m	Switzerland 2015 £m	Total 2015 £m	UK 2014 £m	Canada 2014 £m	Switzerland 2014 £m	Total 2014 £m
Fair value of scheme assets	224.5	8.6	4.5	237.6	220.8	9.9	3.7	234.4
Present value of scheme liabilities	(307.7)	(9.3)	(5.4)	(322.4)	(306.5)	(11.1)	(4.1)	(321.7)
Scheme deficit	(83.2)	(0.7)	(0.9)	(84.8)	(85.7)	(1.2)	(0.4)	(87.3)
Related deferred tax asset	15.1	0.1	0.2	15.4	17.1	0.3	0.2	17.6
Net pension liability	(68.1)	(0.6)	(0.7)	(69.4)	(68.6)	(0.9)	(0.2)	(69.7)

Movements in the present value of defined benefit obligations during the year were as follows:

	UK 2015 £m	Canada 2015 £m	Switzerland 2015 £m	Total 2015 £m	UK 2014 £m	Canada 2014 £m	Switzerland 2014 £m	Total 2014 £m
Present value of obligation at 1 January	(306.5)	(11.1)	(4.1)	(321.7)	(270.2)	(10.2)	-	(280.4)
Current service cost	(4.9)	(0.1)	(0.3)	(5.3)	(4.9)	(0.1)	(0.1)	(5.1)
Interest cost	(11.2)	(0.3)	(0.1)	(11.6)	(12.0)	(0.4)	-	(12.4)
Actuarial gains and losses	5.9	0.1	(0.6)	5.4	(25.7)	(1.6)	(0.2)	(27.5)
Exchange difference	-	1.3	(0.3)	1.0	-	0.3	0.2	0.5
Liabilities assumed on business combinations	-	-	-	-	-	-	(4.0)	(4.0)
Benefits paid	9.0	0.8	-	9.8	6.3	0.9	-	7.2
Present value of obligation at 31 December	(307.7)	(9.3)	(5.4)	(322.4)	(306.5)	(11.1)	(4.1)	(321.7)

Movements in the fair value of scheme assets during the year were as follows:

	UK 2015 £m	Canada 2015 £m	Switzerland 2015 £m	Total 2015 £m	UK 2014 £m	Canada 2014 £m	Switzerland 2014 £m	Total 2014 £m
Fair value at 1 January	220.8	9.9	3.7	234.4	185.0	9.3	-	194.3
Expected return on scheme assets	8.2	0.3	0.1	8.6	8.4	0.4	-	8.8
Actuarial gains and losses	(8.0)	-	0.1	(7.9)	21.0	0.6	0.2	21.8
Exchange differences	-	(1.3)	0.3	(1.0)	-	(0.3)	(0.1)	(0.4)
Employer contributions	13.0	0.5	0.3	13.8	13.2	0.8	0.1	14.1
Administration expenses	(0.5)	-	-	(0.5)	(0.5)	(0.1)	-	(0.6)
Assets assumed on business combinations	-	-	-	-	-	-	3.6	3.6
Benefits paid	(9.0)	(0.8)	-	(9.8)	(6.3)	(0.8)	(0.1)	(7.2)
Fair value at 31 December	224.5	8.6	4.5	237.6	220.8	9.9	3.7	234.4

1. Introduction
2. Strategic report
3. Governance
4. Group financials
5. Company financials
6. Five-year review

31 Retirement benefit schemes (continued)

Scheme assets were as follows:

	UK 2015 £m	Canada 2015 £m	Switzerland 2015 £m	Total 2015 £m	UK 2014 £m	Canada 2014 £m	Switzerland 2014 £m	Total 2014 £m
Fair value:								
Equities	**74.3**	**3.5**	**1.3**	**79.1**	55.6	4.2	1.0	60.8
Bonds	**-**	**4.5**	**2.2**	**6.7**	65.5	4.0	1.8	71.3
Property	**14.0**	**-**	**0.5**	**14.5**	11.3	-	0.4	11.7
Other assets	**0.4**	**0.6**	**0.5**	**1.5**	14.4	1.7	0.5	16.6
Other investment funds	**135.8**	**-**	**-**	**135.8**	74.0	-	-	74.0
	224.5	**8.6**	**4.5**	**237.6**	220.8	9.9	3.7	234.4

The analysis of the actuarial loss in the consolidated statement of comprehensive income was as follows:

	UK 2015 £m	Canada 2015 £m	Switzerland 2015 £m	Total 2015 £m	UK 2014 £m	Canada 2014 £m	Switzerland 2014 £m	Total 2014 £m
Actual return less expected return on pension scheme assets	**(8.0)**	**-**	**0.1**	**(7.9)**	21.0	0.6	0.2	21.8
Experience gains arising on scheme liabilities	**0.2**	**(0.1)**	**(0.1)**	**-**	(2.3)	(0.2)	-	(2.5)
Changes in assumptions underlying the present value of the scheme liabilities	**5.7**	**0.2**	**(0.5)**	**5.4**	(23.4)	(1.4)	(0.2)	(25.0)
	(2.1)	**0.1**	**(0.5)**	**(2.5)**	(4.7)	(1.0)	-	(5.7)

Cumulative actuarial losses, net of deferred tax, recognised in the consolidated statement of comprehensive income at 31 December 2015 were £54.1 million (2014: £52.1 million).

The five-year history of experience adjustments is as follows:

	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Present value of defined benefit obligations	**(322.4)**	(321.7)	(280.4)	(246.5)	(232.0)
Fair value of scheme assets	**237.6**	234.4	194.3	163.4	149.1
Scheme deficit	**(84.8)**	(87.3)	(86.1)	(83.1)	(82.9)
Experience adjustments on scheme liabilities	**-**	(2.5)	2.3	(3.1)	0.4
Percentage of scheme liabilities	**-%**	0.8%	(0.8%)	1.3%	(0.2%)
Experience adjustment on scheme assets	**(7.9)**	21.8	21.2	2.8	(11.6)
Percentage of scheme assets	**(3.3%)**	9.3%	10.9%	1.7%	(7.8%)

The amount of contributions expected to be paid to defined benefit schemes during the 2016 financial year is £10.8m. For the UK scheme this includes an additional deficit payment of £9.0m agreed with the Trustee. This will be followed by £9.0m per annum for the following 7.5 years to fund the scheme deficit.

32 Acquisitions

Acquisitions during the year

In aggregate, consideration of £171.8m was paid in respect of acquisitions, all of which was discharged by means of cash and cash equivalents and was made up as follows.

	£'000
Cash outflow on subsidiaries acquired	172,539
Cash acquired with subsidiaries	(724)
Net cash outflow	171,815

Aggregate assets and liabilities acquired comprised intangible assets of £68.1m, property, plant and equipment of £12.7m, cash of £0.7m, inventories of £17.7m, net receivables of £16.5m and payables of £13.8m.

If all the acquisitions had occurred on 1 January 2015 the revenue for the Group would have been £769.8m and operating profit would have been £67.6m.

With respect to prior year acquisitions, fair value adjustments totalling net £0.4m have been debited to goodwill. The prior year acquisition fair values are now final.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

32 Acquisitions (continued)

Electronic Products Division of Kratos Defense & Security Solutions – Herley

On 21 August 2015, the Group acquired the entire share capital of the Electronic Products Division ("EPD") of Kratos Defense & Security Solutions, now known as Ultra Electronics Herley, for initial cash consideration of £161.5m. A further £3.2m was paid in January 2016.

Ultra Electronics Herley is a leading designer and producer of RF and microwave integrated systems and subsystems for use in EW, radar, communication, missile, flight test and simulation applications. It is a sole-source provider of proprietary technology on numerous established strategic platforms, including P-8A Poseidon, Trident II D5 missile, F-16 Fighting Falcon, Eurofighter, AMRAAM missile, and EA-18G Growler. Ultra Electronics Herley is also well-positioned for opportunities on the F-35 Joint Strike Fighter and on multiple, next-generation strategic national defence and security programmes. The company has a proven track record of more than 20 years of successful participation on major defence programmes and long-standing relationships with a diverse international customer base. Ultra Electronics Herley operates within Ultra's Communications & Security Division.

The provisional fair values of the net assets acquired are stated below:

	Book value	Revaluations	Provisional fair value
	£'000	£'000	£'000
Intangible assets	-	61,928	61,928
Property, plant and equipment	12,622	-	12,622
Cash and cash equivalents	724	-	724
Inventories	14,064	3,048	17,112
Receivables	15,777	-	15,777
Payables	(9,535)	(1,927)	(11,462)
Net assets acquired	33,652	63,049	96,701
Goodwill arising on acquisition			67,970
Purchase consideration			164,671

The net revenue and profit contributions from Ultra Electronics Herley were approximately £24.4m and £4.3m respectively in the year from the date of acquisition to 31 December 2015.

The goodwill arising on the acquisition is attributable to the assembled workforce of Ultra Electronics Herley, the immediate access to certain technology/know-how and US Navy programmes and the strategic premium to gain access to the market niche relative to an organic entry.

Acquisition costs of £5.3m were charged to the income statement during the year. Fair value of receivables is considered to equate to book value.

The total goodwill on this acquisition expected to be deductible for tax is £55.5m.

Furnace Parts LLC

On 14 October 2015, the Group acquired the entire share capital of the Furnace Parts LLC for cash consideration of £7.8m.

Furnace Parts is a developer and supplier of thermocouple-based temperature sensors for high performance and demanding applications in the nuclear and process control sectors. The acquisition will extend Ultra's specialist temperature sensing capabilities in both US and international markets. The business will be integrated into Ultra's Nuclear Sensors & Process Instrumentation business based in Round Rock, Texas within Ultra's Aerospace and Infrastructure Division.

The provisional fair values of the net assets acquired are stated below:

	Book value	Revaluations	Provisional fair value
	£'000	£'000	£'000
Intangible assets	-	6,129	6,129
Property, plant and equipment	44	-	44
Inventories	596	-	596
Receivables	721	-	721
Payables	(653)	(1,638)	(2,291)
Net assets acquired	708	4,491	5,199
Goodwill arising on acquisition			2,609
Purchase consideration			7,808

The net revenue and profit contributions from Furnace Parts were approximately £1.0m and £0.2m respectively in the year from the date of acquisition to 31 December 2015.

The goodwill arising on the acquisition is attributable to the strategic premium to gain access to Furnace Parts market and technology relative to an organic entry.

Acquisition costs of £0.1m were charged to the income statement during the year. Fair value of receivables is considered to equate to book value.

The total goodwill on this acquisition expected to be deductible for tax is £nil.

33 Related party transactions

Remuneration of key management personnel

The remuneration of key management personnel, which includes the Directors of the Group, is set out below in aggregate for each of the categories specified in IAS 24: Related Party Disclosures. Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration Report on pages **75** to **78**.

	2015 £'000	2014 £'000
Short-term employee benefits	4,927	3,241
Post-employment benefits	422	423
Share-based payments	1,016	905
	6,365	4,569

Transactions with associate

At 31 December 2015, a loan of £nil (2014: £2,428,000) was due from Al Shaheen Adventure LLC (ASA), the Group's 49% equity-accounted investment *(see note 17)*.

A small amount of trading also occurs with ASA, in the normal course of business and on an arm's length basis. Balances are settled on normal trade terms and the amounts outstanding at year end were insignificant.

34 Non-controlling interests

The following table summarises the information, before any intra-group eliminations, relating to the Group's former subsidiary 'Ultra Electronics in Collaboration with Oman Investment Corporation', incorporated in the Sultanate of Oman, that had a material non-controlling interest held by Oman Investment Corporation ('OIC'). On 4 March 2015 the entity was placed into voluntary liquidation and no longer meets the IFRS 10 criteria for consolidation as a subsidiary of the Group *(see note 7)*.

	2015 £'000	2014 £'000
Non-controlling interest percentage	-%	30%
Net (liabilities)	-	(45,410)
Carrying amount of non-controlling interest	-	13,623
Revenue	-	11,650
Loss	-	(47,670)
Total comprehensive income for the year	-	(47,670)
Profit allocated to non-controlling interest	-	(14,301)
Loss incurred by Ultra upon deemed disposal of Ithra	13,751	-
Other comprehensive income allocated to non-controlling interest	(128)	(4)

35 Contingent liabilities

The Group has entered into a number of guarantee and performance bond arrangements in the normal course of business totalling £70.6m (2014: £59.6m).

The nature of much of the contracting work performed by the Group means that there are occasional contractual issues, variations and renegotiations that arise. In addition, the Group is, from time to time, party to legal proceedings and claims which arise in the ordinary course of business. In particular, as set out in note 7, the Oman Airport IT contract was terminated in February 2015. This has given rise to significant uncertainty regarding the likely outcome of negotiations in respect of this termination event, and it is not possible at this early stage to reliably estimate the outcome.

36 Assets classified as held for sale

The Group is in advanced discussions to dispose of a small non-core part of the Communications & Security division. These operations, which are expected to be sold within 12 months, have been classified on the balance sheet as assets and liabilities held for sale. The proceeds of disposal are expected to substantially exceed the book value of the related net assets and accordingly no impairment losses have been recognised on the classification of these operations as held for sale. The major classes of assets and liabilities comprising the operations classified as held for sale are as follows:

	2015 £'000
Intangible fixed assets	2,926
Property, plant and equipment	924
Inventories	1,374
Trade and other receivables	3,571
Total assets classified as held for sale	8,795
Trade and other payables	(2,784)
Provisions	(227)
Total liabilities classified as held for sale	(3,011)
Net assets of disposal group	5,784

37 Additional information as required by Listing Rules Requirement 9.8.4

- Long-term incentive schemes – *see Directors' remuneration report*
- Allocation of equity securities for cash – *see note 27*
- Election of independent directors – *see Corporate Governance Report on page 59*
- Contractual arrangements – *see Directors' Report on page 82*
- Details of independent directors – *see Corporate Governance Report on page 53*
- Substantial shareholders – *see Directors' Report on page 82*

No profit forecasts are issued by the Group and no Directors have waived any current or future emoluments. No shareholders have waived or agreed to waive dividends. None of the shareholders is considered to be a Controlling Shareholder (as defined in Listing Rules 6.1.2A).

38 Related undertakings

The Company owns either directly or indirectly the ordinary share capital of the following undertakings:

Company name	Country incorporated	% owned	Direct/Indirect (Group interest)
3 Phoenix Inc	United States	100%	Indirect (Group interest)
3e Technologies International Inc	United States	100%	Indirect (Group interest)
Aardvark Electronic Components Limited	United Kingdom	100%	Indirect (Group interest)
AEP Networks Asia Pacific SDN BHD	Malaysia	100%	Indirect (Group interest)
AEP Networks Australia Pty Ltd	Australia	100%	Indirect (Group interest)
AEP Networks Inc	United States	100%	Indirect (Group interest)
AEP Networks Limited	Ireland	100%	Direct
AEP Networks Limited	United Kingdom	100%	Indirect (Group interest)
Al Shaheen Adventure LLC (*see note 17*)	United Arab Emirates	49%	Direct
Audiosoft Limited	United Kingdom	100%	Indirect (Group interest)
Audix Broadcast Limited	United Kingdom	100%	Indirect (Group interest)
Blue Sky Group (International) Limited	United Kingdom	100%	Direct
Dascam Consulting Limited	Cyprus	100%	Indirect (Group interest)
DF Group Limited	United Kingdom	100%	Direct
EMS Development Corporation	United States	100%	Indirect (Group interest)
ERAPSCO	United States	50%	Indirect (Group interest)
EW Simulation Technology Limited	United Kingdom	100%	Indirect (Group interest)
Extec Integrated Systems Limited	United Kingdom	100%	Direct
Flightline Electronics Inc	United States	100%	Indirect (Group interest)
Forensic Technology (Europe) Limited	Ireland	100%	Direct
Forensic Technology AEC Thailand Ltd	Thailand	100%	Direct
Forensic Technology Inc.	United States	100%	Direct
Forensic Technology Mexico S. de RL. de C.V	Mexico	100%	Indirect (Group interest)
Forensic Technology-Tecnologia Forense Ltda	Brazil	100%	Direct
Furnace Parts LLC	United States	100%	Indirect (Group interest)
Giga Communications Limited	United Kingdom	100%	Direct
GIGASAT, INC.	United States	100%	Direct
Gigasat. Asia Pacific Pty Ltd	Australia	100%	Direct
Herley Industries Inc	United States	100%	Indirect (Group interest)
Herley-CTI Inc	United States	100%	Indirect (Group interest)
Power Magnetics and Electronic Systems Limited	United Kingdom	100%	Indirect (Group interest)
Projectina AG	Switzerland	100%	Direct
Prologic Inc	United States	100%	Indirect (Group interest)
Special Operations Technology Inc (SOTECH)	United States	100%	Indirect (Group interest)
Stapor Research Inc	United States	100%	Indirect (Group interest)

38 Related undertakings (continued)

Company name	Country incorporated	% owned	Direct/Indirect (Group interest)
Transmag Power Transformers Limited	United Kingdom	100%	Direct
UE Dormant One	United Kingdom	100%	Direct
Ultra Electronics (Qatar) LLC	Qatar	49%	Direct
Ultra Electronics (USA) Group Inc	United States	100%	Indirect (Group interest)
Ultra Electronics Advanced Tactical Systems Inc	United States	100%	Indirect (Group interest)
Ultra Electronics Airport Systems (South Africa) (Proprietary) Limited	South Africa	100%	Direct
Ultra Electronics Airport Systems Inc	United States	100%	Indirect (Group interest)
Ultra Electronics Australia Pty Limited	Australia	100%	Direct
Ultra Electronics Avalon Systems Pty Limited	Australia	100%	Indirect (Group interest)
Ultra Electronics Canada Inc.	Canada	100%	Direct
Ultra Electronics Card Systems Inc	United States	100%	Indirect (Group interest)
Ultra Electronics Connecticut LLC	United States	100%	Indirect (Group interest)
Ultra Electronics Defense Inc	United States	100%	Indirect (Group interest)
Ultra Electronics DNE Technologies Inc	United States	100%	Indirect (Group interest)
Ultra Electronics Enterprises (USA) LLC	United States	100%	Indirect (Group interest)
Ultra Electronics Forensic Technology Inc./Les Technologies Ultra Electronics Forensic Inc.	Canada	100%	Direct
Ultra Electronics Hong Kong Holdings Limited 傲創電子香港控股有限公司	Hong Kong	100%	Direct
Ultra Electronics ICE, Inc.	United States	100%	Indirect (Group interest)
Ultra Electronics in collaboration with Oman Investment Corporation LLC (in liquidation)	Oman	70%	Direct
Ultra Electronics Inc.	United States	100%	Indirect (Group interest)
Ultra Electronics Investments (USA) LLC	United States	100%	Indirect (Group interest)
Ultra Electronics Jersey Unlimited	Jersey	100%	Indirect (Group interest)
Ultra Electronics Limited	United Kingdom	100%	Direct
Ultra Electronics Maritime Systems Inc	Canada	100%	Indirect (Group interest)
Ultra Electronics Measurement Systems Inc	United States	100%	Indirect (Group interest)
Ultra Electronics Netherlands (CAD) B.V.	Netherlands	100%	Indirect (Group interest)
Ultra Electronics Netherlands B.V.	Netherlands	100%	Indirect (Group interest)
Ultra Electronics Netherlands Finance Coöperatief W.A.	Netherlands	100%	Direct
Ultra Electronics Ocean Systems Inc	United States	100%	Indirect (Group interest)
Ultra Electronics Pension Trustee Company Limited	United Kingdom	100%	Indirect (Group interest)
Ultra Electronics Precision Air and Land Systems Inc	United States	100%	Indirect (Group interest)
Ultra Electronics Secure Intelligence Systems Inc	United States	100%	Indirect (Group interest)
Ultra Electronics TCS Inc.	Canada	100%	Indirect (Group interest)
Ultra Electronics Technology (Beijing) Co Ltd.	China	100%	Direct
Ultra Electronics Tisys	France	100%	Direct
Ultra Electronics TopScientific Aerospace Limited	Hong Kong	50%	Direct
UnderSea Sensor Systems Inc	United States	100%	Indirect (Group interest)
Vados Systems Limited	United Kingdom	100%	Indirect (Group interest)
Varisys Limited	United Kingdom	100%	Direct
W & D Holdings Ltd	United Kingdom	100%	Direct
Weed Instrument Company Inc	United States	100%	Indirect (Group interest)
Wood & Douglas Limited	United Kingdom	100%	Indirect (Group interest)

The principal activity of the trading subsidiary undertakings is the design, development and manufacture of electronic systems for the international defence and aerospace markets.

Statement of accounting policies

In respect of the Group's consolidated financial statements

A summary of the Group's principal accounting policies, all of which have been applied consistently across the Group throughout the current and preceding year, is set out below:

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore comply with Article 4 of the EU IAS regulations.

Adoption of new and revised Standards

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 IFRS: 2011-2013 cycle

The following standards were also adopted in the current year and have had the impact as set out below.

- None

At the date of authorisation of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- Amendments to IFRS 7 Financial Instruments: Disclosures: enhancing disclosures about the Transfers of Financial Assets, enhancing disclosures about offsetting of financial assets and financial liabilities and disclosures about the initial application of IFRS 9
- IFRS 9 Financial Instruments
- IFRS 15 Revenue from contracts with customers

The Directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Group, except for:

- IFRS 9 Financial Instruments – This will introduce a number of changes in the presentation of financial instruments.
- IFRS 15 Revenue from contracts with customers – This will potentially revise the timing and amount of revenue recognition on some of the Group's contracts. The Group is assessing the impact of the new standard on its financial statements. IFRS 15 is effective from 1 January 2018.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

The consolidated financial information has been prepared on the historical cost basis except for derivatives and assets held for sale which are measured at fair value.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Group has adequate resources to continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Strategic Report on page **27**.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved when the Company:

- has the power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under FRS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

Proxy Board

Certain Group companies in the US undertake work of importance to US national security; consequently activities are conducted under foreign ownership regulations which require operation under a Proxy Agreement. The regulations are intended to insulate these activities from undue foreign influence as a result of foreign ownership. The entities that are operated under the management of a Proxy Board are ProLogic Inc ("ProLogic") and Advanced Tactical Systems Inc ("ATS").

The Directors consider that the Group has control over the operating and financial policies and results of these entities, therefore, they are consolidated in the Group consolidated accounts in accordance with IFRS 10 Consolidated Financial Statements.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Group in a business combination includes an asset or liability resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously-held interests in the acquired entity is remeasured to its acquisition date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Goodwill

Goodwill is initially recognised and measured as set out above. Goodwill is not amortised but is reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units or groups of cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Goodwill arising on acquisitions before the date of transition to IFRSs has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and will not be included in determining any subsequent profit or loss on disposal.

Investments in associates

An associate is an entity over which the Group is in a position to exercise significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Revenue recognition
Revenue from the sale of goods is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes. Sales of goods are normally recognised when goods are delivered and title has passed.

Revenue from contracts to provide services is recognised by reference to the stage of completion of the contracts in the same way as for long-term contracts. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion.

Revenue from long-term contracts is recognised in accordance with the Group's accounting policy on long-term contracts *(see accounting policy 'Long-term contracts')*.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Long-term contracts
Where the outcome of a long-term contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer, or when it is considered probable that the customer will approve the variation and the amount of revenue arising from the variation.

Where the outcome of a long-term contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Foreign currency
Transactions denominated in foreign currencies are recorded in the local currency at the actual exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the income statement.

The trading results and cash flows of overseas undertakings are translated into sterling, which is the functional currency of the Company, using the average rates of exchange during the relevant financial period. The balance sheets of overseas subsidiary undertakings are translated into sterling at the rates ruling at the year-end. Exchange differences arising from the retranslation of the opening balance sheets and results are classified as equity and transferred to the Group's translation reserve.

Goodwill and fair value adjustments on the acquisition of foreign entities are treated as assets and liabilities of the foreign entity and translated at the closing rate. The Group has elected to treat goodwill and fair value adjustments arising on acquisitions before the date of transition to IFRSs as sterling denominated assets and liabilities.

Borrowing costs
Borrowing costs are recognised in profit or loss in the period in which they are incurred, except where they relate to qualifying assets, in which case they are capitalised.

Government grants
Government grants are recognised in the income statement so as to match them with the expenditure towards which they are intended to contribute, to the extent that the conditions for receipt have been met and there is reasonable assurance that the grant will be received.

Government assistance provided in the form of below market rate of interest loans are treated as government grants. The benefit of the below market rate of interest is calculated as the difference between the proceeds received and the fair value of the loan and is matched against the related expenditure. The fair value of the loan is calculated using prevailing market interest rates.

Retirement benefit costs
The Group provides pensions to its employees and Directors through defined benefit and defined contribution pension schemes. The schemes are funded and their assets are held independently of the Group by trustees.

For defined benefit retirement schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. The actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement and presented in the statement of comprehensive income.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets.

Payments to defined contribution retirement schemes are charged as an expense as they fall due.

Research and development
Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Any internally generated intangible asset arising from development activities is recognised only if an asset is created that can be identified, it is probable that the asset created will generate future economic benefit and the development cost of the asset can be measured reliably.

Internally generated assets are amortised on a straight-line basis over their useful lives. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets
Costs associated with producing or maintaining computer software programmes for sale are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, that will generate economic benefits exceeding costs beyond one year and that can be measured reliably, are recognised as intangible assets. Capitalised software development expenditure is stated at cost less accumulated amortisation and impairment losses. Amortisation is provided on a straight-line basis over the estimated useful life of the related asset.

Acquired computer software licences for use within the Group are capitalised as intangible assets on the basis of the costs incurred to acquire and bring to use the specific software.

Patents and trademarks are stated initially at historical cost. Patents and trademarks have definite useful lives and are carried at cost less accumulated amortisation and impairment losses.

Intangible assets arising from a business combination whose fair value can be reliably measured are separated from goodwill and amortised over their remaining estimated useful lives.

Impairment
At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, except for goodwill.

Property, plant and equipment
Property, plant and equipment is shown at original historical cost, net of depreciation and any provision for impairment.

Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life as follows:

Freehold buildings	40 to 50 years
Short leasehold improvements	over remaining period of lease
Plant and machinery	3 to 20 years

Freehold land and assets under construction are not depreciated.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

Leases
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee.
All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Rentals under operating leases, where the Group acts as either lessee or lessor, are charged on a straight line basis over the lease term, even if the payments are not made on such a basis. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Inventories
Inventories are valued at the lower of cost (determined on a first-in, first-out basis and including an appropriate proportion of overheads incurred in bringing the inventories to their present location and condition) and net realisable value. Provision is made for any obsolete, slow moving or defective items.

Trade receivables
Trade receivables are measured at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

Cash and cash equivalents
Cash and cash equivalents comprise cash in-hand, call deposits and bank overdrafts, where there is right of set off. Bank overdrafts are presented as current liabilities to the extent that there is no right of offset with cash balances.

Assets held for sale
Assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Trade payables
Trade payables are stated at their fair value.

Loans and overdrafts
Interest-bearing loans and overdrafts are recorded at the proceeds received, net of direct issue costs where there is a facility commitment. In these circumstances issue costs are deducted from the value of the loan and amortised over the life of the commitment. Where there is no facility commitment, issue costs are written-off as incurred. Finance charges including premiums payable on settlement or redemption are accounted for on an accruals basis in profit or loss using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Share-based payments
The Group issues equity settled share-based payments to certain employees. Equity settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market related conditions.

Fair value is measured by use of a Black-Scholes model for the share option plans and a stochastic model for awards made under the 2007 Long-Term Incentive Plan.

The credits in respect of equity-settled amounts are included in equity.

Provisions
Provisions, including property related provisions are recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and where it is probable that an outflow of economic benefits will be required to settle the obligation.

Provision is made for the anticipated cost of repair and rectification of products under warranty, based on known exposures and historical occurrences. Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring that has been communicated to affected parties.

Equity instruments
Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Taxation
The tax expense represents the sum of the current tax payable and deferred tax.

The current tax payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities.

Derivative financial instruments
Ultra uses derivative financial instruments, principally forward foreign currency contracts and interest rate swaps, to reduce its exposure to exchange rate and interest rate movements. Ultra does not hold or issue derivatives for speculative or trading purposes.

Derivative financial instruments are recognised as assets and liabilities and measured at their fair values at the balance sheet date. Changes in their fair values are recognised in the income statement and this is likely to cause volatility in situations where the carrying value of the hedged item is not adjusted to reflect fair value changes arising from the hedged risk. Provided the conditions specified by IAS 39 are met, hedge accounting may be used to mitigate this income statement volatility. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting will not generally be applied to transactional hedging relationships, such as hedges of forecast or committed transactions. However, hedge accounting will be applied to translational hedging relationships where it is permissible under IAS 39. When hedge accounting is used, the relevant hedging relationships will be classified as fair value hedges, cash flow hedges or net investment hedges.

Where the hedging relationship is classified as a fair value hedge, the carrying amount of the hedged asset or liability will be adjusted by the increase or decrease in the fair value attributable to the hedged risk and the resulting gain or loss will be recognised in the income statement where, to the extent that the hedge is effective, it will be offset by the change in the fair value of the hedging instrument.

Derivative financial instruments (continued)

Where the hedging relationship is classified as a cash flow hedge or as a net investment hedge, to the extent that the hedge is effective, changes in the fair value of the hedging instrument will be recognised directly in equity rather than in the income statement. Any gain or loss relating to the ineffective portion is recognised immediately in the income statement. For cash flow hedges of forecasted future transactions, when the hedged item is recognised in the financial statements, the accumulated gains and losses recognised in equity will be either recycled to the income statement or, if the hedged items result in a non-financial asset, will be recognised as adjustments to its initial carrying amount.

Income statement

Additional line items are disclosed in the consolidated income statement when such presentation is relevant to an understanding of the Group's financial performance.

Operating profit

Operating profit is stated after charging restructuring costs and after the share of results of associates but before investment income and finance costs.

Exceptional items

When items of income or expense are material and they are relevant to an understanding of the entity's financial performance, they are disclosed separately within the financial statements. Such exceptional items include material costs or reversals arising from a restructuring of the Group's operations, material creation or reversals of provisions, and material litigation settlements.

Non-statutory performance measures

In the analysis of the Group's operating results, earnings per share and cash flows, information 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.
- 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 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.

Critical accounting judgements and key sources of estimation uncertainty

When applying the Group's accounting policies, management must make a number of key judgements involving estimates and assumptions concerning the future. These estimates and judgements are based on factors considered to be relevant, including historical experience, that may differ significantly from the actual outcome. The key assumptions concerning the future and other key sources of estimation uncertainty at the Balance Sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include:

CONTRACT REVENUE AND PROFIT RECOGNITION

A significant proportion of the Group's activities are conducted under long term contract arrangements and are accounted for in accordance with IAS 11 Construction Contracts.

Revenue and profit on such contracts are recognised according to the stage of completion of the contract activity at the balance sheet date of the particular contract and are calculated by reference to reliable estimates of contract revenue and expected costs. When the contract outcome cannot be reliably estimated, revenue is recognised to match costs until such time as this can be reliably estimated. Expected costs are calculated after taking account of the perceived contract risks related to performance not yet proven.

Owing to the complexity of some of the contracts undertaken by the Group the cost estimation process requires significant judgement and is carried out using the experience of the Group's engineers, project managers and finance and commercial professionals. Because of the level of judgement required, cost estimates are reviewed and updated on a regular basis using the Group's established project management processes. Some of the factors that will impact upon cost estimates include the availability of suitably qualified labour, the nature and complexity of the work to be performed, the availability of materials, the impact of change orders and the performance of sub-contractors.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately as an expense.

Where services are rendered, sales are recognised when the stage of completion of the services and the related revenue and costs can be measured reliably.

Where goods are delivered under arrangements not considered to fall under the scope of IAS 11 Construction Contracts, revenue is recognised when substantially all of the risks and rewards of ownership have transferred to the customer.

Critical accounting judgements and key sources of estimation uncertainty (continued)

RETIREMENT BENEFIT PLANS

The Group accounts for its post-retirement pension plans in accordance with IAS 19 Employee Benefits.

For defined benefit retirement plans, the cost of providing benefits is determined periodically by independent actuaries and charged to the income statement in the period in which those benefits have been earned by the employees. Actuarial gains and losses are recognised in full in the period in which they arise and are recognised in the statement of comprehensive income.

The retirement benefit obligation recognised in the balance sheet represents the present value of the scheme liabilities as reduced by the fair value of the scheme assets.

The main assumptions used in determining the defined benefit post retirement obligation include the discount rate used in discounting scheme liabilities, the inflation rate, the expected rate of salary inflation, the expected rate of future pension increases, expected returns on scheme assets and future mortality assumptions. For each of these assumptions, there is a range of possible values. Relatively small changes in some of these variables can have a significant impact on the level of the total obligation.

The valuation of pension scheme assets and liabilities at a specific point of time rather than over a period of time can lead to significant annual movements in the pension scheme deficit as calculated under IAS 19, but has no impact on short-term cash contributions since these are based upon separate independent actuarial valuations.

Details of the pension scheme assumptions and obligation at 31 December 2015 are provided in note 31.

INTANGIBLE ASSETS

IFRS 3 (revised) Business Combinations requires that goodwill arising on the acquisition of subsidiaries is capitalised and included in intangible assets. IFRS 3 (revised) also requires the identification of other intangible assets at acquisition. The assumptions involved in valuing these intangible assets requires the use of estimates and judgements, that may differ from the actual outcome. These estimates and judgements cover future growth rates, expected inflation rates and the discount rate used.

GOODWILL

Each year the Group carries out impairment tests of its goodwill balances which requires estimates to be made of the value in use of its cash generating units (CGUs). These value in use calculations are dependent on estimates of future cash flows and long-term growth rates of the CGUs. Further details on these estimates are provided in note 14.

INCOME TAXES

In determining the Group's provisions for income tax and deferred tax it is necessary to consider transactions in a small number of key tax jurisdictions for which the ultimate tax determination is uncertain. To the extent that the final outcome differs from the tax that has been provided, adjustments will be made to income tax and deferred tax provisions held in the period the determination is made.

OMAN AIRPORT IT CONTRACT TERMINATION AND DEEMED DISPOSAL OF ITHRA

Confirmation of the termination of the Oman Airport IT contract was received on 9 February 2015. The termination event related to conditions already in existence at the 31 December 2014 balance sheet date and consequently the termination was considered to be an adjusting post balance sheet event for 2014 in accordance with IAS 10.

There remains significant uncertainty regarding the likely outcome of negotiations with the Sultanate of Oman, Ministry of Transport & Communications, or whether agreement can be reached without the need to enter a formal arbitration or judicial process.

As set out in note 7, on 4 March 2015, '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 meets the IFRS 10 criteria for consolidation as a subsidiary of the Group and is, consequently, a deemed disposal as at 4 March 2015.

Trade debtors and amounts recoverable on contracts were assessed for recoverability and allowances made for estimated irrecoverable amounts in the 2014 financial statements. Upon the liquidation of Ithra, the provisions and gross receivables are now presented as a net position. Specific provisions were also booked in 2014 to cover estimated legal costs and all known liabilities where the group has assessed it is probable that an outflow of economic benefits will be required to settle the obligation. The Group continues to provide for all known remaining liabilities as at 31 December 2015. Material items have been disclosed separately within the financial statements. Disclosure is provided on the consolidated income statement and in note 7 regarding the 2015 deemed disposal of Ithra, and on the consolidated income statement and in note 2 regarding the non-underlying 2014 £46.9m contract termination cost, comprising the £37.2m provision charge booked against contract receivables balances (see note 20) and other termination provisions of 2014 £9.7m.

Company balance sheet
31 December 2015

	Note	2015 £'000	2014 £'000
Fixed assets			
Property, plant and equipment	39	**571**	711
Investments	40	**865,336**	709,228
		865,907	709,939
Current assets			
Debtors: Amounts falling due within one year	41	**21,858**	24,125
Cash at bank and in hand		**-**	-
		21,858	24,125
Creditors: Amounts falling due within one year	43	**(111,453)**	(145,442)
Net current liabilities		**(89,595)**	(121,317)
Total assets less current liabilities		**776,312**	588,622
Creditors: Amounts falling due after more than one year	44	**(336,757)**	(165,026)
Net assets		**439,555**	423,596
Capital and reserves			
Share capital	46	**3,514**	3,498
Share premium account	47	**61,052**	56,131
Profit and loss account	47	**377,570**	366,548
Own shares	47	**(2,581)**	(2,581)
Shareholders' funds		**439,555**	423,596

The financial statements of Ultra Electronics Holdings plc, registered number 02830397, were approved by the Board of Directors and authorised for issue on 26 February 2016.

On behalf of the Board
R. Sharma, Chief Executive
M. Waldner, Finance Director

The accompanying notes are an integral part of this balance sheet.

Company statement of changes in equity
31 December 2015

	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Own shares £'000	Total £'000
Balance at 1 January 2015	3,498	56,131	366,548	(2,581)	**423,596**
Retained profit for the year	-	-	41,387	-	**41,387**
Total comprehensive income for the year	-	-	41,387	-	**41,387**
Dividends paid	-	-	(31,332)	-	**(31,332)**
Issue of new shares	16	4,921	-	-	**4,937**
Share based payments	-	-	967	-	**967**
Balance at 31 December 2015	**3,514**	**61,052**	**377,570**	**(2,581)**	**439,555**
Balance at 1 January 2014	3,490	53,908	414,528	(2,581)	469,345
Retained loss for the year	-	-	(20,041)	-	(20,041)
Total comprehensive income for the year	-	-	(20,041)	-	(20,041)
Dividends paid	-	-	(29,722)	-	(29,722)
Issue of new shares	8	2,223	-	-	2,231
Share based payments	-	-	1,783	-	1,783
Balance at 31 December 2014	3,498	56,131	366,548	(2,581)	423,596

Notes to accounts – Company
31 December 2015

39 Property, plant and equipment

	Plant and machinery £'000
Cost	
At 1 January 2014	2,026
Additions	8
At 1 January 2015	2,034
Additions	5
At 31 December 2015	**2,039**
Accumulated depreciation	
At 1 January 2014	1,147
Charge	176
At 1 January 2015	1,323
Charge	145
At 31 December 2015	**1,468**
Net book value	
At 31 December 2015	**571**
At 31 December 2014	711

40 Investments

a) Principal subsidiary undertakings

The Company owns either directly or indirectly 100% of the ordinary share capital of a number of subsidiary undertakings as set out in note 38.

b) Investment in subsidiary undertakings

	Total £'000
At 1 January 2015	**709,228**
Additions	**185,661**
Impairments	**(29,553)**
At 31 December 2015	**865,336**

The additions in the year related to further investment in an intermediate holding company. The impairments arise following review of the recoverability of investments within the corporate Company structure.

41 Debtors

	2015 £'000	2014 £'000
Amounts falling due within one year:		
Amounts due from subsidiary undertakings	**20,906**	21,060
Deferred tax assets	**37**	43
Other receivables	**694**	2,691
Prepayments and accrued income	**221**	331
	21,858	24,125

42 Deferred tax

Movements in the deferred tax asset were as follows:

	2015 £'000	2014 £'000
Beginning of year	43	308
Charge to the profit and loss account	(6)	(265)
End of year	37	43

The deferred tax balances are analysed as follows:

	2015 £'000	2014 £'000
Other temporary differences relating to current assets and liabilities	37	43
Deferred tax asset	37	43

These balances are shown as follows:

	2015 £'000	2014 £'000
Debtors: Amounts falling due within one year	37	43

At the balance sheet date the Company had nil unprovided deferred tax (2014: nil).

43 Creditors: amounts falling due within one year

	2015 £'000	2014 £'000
Bank loans and overdraft	33,844	37,851
Amounts owed to subsidiary undertakings	64,579	93,750
Other payables	9,980	11,914
Accruals and deferred income	3,050	1,927
	111,453	145,442

The bank loans are unsecured. Interest was predominantly charged at 1.00% (2014: 1.00%) over base or contracted rate.

44 Creditors: amounts falling due after more than one year

	2015 £'000	2014 £'000
Borrowings	336,757	165,026
	336,757	165,026

The financial risk management objectives and policies of the Company are managed at a Group level; further information is set out in the Group financial statements.

45 Borrowings

Borrowings fall due as analysed below:

	2015 £'000	2014 £'000
Bank loans and overdraft		
In one year or less, or on demand	33,844	37,851
	33,844	37,851
Less: included in creditors: amounts falling due within one year	(33,844)	(37,851)
Amounts due after more than one year		
Bank loans	289,521	120,177
Unsecured loan notes	47,236	44,849
	336,757	165,026

The loan notes are unsecured and due for repayment in 2018 and 2019. Interest was charged at 3.60% (2014: 3.60%).

46 Called-up share capital

The movements are disclosed in note 27 of the Group financial statements.

47 Equity reserve

The profit and loss account includes £179,642,000 (2014: £195,462,000) which is not distributable. A net foreign exchange gain of £9,103,000 was taken to reserves in the year. Further details in respect of dividends are presented in note 12 to the Group financial statements and share based payments in note 27 to the Group financial statements.

The Company holds 235,245 own shares (2014: 235,245).

48 Related parties

Transactions with the related party Al Shaheen Adventure LLC are set out in note 17 of the Group accounts and transactions with 'Ultra Electronics in collaboration with Oman Investment Corporation' are set out in note 34 of the Group accounts.

Statement of accounting policies
for the Company accounts

A summary of the Company's principal accounting policies, all of which have been applied consistently throughout the year and preceding year in the separate financial information presented for the Company, are set out below:

Basis of accounting
The Company accounts have been prepared under the historical cost convention and in accordance with FRS101 Reduced Disclosure Framework. The transition from the previously applicable United Kingdom accounting standards is not considered to have resulted in any material re-statements. No profit and loss account is presented for the Company, as permitted by section 408 of the Companies Act 2006. As permitted by FRS101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of a cash-flow statement and certain related party transactions. The Company's retained profit for the year is disclosed in note 47.

Fixed assets and depreciation
Property, plant and equipment are shown at original historical cost, net of depreciation and any provision for impairment. Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life as follows:

Plant and machinery	3 to 20 years

Taxation
UK Corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred at the balance sheet date. Temporary differences are differences between the Company's taxable profits and its results as stated in the financial statements. These arise from including gains and losses in tax assessments in different periods from those recognised in the financial statements. A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing difference can be deducted. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is not discounted.

Retirement benefit costs
The Company participates in a defined benefit plan that shares risks between entities under common control. The details of this UK scheme, for which Ultra Electronics Limited is the sponsoring employer, are set out in note 31 of the Group accounts. There is no contractual agreement or stated policy for charging the net benefit cost to Ultra Electronics Holdings plc.

Investments
Fixed asset investments are shown at cost less provision for impairment. Assessment of impairments requires estimates to be made of the value in use of the underlying investments. These value in use calculations are dependant on estimates of future cash flows and long-term growth rates.

Going concern
The Directors have, at the time of approving the financial statements, a reasonable expectation that the Group has adequate resources to continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Strategic Report on page **27**.

Foreign currency
Transactions denominated in foreign currencies are recorded in the local currency at the actual exchange rates at the date of the transactions (or, where appropriate, at the rate of exchange in a related forward exchange contract). Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date (or, where appropriate, at the rate of exchange in a related forward exchange contract). Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

Share-based payments
The Company issues equity settled share-based payments to certain employees. Equity settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest. Further disclosure in relation to share-based payments is given in note 27 of the Group financial statements.

Related parties
Remuneration of the Directors, who are considered to be the key management personnel of the Company, is disclosed in the audited part of the Directors' Remuneration Report on pages **75** to **79**.

Loans and overdrafts
Interest-bearing loans and overdrafts are recorded at the proceeds received, net of direct issue costs where there is a facility commitment. In these circumstances issue costs are deducted from the value of the loan and amortised over the life of the commitment. Where there is no facility commitment, issue costs are written-off as incurred. Finance charges including premiums payable on settlement or redemption are accounted for on an accruals basis in profit or loss using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Five-year review

Financial highlights

As restated*	2011 £m	2012 £m	2013 £m	2014 £m	**2015 £m**
Revenue					
Aerospace & Infrastructure	229.3	226.6	230.4	198.6	**193.2**
Communications & Security	228.7	268.9	237.7	224.4	**239.3**
Maritime & Land	273.7	265.3	277.1	290.7	**293.8**
Total revenue	731.7	760.8	745.2	713.7	**726.3**
Underlying operating profit[1]					
Aerospace & Infrastructure	37.2	45.1	46.2	29.6	**28.7**
Communications & Security	42.8	32.9	27.5	37.0	**40.4**
Maritime & Land	41.7	43.8	48.0	51.5	**50.9**
Total underlying operating profit[1]	121.7	121.8	121.7	118.1	**120.0**
Margin[1]	16.6%	16.0%	16.3%	16.5%	**16.5%**
Profit before tax	89.1	79.8	49.3	21.5	**34.8**
Profit after tax	64.6	61.3	38.2	6.5	**25.0**
Operating cash flow[2]	133.7	89.6	79.0	83.1	**81.3**
Free cash flow before dividends, acquisitions and financing[3]	100.1	57.4	43.8	51.2	**43.1**
Net debt at year-end[4]	(46.1)	(43.0)	(42.2)	(129.5)	**(295.6)**
Underlying earnings per share (p)[5]	121.1	125.5	127.1	123.1	**123.9**
Dividend per share (p)	38.5	40.0	42.2	44.3	**46.1**
Average employee numbers	4,206	4,430	4,274	4,787	**4,843**

[1] Before acquisition-related costs, amortisation of intangibles arising on acquisition, the S3 programme, impairment charges and Oman contract termination and liquidation related costs.

[2] Cash generated by operations, and dividends from associates less net capital expenditure, R&D and LTIP share purchases.

[3] Free cash flow before dividends, acquisitions and financing has been adjusted to include the purchase of LTIP shares, which are included in financing activities.

[4] Loans and overdrafts less cash and cash equivalents.

[5] Before acquisition-related costs, amortisation of intangibles arising on acquisition, the S3 programme, impairment charges, fair value movement on derivative financial instruments, defined benefit pension interest charges and unwinding of discount on provisions.

*During the year the Group amended its internal organisation to better reflect the markets that the Group addresses so that business groupings better reflect its capabilities, evolving product offerings and market facing segments. As a result of this, the composition of the Group's reportable segments has changed. As such, in line with IFRS 8, the corresponding information for the prior years have been restated. Previously results were reported as Aircraft & Vehicle Systems, Information & Power Systems and Tactical & Sonar Systems, they are now reported as Aerospace & Infrastructure, Communications & Security and Maritime & Land.

Footnote

underlying operating profit before Oman contract termination and liquidation related costs, amortisation of intangibles arising on acquisition, impairment of goodwill and adjustments to contingent consideration net of acquisition related costs. IFRS operating profit was £66.4m (2014: £39.5m).

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, amortisation of intangibles arising on acquisition, impairment of goodwill, fair value movements on derivatives, unwinding of discount on provisions, defined benefit pension interest charges and adjustments to contingent consideration net of acquisition related costs. Basic EPS 35.7p (2014: 29.8p).

underlying tax is the tax charge on underlying profit before tax. The underlying tax rate is underlying tax expressed as a percentage of underlying profit before tax.

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

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

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

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

underlying order book growth excludes the impact of foreign exchange, the Oman Airport IT contract and the order book arising on acquisition.

underlying order intake excludes the removal of the Oman order book in 2014 and includes orders from acquisitions since acquisition date.

underlying earnings per share is before acquisition-related costs, amortisation of intangibles arising on acquisition, the S3 programme, impairment charges, fair value movement on derivative financial instruments, defined benefit pension interest charges and unwinding of discount on provisions.

Business addresses

Aerospace & Infrastructure

Airport Systems
The Oaks
Crewe Road
Wythenshawe, Manchester M23 9SS
England
Tel: +44 (0) 161 946 3600
www.ultra-as.com

Controls
417 Bridport Road
Greenford, Middlesex UB6 8UA
England
Tel: +44 (0) 20 8813 4444
www.ultra-controls.com

Nuclear Control Systems
Innovation House
Lancaster Road
Ferndown Industrial Estate
Wimborne, Dorset BH21 7SQ
England
Tel: +44 (0) 1202 850450
www.ultra-ncs.com

Nuclear Sensors
& Process Instrumentation
707 Jeffrey Way
P.O. Box 300
Round Rock, Texas 78680-0300
USA
Tel: +1 512 434 2800
www.ultra-nspi.com

Precision Air & Land Systems
Arle Court
Cheltenham, Gloucestershire GL51 6PN
England
Tel: +44 (0) 1242 221166
www.ultra-pals.com

Communications & Security

3eTI
9715 Key West Avenue
Suite 500
Rockville, Maryland 20850
USA
Tel: +1 301 670 6779
www.ultra-3eti.com

Advanced Tactical Systems
4101 Smith School Road
Building IV, Suite 100
Austin, Texas 78744
USA
Tel: +1 512 327 6795
www.ultra-ats.com

Communication &
Integrated Systems
419 Bridport Road
Greenford, Middlesex UB6 8UA
England
Tel: +44 (0) 20 8813 4567
www.ultra-cis.com

Forensic Technology
5757 Cavendish Blvd.
Suite 200
Cote St-Luc, Québec H4W 2W8
Canada
Tel: +1 514 4894 247
www.ultra-forensictechnology.com

GigaSat
GigaSat Building
Tring Business Centre
Icknield Way
Tring, Hertfordshire HP23 4JX
England
Tel: +44 (0) 1442 892000
www.ultra-gigasat.com

Herley
10 Sonar Drive
Woburn, Massachusetts 01801
USA
Tel: +1 781 729 9450
www.ultra-herley.com

ID
Waverley House
Hampshire Road
Weymouth, Dorset DT4 9XD
England
Tel: +44 (0) 1305 767100
www.ultraid.com

ProLogic
9400 Innovation Drive
Manassas, Virginia 20110
USA
Tel: +1 703 335 6986
www.ultra-prologic.com

TCS
5990 Côte de Liesse
Montreal, Québec H4T 1V7
Canada
Tel: +1 514 855 6363
www.ultra-tcs.com

Maritime & Land

3 Phoenix Inc.
14585 Avion Parkway #200
Chantilly, Virginia 20151
USA
Tel: +1 703 956 6480
www.ultra-3pi.com

Avalon Systems
12 Douglas Drive
Technology Park
Mawson Lakes, Adelaide
South Australia 5095
Australia
Tel: +61 (0) 8 8169 1200
www.ultra-avalon.com
www.ultra-electronics.com.au

Command & Control Systems
Knaves Beech Business Centre
Loudwater, High Wycombe
Buckinghamshire HP10 9UT
England
Tel: +44 (0) 1628 530000
www.ultra-ccs.com

EMS Development Corporation
95 Horseblock Road, Unit 2
Yaphank, New York 11980
USA
Tel: +1 631 345 6200
www.ultra-ems.com

Flightline Systems
7625 Omnitech Place
Victor, New York 14564-9795
USA
Tel: +1 585 924 4000
www.ultra-fei.com

Maritime Systems
40 Atlantic Street
Dartmouth, Nova Scotia B2Y 4N2
Canada
Tel: +1 902 466 7491
www.ultra-ms.com

Ocean Systems
115 Bay State Drive
Braintree, Massachusetts 02184-5203
USA
Tel: +1 781 848 3400
www.ultra-os.com

PMES
Towers Business Park
Wheelhouse Road
Rugeley, Staffordshire WS15 1UZ
England
Tel: +44 (0) 1889 503300
www.ultra-pmes.com

Sonar Systems
418 Bridport Road
Greenford, Middlesex UB6 8UA
England
Tel: +44 (0) 20 8813 4567
www.ultra-sonar.com

USSI
4578 East Park 30 Drive
Columbia City, Indiana 46725-8861
USA
Tel: +1 260 248 3500
www.ultra-ussi.com

Photography
TEAM IMAGES ON PAGE 31:
Jerry Jones Photography

TEAM IMAGES ON PAGES 33 AND 35, BOARD OF DIRECTORS AND THROUGHOUT:
Molyneux Associates

PLATFORMS/END APPLICATIONS COURTESY OF:
BAE Systems, Eurofighter, NIMR Automotive, Textron Aviation, UK MoD and US DoD.

Registered Office:
Ultra Electronics Holdings plc
417 Bridport Road
Greenford
Middlesex UB6 8UA
England
Tel: +44 (0) 20 8813 4321
Fax: +44 (0) 20 8813 4322
www.ultra-electronics.com
information@ultra-electronics.com

CO_2 neutral
Product printed on a Carbon Neutral Press
www.heidelberg.com/CO2 .210504

MIX
Board from responsible sources
FSC® C044071
FSC
www.fsc.org

Design: **HAT Associates** +44 (0)1242 253112