Ultra Electronics Holdings plc

Annual Report and Accounts 2014

positioned for **growth**...

through portfolio **strength**...

focused on customer **need**

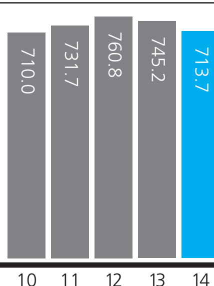
making a difference

Ultra ELECTRONICS

Financial highlights

Revenue

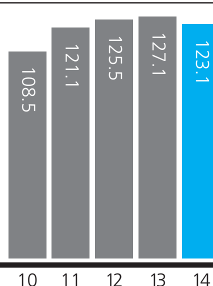
£713.7m



-4.2%
(2013: £745.2m)

Underlying earnings per share*

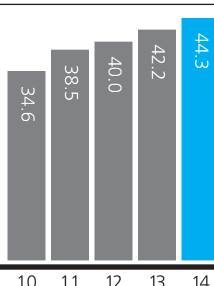
123.1p



-3.1%
(2013: 127.1p)

Dividend per share

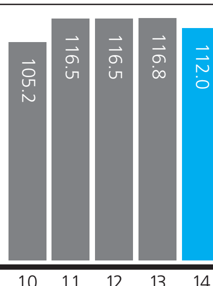
44.3p



+5.0%
(2013: 42.2p)

Underlying profit before tax*

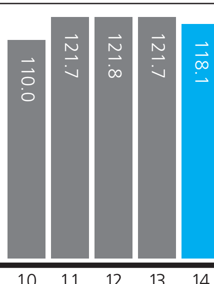
£112.0m



-4.1%
(2013: £116.8m)

Underlying operating profit*

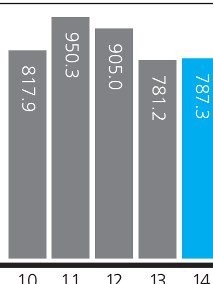
£118.1m



-3.0%
(2013: £121.7m)

Group order book

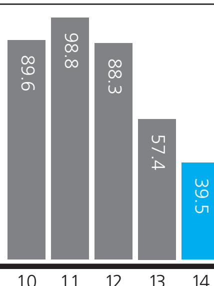
£787.3m



+0.8%
(2013: £781.2m)

IFRS operating profit

£39.5m



-31.1%
(2013: £57.4m)

Dividend

The proposed final dividend is **31.3p**, bringing the total dividend for the year to **44.3p** (2013: 42.2p). This represents an annual increase of **5.0%**, with the dividend being covered **2.8 times** (2013: 3.0 times) by underlying earnings per share. If approved at the Annual General Meeting, the dividend will be paid on 6 May 2015 to shareholders on the register on 10 April 2015.

KPI = Key Performance Indicator, see pages **24-25** 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.

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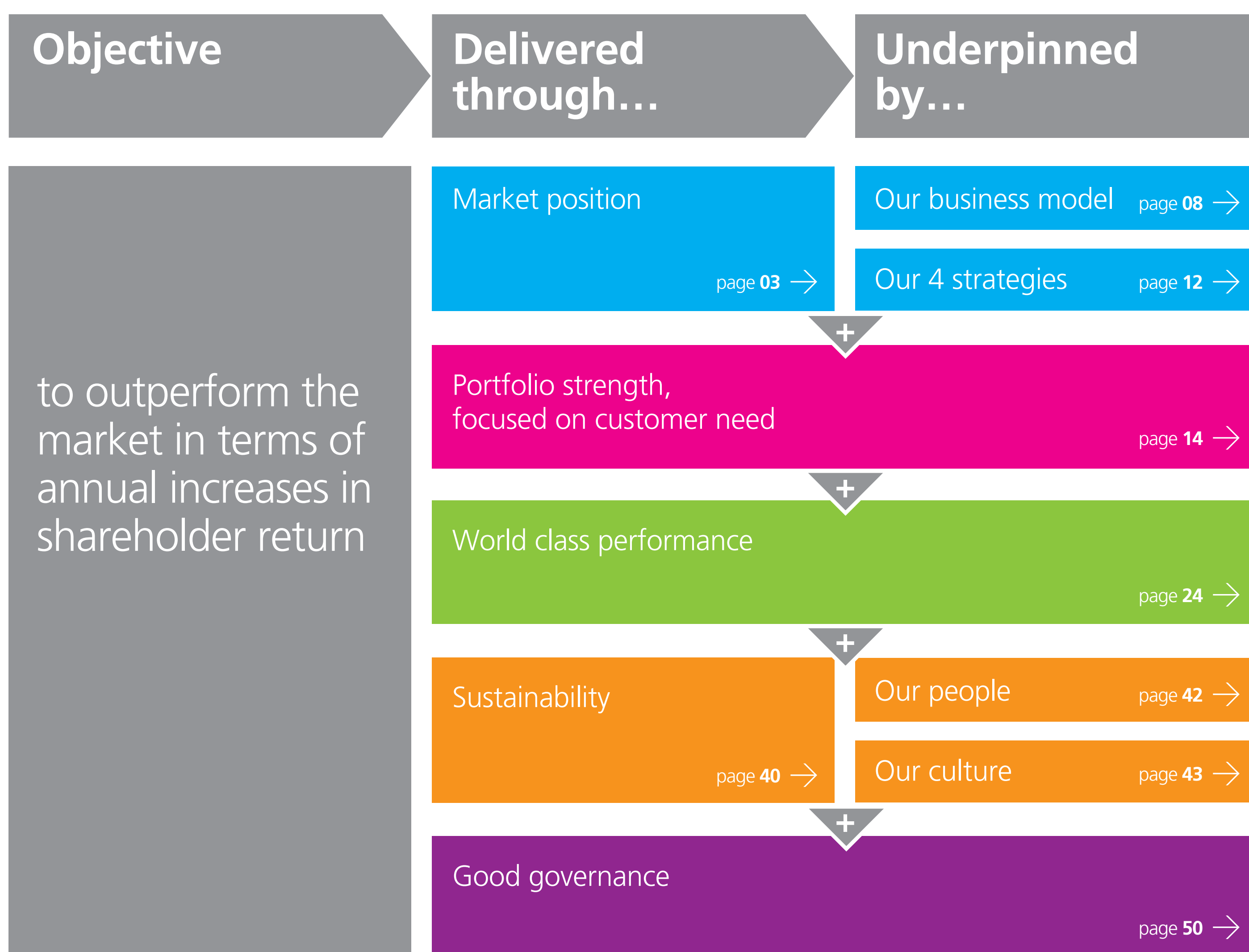
For more information:
www.ultra-electronics.com/investors/irhome.php

Introduction

What is Ultra?

The Ultra Electronics Group manages a portfolio of specialist capabilities, generating highly-differentiated solutions and products in the DEFENCE & AEROSPACE, SECURITY & CYBER, TRANSPORT and ENERGY markets, by applying electronic and software technologies in demanding and critical environments to meet customer needs.

Ultra's strategic framework

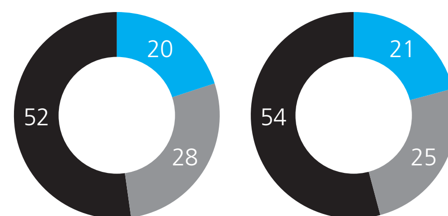


The **strategic framework**, pictured above, is focused on ensuring that Ultra meets its prime objective. This is achieved through obtaining market position based on the strategies for growth as described on pages **12** and **13**, allied with the business model described on pages **8** to **11**. The strength of Ultra's broad portfolio of capability is described on pages **14** to **23** and the Group's commitment to performance is detailed on pages **24** to **35**. The key to delivering a sustainable business is Ultra's people and the values and behaviours embodied within Ultra's culture, described on pages **40** to **49**. Good corporate governance is at the heart of Ultra's compliance framework and is described on pages **50** and **61**.

Group at a glance

How Ultra operates

Ultra delivers and reports its performance through three divisions: **Aircraft & Vehicle Systems**, **Information & Power Systems** and **Tactical & Sonar Systems**. Ultra's divisions deliver specialist capabilities to the DEFENCE & AEROSPACE, SECURITY & CYBER, TRANSPORT and ENERGY markets. Increasingly Ultra considers its portfolio of capabilities under eight cluster headings, discussed on pages **14** to **23**.



- Aircraft & Vehicle Systems
- Information & Power Systems
- Tactical & Sonar Systems

Aircraft & Vehicle Systems

Revenue
£140.3m ↓ KPI -0.4%
2013: £140.9m†

Underlying operating profit*
£24.6m ↓ KPI -29.3%
2013: £34.8m†

Order book
£160.2m ↓ -2.2%
2013: £163.8m†

Number of employees
1,023

Capabilities
Ultra specialises in high integrity, safety-critical, real-time control systems for aircraft and vehicle applications. These include wing and engine ice protection, power distribution and control equipment and noise and vibration cancellation systems. The Group also supplies advanced human-machine interfaces and systems. Ultra provides innovative small power sources, including miniature pneumatic systems and multi-fuel UAV engines.

Read more on pages 30-31

Information & Power Systems

Revenue
£204.0m ↓ KPI -26.3%
2013: £276.8m†

Underlying operating profit*
£29.2m ↓ KPI -21.7%
2013: £37.3m†

Order book
£175.9m ↓ -36.1%
2013: £275.3m†

Number of employees
1,440

Capabilities
Ultra supplies advanced command and control systems for battlespace visualisation, surveillance systems and air defence. The Group provides: perimeter security solutions for critical infrastructure; crisis response planning and management software; secure networks. Ultra's high-integrity sensors and control systems are used for civil and military nuclear reactors and a range of specialist, solid-state electrical power systems which are used for naval vessels and mass transit. Ultra is a major integrator of airport and airline management & information systems.

Read more on pages 32-33

Tactical & Sonar Systems

Revenue
£369.4m ↑ KPI +12.8%
2013: £327.5m†

Underlying operating profit*
£64.3m ↑ KPI +29.6%
2013: £49.6m†

Order book
£451.2m ↑ +31.9%
2013: £342.1m†

Number of employees
2,324

Capabilities
Ultra supplies advanced cyber security solutions, high-capacity communication systems, satellite communication equipment and tactical surveillance equipment to support network-enabled warfare. Specialist areas include data links, encryption for information assurance and electronic warfare. The Group also supplies leading technology and systems to ships, submarines and maritime patrol aircraft to meet the challenges of the maritime battlespace, including naval combat management, anti-submarine warfare and torpedo defence. Ultra has developed a range of powerful acoustic hailing devices.

Read more on pages 34-35

† During 2014 the Command & Control business moved from the Group's Information & Power Systems division into the Tactical & Sonar Systems division and the MSI and AMI businesses moved from the Aircraft & Vehicle Systems division into the Information & Power Systems division and Tactical & Sonar Systems divisions respectively. The prior year segmental analysis has been restated to reflect these changes.

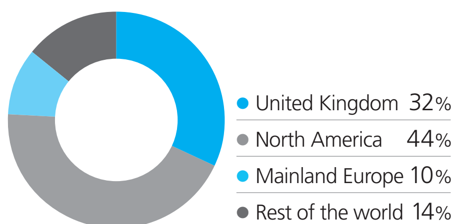
*see footnote on page 132

Ultra's place in the market

Ultra presents the market with a wide portfolio of highly-differentiated, specialist capabilities and innovative technologies, applicable across the DEFENCE & AEROSPACE, SECURITY & CYBER, TRANSPORT and ENERGY domains. In often challenging markets, as government customers wrestle with fiscal uncertainties, Ultra works across the Group and with partners, to offer cost-effective, proven and comprehensive advanced technology solutions which can best match customer needs and budgets, rather than presenting a standard, non-optimal product. Through this approach the Group is increasing market access and pursuing areas of customers' preferential spend.

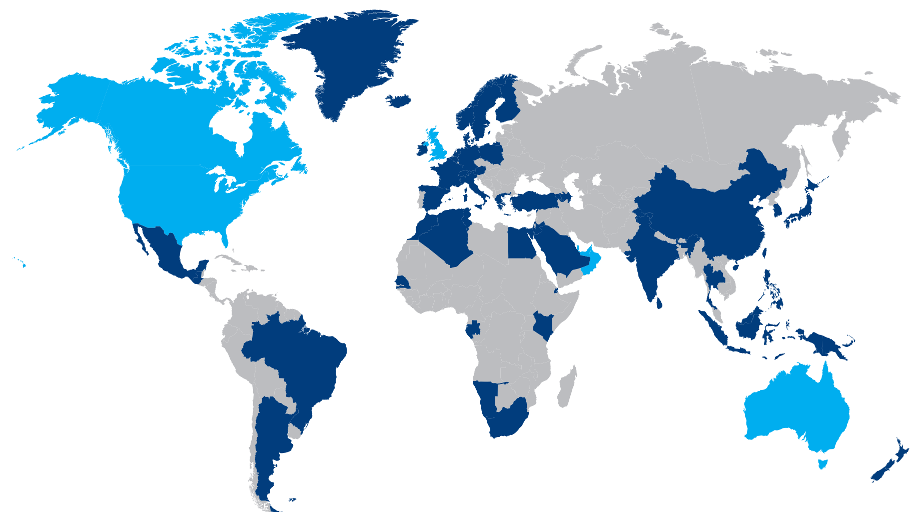
Markets – where we operate
Ultra constantly positions within its main market domains to sustain growth. Through its evolved strategic review process, the Group has demonstrated a long track record of identifying future growth sectors within its core markets. Ultra then invests to create differentiated offerings in these sectors.

Revenue by region



Ultra continues to focus on maximising revenue from the largest addressable defence budgets in the world. The Group has a significant transatlantic capability and derives almost half its revenue from North America, where the Group continues to follow a strategy of identifying and pursuing areas of preferential funding. The Middle East and Asia Pacific regions are capable of being larger markets for Ultra. A full analysis of the Group's markets and clusters is on the following pages.

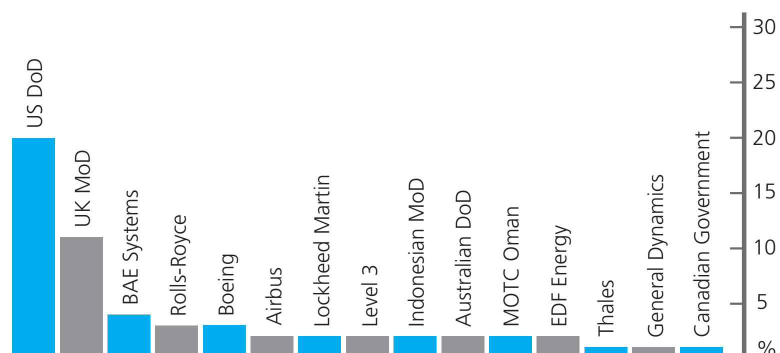
Read more on pages **14-23**



Ultra's customers
Ultra's independence allows it to work with the world's major prime contractors in its markets and to sell its wide portfolio of specialist capabilities to a broad range of customers around the world. The graphic below shows the major customers for the Group's 2014 revenue. Within Ultra's top customers, such as the US Department of Defense (DoD), the UK Ministry of Defence (MoD) and BAE Systems, the Group actually 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.

Geographic reach
A key strategic objective is to broaden the Group's geographic footprint (see page **13** for more detail). This is carried out in a measured and controlled manner as Ultra continues to focus its resources on a limited number of regions and sectors, where it is experiencing growth. Over the last two decades, Ultra has expanded and developed its international footprint and now has significant business in Europe, North America, the Middle East and the Asia Pacific.

Ultra has operations based in the countries shaded light blue on the map above and conducts business in the countries shaded in dark blue.



Positioned for growth

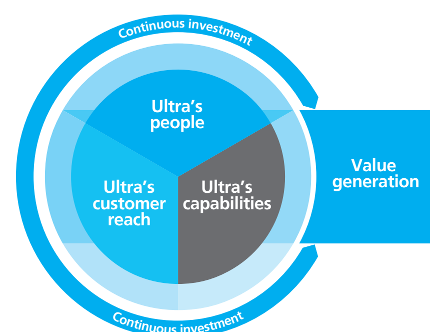
Chief Executive's review

Ultra's inherent agility has shown that the underpinning business model is **robust** and is **positioning** the Group for **growth**.

> In response to changing market dynamics, Ultra continues to adapt its behaviours to maintain its agility, to position for growth and focus on customer need.

Rakesh Sharma
Chief Executive

Introduction
In 2014 Group order intake increased significantly, reflecting demand across our market segments for Ultra's specialist capabilities. Market conditions, specifically government spending pressures in the US and UK, continued to frustrate revenues in 2014, although excluding Oman the second half performance showed an improvement on the first half. Within the Group, good progress has been made in implementing market facing initiatives whilst continuing prudent cost management. The events that culminated in the early termination of our Oman Airport IT contract provided an unwelcome distraction, although this will allow us to bring to a head what is a unique and increasingly difficult commercial contract. The Group intends to vigorously pursue all options towards a satisfactory settlement. The Group's sustained investment and constant focus on improving operational efficiencies, together with Ultra's inherent agility has shown that the underpinning business model is robust and is positioning the Group for growth.

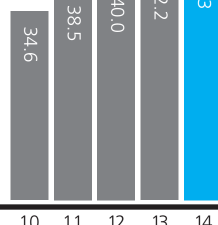


Further details on Ultra's robust business model can be found on pages **8-11**

Dividend per share

44.3p

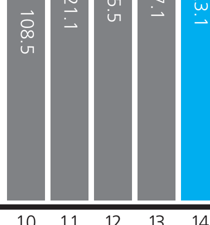
+5.0%
(2013: 42.2p)



Underlying earnings per share*

123.1p

-3.1%
(2013: 127.1p)



Operational highlights

Features of the Group's accomplishments in the year which will underpin future performance included:

- The award of a £27m contract for the Royal Navy's Sonar 2050 Technology Refresh (S2050TR) Programme. Under this contract, which will be executed over the next 10 years, the Group will deliver and support new hull mounted sonars for the Royal Navy's eight Type-23 frigates. The S2050 Technology Refresh programme will deliver, to the Royal Navy, a world-leading sonar capability providing persistent surveillance against submarine and torpedo threats, at a significantly lower through-life cost.
- The award of a £12.9m contract from EDF Energy for the manufacture and support of nuclear reactor instrumentation. Under this contract Ultra will manufacture and support safety-critical nuclear reactor instrumentation for use in EDF Energy's current UK nuclear power stations. This is the second contract to benefit from Ultra's recent investment in a state-of-the-art nuclear instrumentation manufacturing facility and further cements EDF Energy's and Ultra's relationship.
- The award of a contract by Airbus to design, develop, supply and support an electrical Ground Door Opening system (eGDO) for its new A350 family of aircraft. The eGDO system comprises a set of electrical actuators, sensors and fuselage-mounted control and indication panels which allows airline ground maintenance crews to open the landing gear doors to access the landing gear bay. Based on anticipated sales of the aircraft, this contract is expected to be worth in excess of £60m revenue to Ultra over the life of the programme.

Ultra's business model

Ultra's prime objective continues to be to outperform the market in terms of annual increases in shareholder value, by delivering above-average increases in earnings and by communicating effectively with shareholders and the financial community. The strategic framework, page **1**, is focused on ensuring that Ultra meets its prime objective. This is achieved through the strategies for growth, which are described on pages **12** and **13**, allied with the business model described on pages **8** to **11**. A key enabling component of Ultra's business model is the Group's culture and values, which are further detailed on pages **40** to **46**.

The Group will continue to differentiate itself from its competitors through its technical innovation and high standards of ethical business conduct. Underpinning this cultural drive is a strong policy on ethics and business conduct which is mandatory for all employees across the entire Group. Ultra educates its employees on anti-bribery and corruption policies, including gifts and hospitality practices. In the period, Ultra decided not to pursue business in areas where it was not satisfied that its ethical standards would be maintained.

Executing against the growth strategies, shown right, requires consistent management focus and drive. Ultra's management team has to balance dealing with the particularly challenging short-term market conditions, whilst also ensuring that it is fully addressing the need to continue to position the Group for medium- and long-term growth. The members of the Executive Team understand through experience, what makes Ultra different and how to focus the Group's businesses on maintaining competitive advantage in the various specialist market sectors in which Ultra operates.

1. **Increase the Group's portfolio of specialist capability areas**
2. **Increase the number of long-term platforms and programmes**
3. **Broaden the Group's customer base**
4. **Widen Ultra's geographic footprint**

Read more on pages **12-13**

*see footnote on page **132**

Positioned for growth
Chief Executive's review (continued)

Positioning for growth
The acquisitions we have made this year have added significant capabilities, market access and a critical mass to the Group. They have assisted us to take the next step in developing our business model, re-aligning how we face the market. Ultra's broad portfolio of capabilities has been positioned into **eight clusters**, each facing a specific end market. This gives a framework around which the Group can more effectively apply its resources and exploit the domain expertise and technologies in its businesses that face the same end markets. This framework allows Ultra to address opportunities with more complete offerings, whilst maintaining the agility of a lower tier supplier. As a result the Group can target opportunities in specific markets without losing the autonomy of its individual businesses. The cluster approach also enables Ultra to take an enhanced view of the capabilities in each cluster and so better manage and prioritise the Group's investments against specific end markets. The Group's operational performance and delivery will continue to be via three divisions.

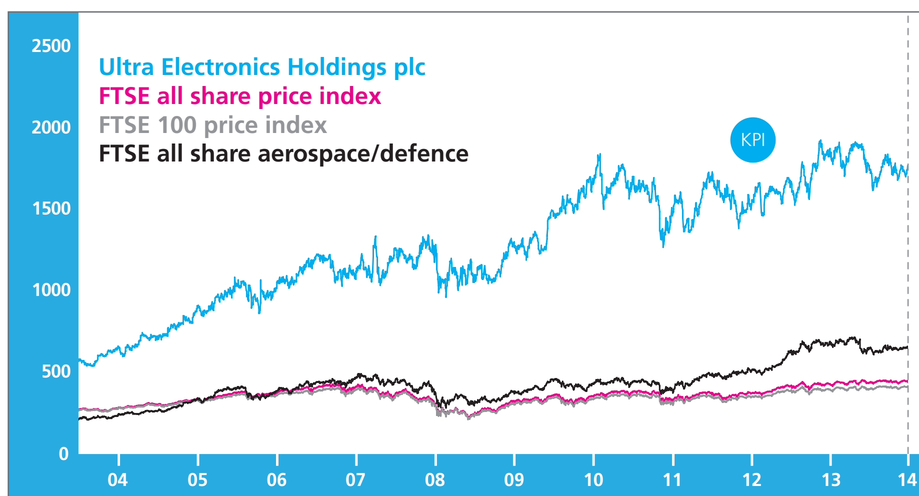
Ultra's **eight strategic clusters** are as follow:

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

Full details on Ultra's eight clusters can be found on pages **14-23**

The Group constantly strives to broaden its customer base and widen its geographic footprint. This not only provides growth, but increases the robustness of the business model. Ultra has made the strategic decision to prioritise a number of regions and sectors with higher growth. The Group recognises that new markets and geographic sectors take time to enter and so these activities are carried out in a measured and controlled manner, with due consideration of risk. As Ultra continues to address larger projects and grow its profile in new geographical regions it will be necessary to implement improved project management and contract management skills. Ultra, as an independent, non-threatening partner, is able to support all of the main prime contractors and local industry partners. The Group is therefore well positioned to bring its specialised equipment, systems and services to new long-term platforms and programmes in new markets and regions. Further details on Ultra's robust business model can be found on pages **8** to **11**.

Ultra's track record of delivering above average shareholder (pence)



KPI = Key Performance Indicator, see pages **24-25** for details

Portfolio strength
To increase the breadth of the Group's portfolio of capabilities, Ultra continues to invest over 5% of revenue on internal development to generate new differentiated offerings. These offerings are aimed at niche market sectors where customers preferentially focus their expenditure. These investment activities are led by the businesses and are robustly reviewed by the Executive Team and the Board. In parallel, Ultra continues to invest in acquisitions, which bring complementary world-leading niche capabilities and market access to the Group's portfolio.

In February 2014, the Group acquired 3 Phoenix Inc, a US business which is a leading supplier of specialist sonar, radar, intelligence, surveillance and reconnaissance products and solutions. The company has a 10 year track record of delivering critical real-time sensor and processing systems, primarily to the US Navy, but also to commercial customers. 3 Phoenix is now part of Ultra's Tactical & Sonar Systems division.

In May 2014, Ultra acquired two companies, Forensic Technologies (FT) and ICE. FT provides automated firearm ballistics identification and forensic analysis systems to law enforcement agencies in over 65 countries. FT is currently developing a number of document security and analytic products based on its existing capabilities and areas of expertise. FT has been integrated into Ultra's Tactical & Sonar Systems division.

ICE designs, develops, manufactures and supports aerospace products including, motor control electronics, electrothermal ice protection controllers, pneumatic valve controls and engine control interface units. ICE customers include Parker Hannifin Corporation, Cessna Aircraft Company and Meggitt. ICE has been integrated into Ultra's Controls business within the Group's Aircraft & Vehicle Systems division.

In June 2014, the Group acquired Lab Impex Systems (LIS). LIS is a developer and supplier of radiation measurement solutions and services for use within the nuclear industry. LIS provides systems engineering, installation and support of full environmental radiation monitoring systems, including alpha, beta, gamma radiation and associated safety systems. The business has been integrated into Ultra's Nuclear Control Systems business within Ultra's Information & Power Systems division.

Customer needs
Ultra continues to adapt its behaviours to maintain its agility and commitment to meeting customer needs. To support this, the Group has made good progress in implementing market facing initiatives which help it gain a better understanding of customers' real needs. These improve its ability to offer differentiated and comprehensive solutions in areas of preferential spend across all its market sectors. Ultra's key behaviours **LEAP** and **LAUNCH** also help to position the Group's portfolio of capabilities into end market facing clusters. (More information on these behaviours can be found on page **43**).

Oman Airport IT contract
The termination of the Oman Airport IT contract in February 2015 has had an effect on the Group's 2014 performance, with revenue on the programme being limited to that reported at the half year 30 June 2014. The substantive reasons given in the notice of termination are related to Ithra not meeting contractual milestones and Ithra's assessment is that the termination is unjustified, wrongful and unlawful. Ultra is in discussions with its legal and claims advisers regarding the termination and recovery of Ithra's costs and claims. It has been considered prudent to take an exceptional and non-underlying provision in the year to December 2014 in respect of the Contract. The provision, which totals £47m, includes the write off of the debt owed on the Contract, termination costs and other liabilities.

Summary
Performance for 2015 will benefit from acquisitions made in 2014 and from foreign exchange translation at current rates. However, set against the current market backdrop of uncertainty over the timing and feasibility of proposed US DoD budgets, together with election activity in both the US and UK, overall Ultra expects 2015 performance to be broadly stable. We will continue to balance investment for future growth with focus on efficiencies and managing our costs to support profitability.

Looking further ahead our optimism improves as market growth drivers present revenue opportunities for our businesses and the expected pace of order book execution ticks up as a result of recent contract awards. Further growth is expected as the Group identifies and completes acquisitions. Internally, following on from our cost management actions, we are launching a group-wide initiative to standardise our systems and some of our processes. This will enable us to go beyond individual businesses efficiencies, whilst retaining Ultra's critical success factors of autonomy and agility. The Board acknowledges the short-term headwinds but judges that the actions being taken should enable the Group to achieve an improved performance from 2016.

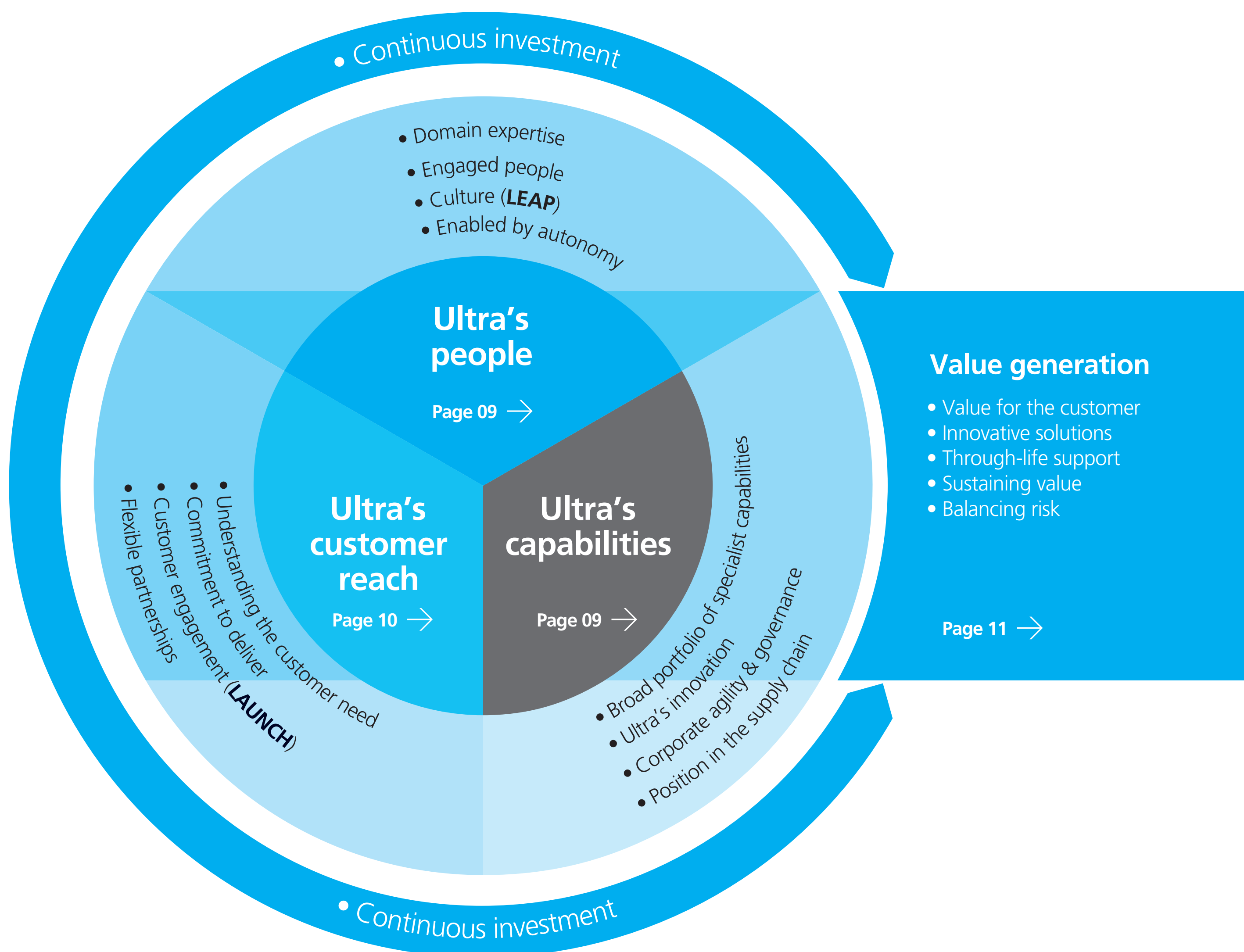
I would like to finish by thanking all of Ultra's employees for their continued hard work, dedication and enthusiasm. The ability to implement Ultra's strategies successfully is entirely reliant upon the engagement, commitment and passion of the Group's employees. I am confident that Ultra is well placed to execute successfully the strategies and plans to ensure that growth continues in the future.

Rakesh Sharma
Chief Executive

Positioned for growth

Business model

Ultra's business model is centred around the Group's three core strengths: **people**, **capabilities** and **customer reach**.



The Group will continue to differentiate itself from its competitors by:

Technical innovation across its broad portfolio of capabilities
Ultra focuses on developing innovative, highly-differentiated solutions which are delivered in close collaboration with customers, partners and suppliers.

Commitment to deliver
Ultra has built a reputation for meeting its commitments. This reputation is not only based on businesses meeting their obligations, but also by establishing a culture within the Group, that is based on this principle. Ultra believes that this reputation is one of its defining and most valuable characteristics. Behaving in this way fosters long-term relationships.

The endeavours of its exceptional employees
Ultra would not be able to deliver value to customers without the innovative and entrepreneurial spirit of its staff. The broad range of skills and capabilities held by the Group's employees are why Ultra is successful in innovating to meet customer needs.

The ability to develop long-term value-adding relationships with customers
Ultra businesses are expected to maximise their relationships with customers for the long-term, through a close understanding of customer needs, leading to sustained on-time delivery of high-quality products and services. This creates a shared dependency from the customers' perspective and encourages a long-term strategic relationship.

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

Ultra's people

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.

More about Ultra's people and its culture can be found on pages **42-46**

Ultra's capabilities

Ultra's broad portfolio of specialist capabilities

The Group has a broad portfolio of specialist capabilities which deliver highly-differentiated solutions focused on the following market sectors: DEFENCE & AEROSPACE, SECURITY & CYBER, TRANSPORT and ENERGY.

The Group is seeking constantly to increase the number of specialist capabilities in its market niches and to increase the number of long-term platforms and programmes on which Ultra's specialist capabilities are specified.

The expansive spread of specialist capability areas mapped onto so many platforms and programmes:

- provide resilience to Ultra's financial performance
- reduce the Group's risk profile; and
- drive the Group's growth

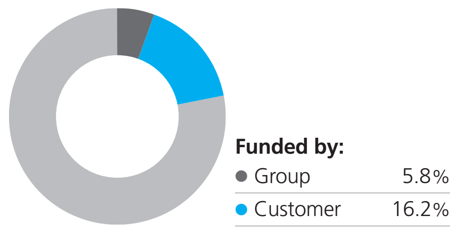
Ultra's innovation

The Group has a strategy to invest continuously to strengthen its capabilities across its specialist niche markets. Ultra's deep understanding of the users' domain, its enduring customer relationships and its outward-facing nature, inform the Group's investment decisions.

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.

See cluster capability chart on pages **14-15**

Product and business development spend as a percentage of 2014 revenue



Funded by:

Group	5.8%
Customer	16.2%

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

Corporate agility

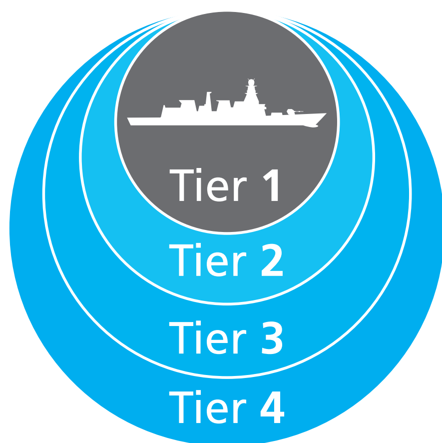
A key differentiator for Ultra is the agility which businesses in the Group exhibit in their dealings with customers.

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 which lie elsewhere in the Group (collaborative autonomy) or with partners and by Ultra's strong financial position.

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

Positioned for growth
Business model (continued)



Tier 1	**Platform provider**	Responsible for being the prime contractor of the platform in question, examples being a naval vessel or a terminal at an airport.
Tier 2	**Sub-system integrator**	Responsible for integrating equipment or components which will make up a functional element of the platform. Examples of system integration which Ultra has completed include integrated sonar systems and wing ice protection systems.
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 onto many programmes worldwide, including sensors for measuring the performance of a nuclear reactor and joysticks to control UAVs.

Position in the supply chain
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.

Ultra's customer reach

Understanding the customer need

Ultra is continually evolving its approach to match the markets in which the Group operates.

This evolution is 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

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 customer's requirements and develop effective and innovative solutions.

Strategic Clusters
The Group increasingly considers its capabilities under 8 cluster headings that describe common end markets. This allows Ultra to better develop and apply its domain expertise, capabilities and technical synergies in common end markets.

More detail on clusters can be found on pages 14-23

Customer engagement
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 which leads to a better pipeline of opportunities and so ultimately, enables growth. **LAUNCH** is aligned with the Group's approach to systems engineering and project management.

This approach ensures Ultra understands the real needs of its customers which encourages a long-term strategic relationship where Ultra's businesses become part of the customers' extended enterprises, to mutual benefit.

For further information about **LAUNCH** see page 43

Flexible Partnerships
Ultra has an established ability to partner and team (internally and externally) 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 Ultra to deliver differentiated solutions which meet customer needs efficiently, with lower development risk. It is important that these teaming arrangements are of benefit to all parties – by working together, the team members are able to win opportunities which would not be possible in isolation.

Ultra's value generation

Ultra's strengths of customer reach, people and capabilities combine to enable Ultra to generate and sustain value.

Ultra value for the customers
Ultra generates value by applying electronic and software technologies in demanding and critical environments to provide highly-differentiated solutions to meet customers' needs.

Ultra businesses innovate constantly to create solutions to customer requirements which are different from, and better than, those of the Group's competitors, as perceived by the customer.

Solutions
By applying these differentiated solutions to a wide range of international platforms and programmes, Ultra has built an exceptionally broad portfolio of specialist capability areas. 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. The Group remains committed to its strategy of continued investment in its portfolio of innovative and differentiated specialist capabilities, to ensure that the business is well-positioned to meet future market demand.

Support
Ultra offers support to customers of its products and systems through the design, delivery and in-service phases of a programme. Ultra's deep understanding of its specialist capability areas and the users' environment is a key factor in supplying innovative solutions to ensure the capabilities are delivered and sustained in-service and meet the customers' through-life needs.

Sustaining value
In order for Ultra's business model to deliver success over the long-term, it must be sustainable and it must manage any inherent risk well.

The Group pursues four parallel strategies for growth which are explained more fully on pages 12-13

Economic
Ultra's governance structure ensures that all of its businesses are well-managed, control costs and are cash-generative. This allows the Group to self-fund acquisitions which deliver positions in new markets or additional niche capabilities. Since the Group's formation, Ultra has maintained a balance between organic and acquisition growth, having integrated 55 acquisitions since 1993.

For more information on Ultra's structure, go to the governance section on pages 60-61

Social
Ultra understands that the long-term success of the Group will be enhanced through continuous focus on value creation for all its stakeholders. The Group encourages its businesses to support their local communities as well as discharging their responsibilities to contribute to the broader social well-being.

Environmental
Ultra recognises that it is important, both for its employees and the communities in which it operates, that effective measures are in place to minimise the environmental impact of its activities, as this will help to secure the long-term future of the Group. Ultra has committed to substantial investments in manufacturing facilities which will, in addition to improving productivity, offer increased efficiencies and reduce energy consumption.

To read how Ultra is making a difference, see pages 40-41

Ultra businesses innovate constantly to create solutions to customer requirements which are different from, and better than, those of the Group's competitors, as perceived by the customer.

Reducing risk to maintain value
Ultra's business model supports a stable and well-balanced business, with the aim of reducing risk and maintaining the generation of value.

Ultra's strategy is to constantly broaden its portfolio of products and services which are positioned on a large number of international platforms and programmes in the Defence & Aerospace, Security & Cyber, Transport and Energy markets.

Ultra has an increasingly broad customer base worldwide, with sales outside the UK now representing over 65% of Group revenue. Ultra is repositioning itself constantly, into growth sectors and areas of preferential spend, within its main markets.

The above factors, together with Ultra's market agility and organisational flexibility, generate further robustness and resilience in the Group's financial profile and mitigate risk.

More detail on Ultra's approach to risk management and specific risks can be found on pages 36-39

Ultra's Governance
Good Governance is crucial to ensuring that Ultra is well managed and can deliver its strategic priorities. The Group's core management processes address four main areas. These are:

- **Compliance**
- **Strategy**
- **Financial performance**
- **Developing people**

The Board has delegated some of its power to three committees and to the Chief Executive.

Further detail on how Ultra is governed and the roles of the Board, the key Committees and the Executive Team can be found on pages 50-64

Positioned for growth

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. The four main strategic objectives which support this target growth are:

1 Increase the Group's portfolio of specialist capability areas

Ultra concentrates on providing its customers with capabilities and systems, using the Group's electronic and software solutions for niche markets in defence & aerospace, security & cyber, transport and energy. Within these market sectors, Ultra focuses on developing specialist capabilities which provide differentiated solutions to customers' requirements, often in demanding and critical environments.

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

Ultra positions these specialist capabilities on a long list of international platforms and programmes. This breadth of platform and programme coverage creates a flywheel effect which drives Ultra's performance year after year, despite market fluctuations. Ultra is positioned on very many such platforms and programmes.

3 Broaden the Group's customer base

Ultra's independence allows it to sell its wide portfolio of specialist capabilities to a broad range of customers around the world. Ultra supplies to a wide range of different project offices, integrated project teams and platform teams within its customers, the largest of which include; US DoD, UK MoD, Rolls-Royce, BAE Systems, Lockheed Martin, Raytheon and Boeing.

4 Widen Ultra's geographic footprint

Ultra has pursued a strategy of gaining access to the two largest addressable defence budgets in the world. Despite the recent budget reductions, the US still spends more on defence each year than the rest of the nations combined. The majority of Ultra's acquisitions have been in North America and the point has now been reached where the Group has a transatlantic capability and derives more of its revenue from the US and Canada than it does from the UK. Ultra's revenue from the Middle East and Asia Pacific regions is capable of expansion. The Group's growing presence in Australia and other regions indicates Ultra's intent in this regard.

2014 progress against strategy

Strategy in action

Ultra added **12 new specialist capability areas** to its portfolio.

The acquisition of Forensic Technology, 3 Phoenix Inc, Lab Impex and ICE have added considerably to Ultra's broad portfolio of specialist capabilities, including:

- automated firearm ballistics identification
- specialist sonar, radar, intelligence, surveillance and reconnaissance products
- aerospace electrothermal ice protection controllers
- full environmental radiation monitoring systems

the Group's specialist capabilities were specified on **12 new platforms and programmes**.

In the year Ultra's businesses won new positions on a number of long-term platforms and programmes including: Gulfstream G500 and G600 aircraft; Airbus A350; Royal New Zealand Navy ANZAC frigate; US Navy aircraft carriers and submarines; UK Royal Navy surface ships and submarines; unmanned aircraft programmes in the Middle-East; communication programmes in the Middle-East and Africa; and various law enforcement agencies.

Ultra won significant* business with **3 new customers**.

The most significant new customer last year was the United States Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF). Ultra provides ATF with support and services relating to the National Integrated Ballistic Information Network.

the Group was successful in **58 countries** outside of the Group's core markets**.

Ultra's Sonar Systems business was awarded a contract for the provision of its Sea Sentor Surface Ship Torpedo Defence system to be used for New Zealand's ANZAC Frigate Systems Upgrade programme.

*Equivalent to 1% or greater of revenue

**Core markets are defined as Australia, Canada, UK and USA

Portfolio strength meeting customer need

Cluster strategies

Ultra has introduced eight clusters 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.

	Cluster definition
Underwater warfare	Capabilities related to the underwater warfare covering military, paramilitary and civil domains. This includes ASW receivers mounted on aircraft, surface ship mounted sonars, towed arrays, submarine communications and acoustic countermeasures.
Maritime	Capabilities related to operating, controlling, supporting and maintaining maritime (surface, sub-surface) military platforms, both manned and unmanned.
Land	Capabilities related to operating, controlling, supporting and maintaining land military platforms, both manned and unmanned. Note that for the purpose of the cluster definition the individual soldier is considered military platform.
Aerospace	Capabilities related to design, manufacture and support of operating, controlling, supporting and maintaining aerospace related platforms, both defence and civil, manned and unmanned.
C2ISR	Capabilities related to C2, surveillance, intelligence, security and reconnaissance, covering military, paramilitary and civil domains (e.g from targeting pods through to critical national infrastructure). The underwater sensor capabilities are located in UWW cluster.
Communications	Capabilities related to secure (and unsecure) communication and information exchange including voice, data and video. This cluster includes all communications system.
Nuclear	Capabilities relating to all things nuclear, covering both civil energy, national radiation monitoring systems through defence to radiation monitoring on tactical platforms.
Infrastructure	Capabilities related to airport and airline information systems, rail transit power conversion and control, as well as non-nuclear civil energy related capabilities.

Ultra's Cyber capabilities sit primarily in C2ISR and Communications, but run across all 8 clusters

Cluster definition

Ultra's broad portfolio of capabilities has been brigaded into groupings of eight clusters as detailed above. 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.

Why clusters?

Having obtained a critical mass of capabilities across a broad portfolio, Ultra is now taking the next step in developing its business model; the transition to clusters. Clusters are the natural evolution of Ultra's business model, supporting a shift from individual products to allow more complex offerings. This cluster based approach will establish a framework that aligns resources (e.g. marketing analysis, R&D, marketing and sales effort) to greater effect across each end market facing cluster. This in turn supports the development of coherent strategies against particular end markets, based upon collective market research and opportunity capture.

The cluster 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.

2014 revenue (%)

19.6%
9.6%
2.6%
16.4%
22.6%
15.3%
5.7%
8.2%

DEFENCE & AEROSPACE
56%

SECURITY & CYBER
25%

TRANSPORT & ENERGY
19%

How the clusters operate
Autonomy remains crucial to Ultra's culture, allowing the Group to remain agile, and to generate and deliver highly differentiated, and often disruptive, niche technological solutions to the market place. The majority of business activity in Ultra will continue to reflect this autonomy. The cluster framework will provide the Group with greater efficiency in coordination. This cluster approach will also ensure that Ultra's skills and resources are better aligned to lever the collective strength of its broad portfolio of capabilities to compete for larger opportunities, beyond the ability of a single business.

Cluster strategies
The Divisional strategies will be replaced with eight tightly focused and more coherent Cluster strategies. These will better guide activities within the Group and inform the development of the Group's capability portfolio. The strategies of the individual businesses will inform and be nested inside a cluster strategy, which in turn is nested inside the overall Group strategy.

During 2015 it is the intent to re-structure the divisions to reflect the cluster construct and to report against the new divisions at the end of 2015.

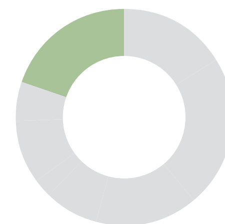
More information about each cluster can be found on pages **16-23**

Portfolio strength meeting customer need

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 cluster
Underwater Warfare



19.6%

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

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 off-shore 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 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. Further US spend is anticipated in acoustic system upgrades for ships and torpedoes. Ultra's recent acquisition of 3 Phoenix reinforces the Group's position in the US, in particular with torpedo warning systems 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 integrated sonar system and surface ship torpedo defence system technologies, both of which have enabled recent contract wins in the UK and New Zealand. More broadly the Group's leading airborne ASW technologies and continued investment is positioning Ultra well for the emergent UK, and wider, maritime patrol aircraft requirements.

2

Strategy in action

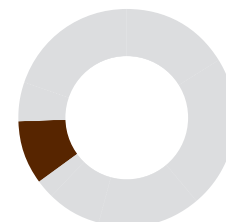
In August, Ultra's joint venture with Sparton Corporation, ERAPSCO, was awarded a contract worth $166m for the manufacture of sonobuoys for the US Navy. The contract award is the base year award of a five year indefinite delivery indefinite quantity (IDIQ) contract that has a ceiling value of $810m.

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 cluster
Maritime systems

9.6%



Ultra's portfolio strength

Ultra's CORE capabilities include:

- Customised command and control systems for smaller ships
- Weapons interfaces that meet safety standards
- 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
- Finite element modelling and post processing design/optimisation studies
- Full service signature management system supplier
- Electro-optic digital video with increased data rates
- Unique thermal management of militarised drives

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.

Strategy in action

In April, Ultra's CCS business was awarded a contract for the design and supply of a glide path camera system for the UK's Queen Elizabeth class aircraft carriers. This will be fully integrated with the electro-optic system also being supplied by Ultra.

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 Program (ORP), projected to provide 12 new hulls beginning in 2021. 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 Burke-class guided missile destroyers (DDG-51), Ohio class submarines, landing platform dock (LPD-17) and replenishment naval vessel (T-AKE class) which provides further opportunities for growth of the Group's advanced power 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 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 Program, 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.

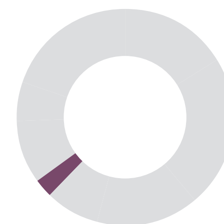
Portfolio strength meeting customer need

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 cluster
Land systems

2.6%



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 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 which led to the cancellation of several large new vehicle programmes, the DoD has funds for a number of platform upgrade programmes, which 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 East 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 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.

Strategy in action

In July, Ultra's CCS business was awarded a contract to supply 20 light-weight servo controlled turrets to be fitted to the Thales Rapid Ranger air defence system as part of an integrated air defence system, known as Forceshield, being supplied to the Indonesian Ministry of Defence.

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 cluster
Aerospace

16.4%

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

Strategy in action

In 2014, Ultra's Controls business was selected to supply electronic equipment, including the landing gear and steering control computers, on the newly announced Gulfstream G500 and G600 aircraft. Based on forecast sales of these aircraft Ultra anticipates that this will generate revenue in excess of £45 million over a multi-year contract.

Market overview

Commercial aerospace remains a vibrant sector with predictions of growth in core markets of 4.8% per year. Large aircraft manufacturers are buoyed by record order backlogs that exceed 10,000 aircraft. This growth in platform numbers is driven by the demand for new aircraft in the developing markets of Asia and South America. The more established markets are demanding new aircraft that offer increased fuel efficiency and cost savings, through use of innovative, lighter, smaller and less power-hungry sub-systems, as well as meeting the new regulatory requirements. 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. This is driving growth in the demand for pneumatic stores ejection.

Market Outlook

In the civil aerospace sector, the twin aisle market continues to grow and remains dominated by Airbus and Boeing. Ultra provides specialist wing ice protection systems to the Boeing 787 and has recently secured a contract to provide electrical Ground Door Opening systems (eGDO) to Airbus for its new A350 family of aircraft. The single aisle market is also in growth, but is seeing new entrants from the emerging nations bidding for market share. The regional aircraft market remains crowded with competition from state owned companies vying for national and export orders. Investment in the business jet market is focused on larger aircraft, where Ultra has recently secured business on the new Gulfstream aircraft. This has resulted in a downturn across light and medium aircraft, which instead is seeing growth in airframe updates and refresh. In the rotary wing market, growth drivers are the emergency services, and oil and gas users. Key requirements in this market are minimising platform through-life costs. In the military aerospace sector, the fixed wing combat aircraft market will be dominated for the next 20 years by the projected sales of the F-35. Existing fixed wing combat aircraft are still vying for export orders in an increasingly competitive sector. Ultra provides numerous products and systems, including precision pneumatics (HiPPAG) and human machine interface systems, to a number of aircraft in this sector including F-35, Typhoon and F-18. 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. Although the UAV market previously saw high demands, this was driven by operational needs which are now waning, and overall the UAV market remains immature. Whilst there are a number of UAV technology demonstrator programmes, the real challenge in this sector remains the safety case to support successful airspace integration.

Portfolio strength meeting 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 cluster
C2ISR

22.6%

Ultra's portfolio strength

Ultra's CORE capabilities include:

- Coastal and port surveillance
- Land and border surveillance
- Covert surveillance solutions
- Command and control systems
- Situational awareness
- Communications surveillance
- Airborne surveillance and targeting
- Forensic analysis

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 protection opportunities are rising. This is driving the increased market requirement for surveillance and security solutions, particularly in the Asia-Pacific, Central American and Middle-East markets. The market is seeing a growing demand for interoperable and mobile networks that deliver a single integrated picture showing timely situational awareness. With a growing number of devices capable of collecting sensor data operating across multiple communications networks, integrated surveillance systems are now increasing in complexity and scale. Solutions need to be tailored to customer need, comprehensive and be able to draw upon "best of breed", established and clearly differentiated technologies. Manpower pressures are resulting in increased automation and a growing dependency on technology based solutions, particularly for surveillance tasks. The reliance on air power as the principle mechanism for early or urgent delivery of military effect is driving the demand for airborne intelligence, surveillance, target acquisition and reconnaissance (ISTAR).There has been a significant growth in the use of unmanned air vehicles and the associated intelligence, surveillance and reconnaissance payloads. The challenge remains the timely and secure dissemination of such data, typically video, around the battlespace.

Market Outlook
In the civil security market, coastal and port surveillance is expected to see limited growth in the West whilst spending elsewhere is expected to continue. The land and border surveillance market will continue to grow driven by geo-political tensions, immigration control, smuggling and trafficking. Identity and forensic analysis is driving the increased need for interoperability and information sharing across law enforcement agencies nationally and internationally. Ultra's recent acquisition of Forensic Technologies adds greatly to the Group's market access to this sector. The protection of critical national infrastructure (facility/enclaves surveillance) is a growing market as governments begin to counter the vulnerabilities through increasing adoption of video surveillance and wireless technologies. Ultra's advanced cyber security, communications and surveillance capabilities mean that it is well positioned in this sector. The communications and intelligence surveillance market continues to see demand, but remains politically sensitive following the Snowden leaks.

In the defence market, recent and current operations and experience will result in an increased demand for precision strike, reduced collateral damage and extended stand-off ranges. Emerging doctrine places 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 is driving 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. In the land environment there is a drive to replace 'boots on the ground' with technology wherever possible, especially for covert surveillance.

2

Strategy in action

In July Ultra's Communication & Integrated Systems business was awarded a contract extension worth £64.4m for the in-service support of the UK MoD's Litening Pods. This support will enable the provision of advanced targeting and reconnaissance capability for the Royal Air Force's Eurofighter Typhoon and Tornado fleets.

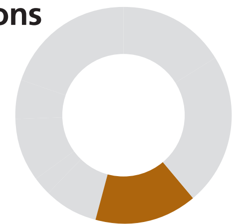
*Command & Control, Intelligence Surveillance and Reconnaissance

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 cluster
Communications

15.3%



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
- Secure video communications
- Secure M2M communication for SCADA/ICS
- Secure low power communications for wireless sensor networks
- Airborne communication exchange
- Personal protective gear communications
- Acoustic hailing devices
- 'Through the earth' communications

Strategy in action

In December Ultra's TCS business was awarded a first export contract for its innovative ORION X500-G radio in support of a large customer in the Middle-East and Africa region. The Ultra ORION solution will be used as the communications backbone for this countrywide sensor and surveillance network.

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. This is translating into the gradual modernisation of legacy equipment and systems. The customers' desire to maintain interoperability throughout these modernisation programmes is resulting in smaller evolutionary changes as opposed to step changes. This evolutionary approach allows customers to exploit commercial and modified commercial off the shelf technology. In particular, the 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 now have to develop bespoke solutions. Globally there is a growing reliance on machine to machine (M2M) communications, especially in key industrial and critical national infrastructure. There is now a considerably increased awareness of the vulnerabilities of such systems and the market now recognises the need for solutions to secure M2M communications and industrial control systems.

Market outlook

In general, the demand to deliver secure voice, data and video communications is increasing. This is driving the requirement for faster performance using lower cost platforms. More specifically, the data link market is seeing an increased demand for secure full motion video and C2 data links to deliver real time situational awareness to the smallest platforms at the tactical edge. Ultra's broad range of advanced data link and communication and airborne gateways solutions are strengths in this sector. This in turn is driving the demand for high performance radios and the demand for more bandwidth and broader connectivity (gateway) solutions. Ultra's Orion multi-mission radio has performed well in trials with customers and means that the Group is well positioned to deliver the next generation of radios. The satellite earth station market continues to be focused on smaller, more portable and mobile solutions that deliver higher bandwidth X and Ka band solutions. Looking at the encryption market, there is a general move from link to IP based cryptographic solutions. This is coupled with the move 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 proven electronic key distribution and management solutions, is well positioned in this sector.

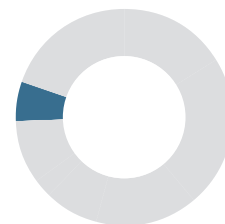
Overall, the secure low power communication market is experiencing a considerable increase through the growing prevalence of connected devices. In this sector Ultra is able to build on its reputation as a trusted supplier of wireless network solutions. Finally, the secure M2M communications market is growing to match the growing awareness of the threat to unsecured industrial control systems. Ultra's proven certified security solutions which are tailored to meet critical national infrastructure and industrial needs position the Group well in this sector.

Portfolio strength meeting customer need

Nuclear

Through its established relationships with 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 cluster
Nuclear



5.7%

Ultra's portfolio strength

Ultra's CORE capabilities include:

- 50+ years of experience and SQEP development in the delivery of critical measurements within international nuclear regulatory frameworks
- Nuclear safety systems and qualified sensors across multiple platforms and standards
- Suppliers of reactor I&C to 186 reactors in 16 countries
- UK design authority for neutron flux detectors. State of the art manufacturing facility to support Gen IV designs
- Extensive range of qualified and proven-in-use radiation detection systems in both civil and military applications
- Nuclear emergency management systems and operational support proven-in-use
- Supplier of reactor instrumentation and control to every RN submarine platform. Experience can be applied to new civil designs

Strategy in action

In July 2014 Ultra Electronics NCS business secured a four year infrastructure services contract from the UK Met Office for the Government's national Radioactive Incident Monitoring Network (RIMNET).

Market overview

There are over 430 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 about 240 civil research reactors, with many of these in developing countries. Globally there are over 70 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 has recently received approval from the European Commission to proceed with a new commercial model it has 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 which 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 enabling recent contracts wins with EDF for the provision of specialist sensors. The Group currently provides equipment to 186 reactors across 16 countries, plus another 31 reactors currently under construction. Furthermore the Group is uniquely qualified on 8 new types (as well as many legacy plants), meaning that it is well positioned for the future.

The Fukushima accident has 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 cluster on page 20), position Ultra well in this sector.

*Original Equipment Manufacturer

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 cluster
Infrastructure

8.2%

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 & 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 world-wide. The increase in global air traffic and national prestige projects is driving investment in airport infrastructure. Rail infrastructure, globally, is growing even more 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, although these markets generally face specific regional regulatory and economic nuances.

Competition in the Airport IT market is growing with many previously niche products becoming commoditised. Allied to this, competition for major projects is increasingly fierce.

Market Outlook

In the airport sector, the market for Airport Master Systems Integration is experiencing significant growth, especially in the demand for tier 2 airports. This is particularly so in the Middle East, Asia and South America where there are number of capital projects. The Airport & Airline Information Management market is forecast to see investment grow, although many of the operational systems are now becoming commoditised. There is increasing polarisation between global commoditised offerings and those with more localised niche expertise, so Ultra will focus on the ability to provide comprehensive solutions over individual products. In light of the termination of the Oman IT contract and the loss of the Abu Dhabi Mid-Field Terminal opportunity, Ultra has reviewed its airport IT activities in the Middle-East. Whilst the Group expects to continue to do business in the region, and sees opportunities for new contracts, there may be some challenges in the short term.

The Rail Transit Power Conversion & Control market is anticipated to see significant growth. However, with the exception of the Rail Control sector, 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 energy storage and fast switching both 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. Although the Smart Grid market is growing, it is likely to remain fragmented until the appropriate regulatory frameworks are established. However Ultra's broader secure communication and data portfolio stands it in a good position.

3

Strategy in action

In 2014, Ultra was awarded a contract by John F. Kennedy International Airport Terminal One to implement UltraAPEX, the Airport Performance EXpert. This will support in delivering operational performance enhancing business intelligence to all the terminal stakeholders.

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.

KPI 1

Revenue growth

-4.2%

2013:
-2%

2012:
4%

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.

Comment
Revenue declined by 4.2% to £713.7m, a decrease of £31.5m. The organic revenue decline was 10.1%, including 4% relating to the Oman Airport IT contract. Following termination of the contract on 9 February 2015, cumulative contract revenue has been held to £114m, as reported for the half year to 30 June 2014. As a result the reduction in revenue relating to Oman is £30m. Excluding the Oman contract, revenue would be in line with the previous year.

KPI 2

Underlying profit before tax growth

-4.1%

2013:
+0.3%

2012:
0%

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.

Comment
Underlying profit before tax was £112.0m (2013: £116.8m). This contributed to an underlying operating margin of 16.5% (2013: 16.3%). There was no underlying profit recognised on the Oman contract in 2014, however an exceptional non-underlying charge of £47m relating to the contract termination has been recognised in the 2014 reported operating profit, comprising a bad debt provision of £37m and termination cost provisions of £10m.

KPI 3

Growth in underlying earnings per share over a three-year period

+1%

2013:
+5%

2012:
9%

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

Comment
Headline earnings per share in the year were 123.1p (2013: 127.1p), a decrease of 3.1%. A final dividend of 31.1p (2013: 29.5p) is proposed. If this is approved at the Annual General Meeting, this will give a full year dividend of 44.3p (2013: 42.2p) and will be covered 2.8 times by profits.

KPI 4

Operating cash conversion

70%

2013:
65%

2012:
74%

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.

Comment
Underlying operating cash flow* was £83.1m and the ratio of cash to underlying operating profit was 70%. This represented an increase from the £79.0m (65% conversion) recorded in 2013, due predominantly to the phasing of working capital movements. The cash to operating profit ratio over a rolling five-year period is 83%.

*see footnote on page **132**

KPI 5

Total shareholder return

+8% per annum

2013: +14% per annum

2012: +6% per annum

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

Comment
Annual total shareholder return over the 5 year period from 2010 to 2014 is 8%.

KPI 6

Interest cover

20 times

2013: 25 times

2012: 23 times

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

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

KPI 7

YOURviews employee engagement survey benchmark for all businesses

81%

2013: 81%

2012: 81%

Description
Ultra's internal employee satisfaction survey, YOURviews, provides an employee engagement rating for each individual business within Ultra and is completed every 1-2 years. Answers to various questions are combined to give the overall employee engagement scores.

Comment
The high level of employee engagement has been maintained in 2014. 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.

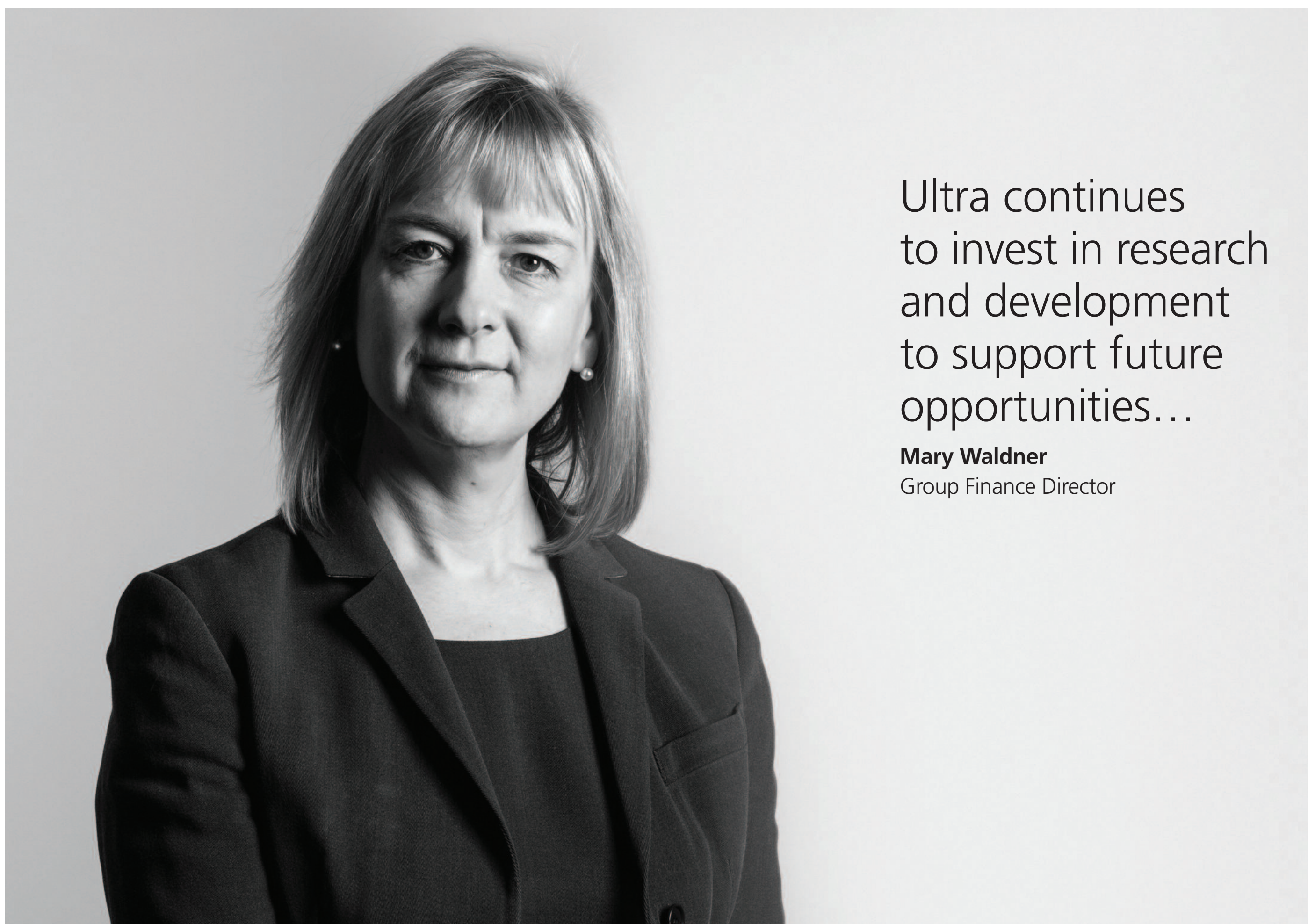
Non-financial performance indicators

Ultra's four strategies for growth are described on pages **12** and **13** 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 **46** of this report.

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 2014 results
The order book at the end of 2014 was £787.3m compared to £781.2m in the prior year, despite a £96.9m reduction relating to the removal of the Oman contract from the 2014 order book. Excluding Oman, order intake of £760.0m in the period (2013: £630.0m) led to underlying order book growth of 7.2% with additional growth from acquisitions of 6.8% and a foreign exchange benefit of 1.1%.

Revenue
The revenue of £713.7m represented a decline of 4.2%, or £31.5m from the prior year (2013: £745.2m). The contribution from acquisitions was offset by the negative impact of foreign exchange on translation of overseas revenues and an organic decline of 10.1%, 4% of which related to the Oman Airport IT contract. Following termination of the contract on 9 February 2015, cumulative contract revenue is £114m, of which £12m was recognised in the first half of 2014, compared with £42m during 2013.

With approximately 50% of revenues sold in US dollars, Ultra was impacted by an increase in the US dollar rate to 1.65 (2013: 1.56) which reduced revenues by 3%.

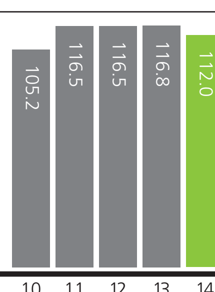
Acquisitions contributed 9% to revenue, primarily reflecting the impact of 3 Phoenix, and Forensic Technologies together with Lab Impex Systems and ICE acquired during 2014 as well as contributions from Varisys and Wood & Douglas which were purchased in 2013.

Excluding the impact of Oman, the organic revenue decline of 6% comprised reductions across all three divisions.

Underlying profit before tax*

£112.0m

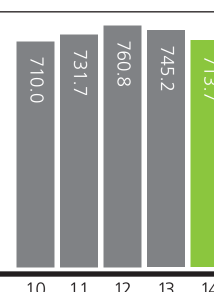
-4.1%
(2013: £116.8m)



Revenue

£713.7m

-4.2%
(2013: £745.2m)



In Aircraft & Vehicle Systems, there were increases in sales of specialist ice protection systems and in revenue from the Airbus A400M cargo handling system. However these were offset by the impact of the award and delivery of an £8m urgent operational requirement in the first half of 2013.

As well as the impact of the Oman termination, Information and Power Systems is the division most impacted by delays in the US defence and security contract placement process with reduced demand for both law enforcement and security products, particularly legal intercept, and also communication systems.

There was also a reduction in revenue from our rail power management business and from nuclear reactor control and instrumentation sales in the UK although this was partially offset by increased revenues from nuclear temperature sensors in the US and from the Virginia Class submarine programme.

In Tactical & Sonar Systems, revenue from US and international Anti-Submarine Warfare (ASW) was strong, and there was an increase in sales on international command and control programmes. In addition the two larger acquisitions made in 2014, 3 Phoenix and Forensic Technology have been integrated into this division. However these positive impacts were partially offset by reduced sales of Litening Pods, and fewer radio spares sales together with the impact of US budget cuts and contract delays.

	2014 £m	2013 £m
Underlying profit before tax	**112.0**	116.8
Amortisation of intangibles arising on acquisition	**(28.8)**	(29.1)
Net interest charge on defined benefit pensions	**(3.6)**	(3.4)
(Loss)/profit on fair value movements on derivatives	**(7.2)**	1.5
Adjustments to contingent consideration net of acquisition costs	**4.5**	9.0
Unwinding of discount on provisions	**(1.2)**	(1.3)
Oman contract termination charge	**(46.9)**	-
Impairment of goodwill	**(7.3)**	(44.2)
Reported profit before tax	**21.5**	49.3

Operating profit and margins*
Underlying operating profit* was £118.1m (2013: £121.7m). Acquisition growth contributed 7.8% which was offset by a negative foreign exchange impact of 2.2% and an organic decline of 8.6%. The Group's businesses maintained their focus on restructuring their cost bases which sustained an underlying operating margin of 16.5% (2013: 16.3%).

Following the securing of a number of new orders to develop products for the aerospace sector, Aircraft & Vehicle Systems margins have been impacted by increased R&D investment and lower margins during the engineering phases of projects. The prior year comparator also included the high margin urgent operational requirement, which, contributed to the decline in margin to 17.5%. In Information & Power Systems, the decline in sales resulted in an overall decline in gross margins, however the divisional margin increased to 14.3% due both to overhead cost savings and the reduced contribution from the lower margin Oman Airport IT contract. In Tactical & Sonar Systems, profits and margin rose reflecting increased volume and margins on sonobuoys together with the positive impact of the prior year restructuring at Ultra's TCS radio business. There were also overhead cost savings across the division.

Acquisitions contributed an additional £9.5m to profit, primarily in Tactical & Sonar Systems, reflecting the acquisitions of 3 Phoenix and Forensic Technology during 2014.

Ultra continues to invest in research and development to support future opportunities; this investment, at £41.2m, represented 5.8% of group turnover.

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 £6.1m (2013: £4.9m). The increase reflected higher debt balances as a result of the acquisitions during the year, partially offset by the impact of lower rates following the renewal of the revolving credit facility in July 2014. The interest on bank debt was covered 20 times (2013: 25 times) by underlying operating profit*.

Underlying profit before tax was £112.0m (2013: £116.8m).

World class performance

Financial review (continued)

83%

the cash to operating profit ratio over a five-year rolling period is **83**%

IFRS profit before tax

Ultra's IFRS profit before tax reduced from £49.3m (2013) to £21.5m. An exceptional non-underlying charge of £47m relating to the Oman Airport IT contract has been recognised in Profit before tax. Profit before tax also includes a £7.3m charge reflecting the impairment of the acquired goodwill relating to Ultra's minority shareholding in the Al Shaheen joint venture, following a review of our activities in the Middle East. The prior year included the impairment of the acquired goodwill relating to ProLogic.

The £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

Tax, EPS and dividends

The underlying tax rate* reduced to 23.2% (2013: 24.3%) due to a combination of lower UK rates and the release of provisions, following the close of certain tax enquiries around the world.

Underlying earnings per share* were 123.1p (2013: 127.1p), a decrease of 3.1%. A final dividend of 31.1p (2013: 29.5p) is proposed. If this is approved at the Annual General Meeting, this will give a full-year dividend of 44.3p (2013: 42.2p) and will be covered 2.8 times.

Operating cash flow

Underlying operating cash flow* was £83.1m and the ratio of cash to underlying operating profit was 70%. This represented an increase from the £79.0m (65% conversion) recorded in 2013, due predominantly to the phasing of working capital movements. The cash to operating profit ratio over a rolling five-year period is 83%.

Capital expenditure on property, plant and equipment was £8.4m, compared to £13.9m in the previous year which included investment in the Neutron Flux Detector at Wimborne and the Cyber facility. Expenditure in 2014 included replacement of equipment across a number of businesses.

Capital expenditure on intangible assets (not acquired through acquisitions) was £9.3m (2013: £7.7m), with the majority relating to commercial aerospace and investment to support the next generation multi-mission radio. There was also investment in ERP systems for our US businesses. Amortisation of the same asset class was £3.4m (2013: £2.9m).

There was a net inflow of working capital of £12.2m, compared to an outflow of £32.4m in 2013. There was an outflow of inventories of £4.4m (2013: £4.2m) across a range of businesses, notably in the Group's aerospace businesses, to support customer requirements. The inflow for receivables of £74.0m (2013: £43.1m outflow) and an outflow of payables of £57.3m (2013: £14.9m inflow) includes the write-off of balances in Oman, following the termination of the Airport IT project. Excluding the impact of Oman, debtors reduced by £18.8m reflecting the expected unwind of the prior year position, however creditors increased by £19.2m partially reflecting the unwind of a number of long term advanced payments.

Non-operating cash flow

With underlying operating cash flow* of £83.1m (2013: £79.0m), the Group funded various non-operating items with net debt increasing to £129.5m (2013: £42.2m). The main non-operating items were:

- cash tax of £22.9m (2013: £25.6m)
- acquisition spend of £107.5m (2013: £24.7m) including acquisition fees and other acquisition related payments, with the majority of the spend in respect of the four acquisitions completed in the year
- dividend payments of £29.7m, (2013: £28.1m)

Treasury and balance sheet matters
Effect of acquisitions

The four acquisitions made in the year, 3 Phoenix, Forensic Technologies, ICE and Lab Impex Systems were made at a total purchase consideration of £112.5m, including related acquisition fees of £2.2m The purchase consideration includes cash acquired of £6.7m. In addition £1.7m was spent on prior year acquisitions and fees.

Banking facilities

Ultra's current banking facilities amount to £300m in total, together with a £15m overdraft. They are provided by a small club of banks, led by the Royal Bank of Scotland, and comprise two tranches. The first tranche is a £100m revolving credit facility, which can be drawn down in any major currency and is due to expire in December 2017. The second tranche provides a further £200m of revolving credit, was signed in July 2014 and is due to expire in December 2019. This second tranche follows the renewal of the £90m facility which was due to expire in 2016, but was refinanced early to ensure continuity of funding and to take advantage of improved interest terms. Both facilities have the same covenants.

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 2014, $70m of loan notes had been issued, which 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 £122.0m (2013: £27.0m), giving headroom of £178.0m (2013: £163.0m) in addition to the £15m overdraft. £44.8m (2013: £42.4m) of Pricoa loan notes had been issued. The Group also held £41.3m of cash, which was held for working capital purposes and to fund acquisitions.

The Group's balance sheet remains strong, with net debt/EBITDA of 1.0 and net interest payable on borrowings covered around 20 times by underlying operating profit.

*see footnote on page 132

100%

Foreign exchange risks: 100% of expected exposure for 2015 is covered

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.

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, which are topped up by employee contributions. The scheme was actuarially assessed, using the projected unit method at 31 December 2014, when the net scheme deficit, calculated in accordance with IAS19, was £68.6m, compared to £68.2m in 2013. The present value of the liabilities rose by £36.3m in 2014, mainly because of the lower discount rate, driven by the lower yield on corporate bonds. The increase in the scheme liabilities was offset by a £35.8m 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; £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.

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 £0.9m at the end of the year (2013: £0.6m). 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 Tecnology, acquired during 2014, participate in a defined benefit pension scheme. The scheme had an IAS19 net deficit of £0.2m at 31 December 2014.

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 product 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 2015, 100% of the expected exposure is covered, reducing to 80% of the exposure for 2016 and 36% for 2017. Exposure to other currencies is hedged as it arises on specific contracts.

Mary Waldner
Group Finance Director

World class performance

Aircraft & Vehicle Systems

In October 2014, Ultra's Controls business was awarded a contract by Airbus to design, develop, supply and support an electrical Ground Door Opening system (eGDO) for its new A350 family of aircraft. The eGDO system comprises a set of electrical actuators, sensors and fuselage-mounted control and indication panels which allows airline ground maintenance crews to open the landing gear doors to access the landing gear bay. Based on anticipated sales of the aircraft, this contract is expected to be worth in excess of £60m revenue to Ultra over the life of the programme.

Revenue

£140.3m -0.4%

Profit*

£24.6m -29.3%

Order book

£160.2m -2.2%

*see footnote on page 132

Strategy in action

In May 2014, Ultra's Precision Air & Land Systems business was awarded a contract by Airbus for the development of safety critical hardware and software for the cargo handling system on the A400M tactical airlifter. Over the life of the programme this could be worth in excess of £36m.

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

- Selection by Airbus to design, develop, supply and support an electrical ground door opening system (eGDO) for its new A350 family of aircraft.
- Contract award from Airbus for a series of high integrity, safety critical modules on the Airbus A400M transport aircraft.
- Contract award from Gulfstream to provide the landing gear control computer, the steering control computer and the electric main entry door control computer on the newly announced G500 and G600 aircraft.

Read more on pages 12-13

Revenues from the division's aerospace businesses increased with further sales of specialist ice protection systems, and from the Airbus A400M cargo handling system. However 2013's comparisons include the award and delivery of an £8m Urgent Operational Requirement for EW radios at higher than average margins and there were lower sales in the year of accessories and spares.

Following the securing of a number of new orders to develop products for the aerospace sector, the divisional profit has been affected by increased R&D investment and lower margins in the engineering phases of certain projects including Embraer KC390 and MRJ. This was partially offset by the impact of overhead savings. The acquisitions of Varisys, during the first half of 2013 and ICE Corporation during the first half of 2014, provided a positive contribution to both revenue and profits whilst foreign exchange partially offset this. The resulting divisional margin was 17.5% (2013: 24.7%).

The change in the order book reflects increased orders for commercial aerospace products and services, offset by the trading of the Airbus NIM6 and Lockheed Martin Warrior contracts.

This division operates in the following clusters:

Aerospace

Land

C2ISR

Full details on pages 18, 19 and 20

1	2	3
4		
5		
6	7	8

1 Alan Elford, Project Leader
2 Conrad Myers, Manufacturing Engineer
3 Temoch Rodriguez, Senior Circuit Design Engineer
4 Chris Wright, Principal Mechanical Engineer
5 Rob Nelson, Marketing Manager
6 David Ashworth, Principal Systems Engineer
7 Michael Gricks, Senior Design Engineer
8 Phil Woodward, Programme Manager

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World class performance

Information & Power Systems

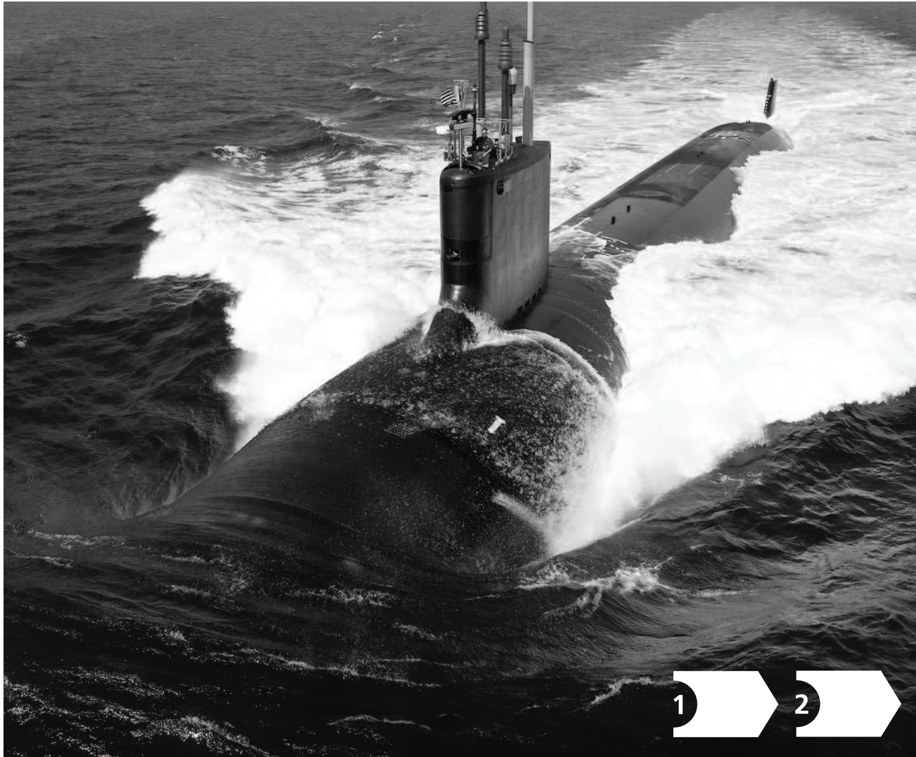
In June 2014, Ultra's NCS business was awarded a £12.9m contract from EDF Energy for the manufacture and support of nuclear reactor instrumentation. Under this contract Ultra will manufacture and support safety-critical nuclear reactor instrumentation for use in EDF Energy's current UK nuclear power stations. This is the second contract to benefit from Ultra's recent investment in a state-of-the-art nuclear instrumentation manufacturing facility and further cements EDF Energy's and Ultra's relationship.

Revenue

Profit*

Order book

*see footnote on page 132



Strategy in action

In June 2014, Ultra's EMS business was awarded a multi-year contract totalling over US$21m from General Dynamics Electric Boat Corporation. The contract is for the production of naval computer controlled power supply systems with deliveries over the next five years.

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

- Award of a further contract by EDF worth £12.9m for the supply and support of specialist instrumentation for use in the current UK nuclear power stations.
- Award of a multi-year contract, totalling over US$21m, from General Dynamics Electric Boat Corporation for the production of naval computer controlled power supply systems.
- Contract award worth £8.4 million for the provision of main-static converters for Royal Navy submarines.

Read more on pages 12-13

Sales from the Oman Airport IT programme during the first half of the year were down reflecting the prolongation of the overall contract. Following notice of the termination of the programme we have taken a prudent approach in the year, recognising only £12m revenue in the first half of the year, and no profit. In 2013, the division's results included £42m of revenue and £4m underlying operating profit from Oman.

This division is the one most impacted by delays in the US defence and security contract placement process with reduced demand for both high margin law enforcement and security products, particularly legal intercept, and also communication systems.

There was also a reduction in revenue from our rail power management business recognising the maturity of the commuter power market as the focus in the UK moves on to high speed rail. Our nuclear business in the UK was impacted by reductions in reactor control and instrumentation revenue following the Heysham reactor partial shutdown and the extended decision making process on Hinckley Point C. This was partially offset by increased revenues from nuclear temperature sensors in the US and also from sales into the Virginia Class submarine programme.

Although the acquisition of Lab Impex Systems contributed to the divisional revenues and profits, this was offset by the negative effect of foreign exchange across the division.

Profits declined in the division as a result of these factors. However the cost savings implemented during the period and the reduction in the dilutive effect of the Oman Airport IT contract resulted in a slightly increased divisional margin of 14.3%.

The order book change reflected the removal of the Oman Airport IT contract, but benefited from a major contract award from EDF Energy and the acquisition of Lab Impex Systems.

This division operates in the following clusters:

- Infrastructure
- Maritime
- Nuclear
- Land
- C2ISR

Full details on pages 17, 18, 20, 22 and 23

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

1 Laura Salkeld, Project Engineer
2 Ian Sandey, Tool Maker
3 Danny Cataldo, Welder
4 Martin Shaw, Nucleonics Specialist
5 Kevin Roberts, Physicist
6 John Pauette, Programme Manager
7 Chris Laidler, Field Support Test Engineer
8 Giles Hall, Programme Manager
9 Paul Kent, Technical Lead
10 Andy Russell, Director (Sensors and Radiation Monitoring)

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World class performance

Tactical & Sonar Systems

In December 2014 Ultra's Sonar Systems business was awarded a £27m contract for the Royal Navy's Sonar 2050 Technology Refresh (S2050TR) Programme. Under this contract, which will be executed over the next 10 years, the Group will deliver and support new hull mounted sonars for the Royal Navy's eight Type-23 frigates. The S2050 Technology Refresh programme will deliver to the Royal Navy a world-leading sonar capability providing persistent surveillance against submarine and torpedo threats, at a significantly lower through-life cost.

Revenue

£369.4m +12.8%

Profit*

£64.3m +29.6%

Order book

£451.2m +31.9%

*see footnote on page 132

Strategy in action

In May 2013, Ultra's 3 Phoenix business was awarded three contracts totalling over US$21m from the US Navy. The scope of these contracts includes work packages for torpedo warning systems, submarine towed anti-submarine warfare arrays and radar command and control software.

Revenue from US and international Anti-Submarine Warfare (ASW) was strong, and there was an increase in sales on international command and control programmes. This increase was partially offset by reduced sales of Litening Pods, and fewer radios spares sales together with the impact of US budget uncertainty and contract delays. The two larger acquisitions made in 2014, 3 Phoenix and Forensic Technology have been integrated into this division.

Profit rose by 29.6% reflecting increased volume and margins on sonobuoys together with savings from the prior year restructuring at Ultra's TCS radio business. Further benefit was derived from overhead cost savings across the division.

The acquisitions also made a significant contribution to profit, although this was partially offset by the impact of foreign exchange translation. As a result divisional margin rose to 17.4%.

The order book increase included the first year's order from the IDIQ sonobuoy award from the US Navy, as well as the Litening Pod CLS extension. This was supplemented by the acquisitions of 3 Phoenix and Forensic Technologies and by the effect of foreign exchange.

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

- A contract extension of £64.4m for the in-service support of the UK MoD's Litening Pods.
- The award of a £27m contract for the Royal Navy's Sonar 2050 Technology Refresh (S2050TR) Programme for the Royal Navy's eight Type-23 frigates.
- Order worth $166m awarded to Ultra's joint venture, ERAPSCO, for the manufacture of the full range of sonobuoys for the US Navy.

Read more on pages **12-13**

This division operates in the following clusters:

- Underwater warfare
- Aerospace
- C2ISR
- Maritime
- Communications

Full details on pages **16, 17, 19, 20** and **21**

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

1 Chief Engineer, Engineering Lead
2 Marketing and Communications Assistant
3 Principal Analyst
4 Assistant Chief Engineer, Software Lead
5 Human Resources Business Partner
6 Senior Software Engineer
7 Graduate Software Engineer
8 Senior Design Engineer
9 Senior Software Engineer
10 Head of Programmes
11 Principal Analyst

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2014 risk management

Managing risk

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

Ultra encourages its businesses to challenge the market through innovation and to exhibit audacity. Profitable growth is not achieved without considered risk, so review of business activity and the management of resultant risk has become 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.

This table illustrates the business activities which are routinely reviewed. The table is illustrative, not exhaustive:

Business activity	Typical review points	Reviewed by: Board	Executive team	Division	Business	Internal peer group	Internal audit
Strategy (competitive)	Vision; market analysis; competitor analysis; differentiation; innovation roadmap; teaming plans	●	●	●	●	●	
Strategy (corporate)	Objectives; culture; strategic moves; acquisition strategy; available financing	●	●	●			
Acquisitions	Specialist capabilities; customers and programmes; synergies; financial performance; financial projections	●	●	●	●	●	
Bids	Plan-to-win, customer understanding; maturity of solution; competitive position; embedded risk (technical and engineering); resources available; cash profile; contract conditions	◉	●	●	●		
Contract execution	Progress against plan and milestones; costs incurred/to complete/at completion; risk register	○	○	●	●		
Business performance	Orders, sales, profit and cash; month, year-to-date, forecasts; variances to budget and forecast; marketing pursuits; projects under development; compliance matrix	●	●	●	●		
Team development	Organisation review; succession planning; training plans; management and team development activities; performance vs. potential review	●	●	●	●		
Business processes	Quality systems; segregation of duties; disaster recovery; health, safety & environmental management; IT penetration testing	●	●	●	●	●	●
Regulatory and compliance	Compliance with: local laws and regulations, export regulations, security requirements	●	●	●	●		●
Risk management of cyber	Status of the Group's cyber security protection capability against known and anticipated threats	●	●	●	●	●	●

● reviewed as normal practice
◉ major only, in accordance with delegated authorities
○ by exception

Annually, businesses identify risks to the successful delivery of their strategic plan and these are reviewed at the divisional level. Risks which are corporate in nature or which span Ultra businesses, are elevated to the Executive Team for management. Resulting strategic risks are assessed and reviewed at Board level.

Risk 1. Cyber-attack

- **Probability –** High
- **Trend –** Decreasing

Description

Active efforts are being made to penetrate Ultra's networks, in order to gain access to classified information, steal intellectual property or disrupt business activity. There is a security and business risk if Ultra fails to secure its systems.

Potential impact

- 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 equipment development and manufacture
- Reduced product differentiation with loss of intellectual property
- Disruption to business activity as systems are cleansed and restored

Mitigation

- Internal Audit and 'spot checks' to ensure compliance with the Group Information Security Policy
- Development of policy for classification of Group information assets
- Investment in the hardening of Ultra's IT systems
- Implementation of monitoring by the Ultra Cyber Protection Group will continue into 2015

Risk 2. Changing market environment

- **Probability –** High
- **Trend –** Increasing

Description

Ultra's core markets are changing as government budgets come under fiscal strain, placing significant pressure on sales and orders. Contract awards are more heavily scrutinised and are more dependent upon a close understanding of the customer's need.

Potential impact

- Reduced business opportunity through an inability to respond quickly enough to changes in the market environment by adapting our offerings and approach
- Inability to match the full range of a customer's requirements
- Inability to maintain growth in declining defence market

Mitigation

- Embed **LAUNCH** behaviours to improve understanding of customer need
- Collaborate across the full Ultra capability portfolio and/or partner to present comprehensive solutions that match customer needs, complemented by a structure and culture that promotes agility, innovation and speed of response
- Develop and strengthen the marketing teams within each business

Risk 3. Execution of major contracts

- **Probability –** Medium
- **Trend –** Unchanged

Description

Ultra is bidding for and delivering an increasing number of large and complex contracts.

Potential impact

- Ultra could underestimate the required resource or project complexity and so make a loss
- Ultra could fail to apply the appropriate programme management skills to such large products, impacting on profitability and reputation
- Ultra could need to provide for additional costs incurred until the end of the programme (some years)

Mitigation

- The Group Operating Manual has been updated to enhance the rigour and oversight of major bids
- 'Lessons learned' exercise to be conducted on Oman and a 'major integration projects manual' to be developed as corporate memory
- Ultra will recruit or team to bring in the specialist skills required to manage large projects
- Introduction of project-team-based system engineering and project management training courses
- Review and approval of win strategies and bids will be conducted by the Executive team and other senior managers independent of the businesses or technologies involved
- More prudent profit taking to be enforced ahead of acceptance milestones

2014 risk management
Managing risk (continued)

Risk 4. Pensions

- **Probability –** Medium
- **Trend –** Unchanged

Description
The Group's UK defined benefit pension scheme deficit becomes a serious liability for the Group.

Potential impact
- Increasing pension liabilities make a material impact on shareholder value

Mitigation
- Retain Board focus on this key issue and hold formal reviews of the Group's pension strategy annually
- Manage the issue through annual accounting and triennial valuation processes, in order to highlight issues to the Board as they emerge
- Retain Towers Watson as Group pension strategy advisors and hold formal Board strategy reviews

Risk 5. Business control

- **Probability –** Low
- **Trend –** Unchanged

Description
Ultra has elected to cede some control of certain businesses (e.g. US Proxy Board and joint enterprises) to enhance market position in key markets. Changes in local regulation, or other cause, leads to an adverse impact on the Group.

Potential impact
- Inability to exercise management control could lead to an adverse impact on the Group

Mitigation
- Ultra works hard to ensure that its joint venture partners and the members of the Group's security and proxy boards accord with the Group's corporate culture and way of doing business
- Ultra benefits from the expertise which the members of its JVs and boards bring to the Group
- Ensure relationships continue to be mutually beneficial
- Monitor the business environment for regulatory or political change
- Bring the Proxy Division (SIS) under a US national director with the appropriate clearances

Risk 6. Currency Fluctuations

- **Probability –** Medium
- **Trend –** Unchanged

Description
Currency exchange rate fluctuations impact adversely on Ultra's business performance.

Potential impact
- 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 the impacts of UK businesses transacting in a foreign currency

Mitigation
- The translation impact cannot be mitigated however the Group Finance Director ensures that analysts and investors are aware of the impacts
- Transaction impacts are mitigated through the Treasury policy of hedging forecast cashflows, and where possible through ensuring that contracts provide protection against exchange movements, and cost and revenue currencies are matched

Risk 7. Major geopolitical crisis

- **Probability –** Medium
- **Trend –** Increasing

Description
Ultra is increasingly operating in regions of the world that are at risk of political upheaval or untoward national event.

Potential impact
- A major regional event impacts on the ability of Ultra to deliver a significant contract, leading to unrecoverable revenue loss
- A political change within an established regional market substantially removes Ultra's ability to operate successfully

Mitigation
- Maintain an effective regional understanding through good regional contacts and partnerships, particularly through UK embassies and UK/US defence and security agencies
- Develop positions across different regions to avoid singularity of risk
- Maintain awareness through research to raise awareness and understanding of emerging crisis and potential risk
- Consider regional risks during bid approval

Risk 8. Sustaining product differentiation

- **Probability –** High
- **Trend –** Increasing

Description

Ultra's product development and innovation does not sustain sufficient differentiation in the market place, compared with commercial off the shelf (COTS) products, or as a result of a disruptive technology, or because of a significant change in customer preference.

Potential impact

- Research and Development (R&D) activity does not keep pace with technological development, losing product differentiation compared with competitors
- Ultra's portfolio of specialist capabilities is eroded through commoditisation
- Business is lost through increasing competition

Mitigation

- Maintain Ultra's cultural focus on understanding customer need and delivering innovation
- Based upon comprehensive market and competitor analysis, generate technology and product roadmaps that bring differentiated products to market to meet sales opportunities
- Better co-ordinate R&D investment across the Group to avoid duplication and maximise advantage
- Employ strategy reviews and game-planning to ensure R&D tracks plans and budgets
- Team externally to gain access to technology

Risk 9. Material legal/regulatory breach

- **Probability –** Low
- **Trend –** Unchanged

Description

People or process failures lead to a breach of regulatory or legal requirements.

Potential impact

- Damage to reputation
- Director disqualification
- Damages and fines
- Contract debarment

Mitigation

- Culture of accountability and compliance
- Ethics Overview Committee
- Effective whistle-blowing procedures (EthicsPoint)
- Policies and training on material compliance issues

Risk 10. Staff retention

- **Probability –** Low
- **Trend –** Medium

Description

The Group's businesses are capital-light, but specialist knowledge-intensive. Ultra fails to attract, develop and retain people with the required specialist competences.

Potential impact

- Ultra could lose key staff or capabilities, so that the Group cannot fulfill its contractual obligations, or is forced to outsource work, thereby reducing margins

Mitigation

- Continue the Group's strong emphasis on recruiting, retaining and developing high-quality individuals to work in Ultra teams. This is delivered through the annual OSDP (Organisation, Succession and Development Planning) process
- Fast-track high-potential candidates and exploit opportunities for secondments and inter-business transfers
- Ensure all key staff have a nominated successor
- Ensure poor performance is addressed
- Monitor and review salary and benefits surveys
- Engage with potential recruits at an early stage, through links with schools and universities and offer apprenticeships, work placements and graduate training

Further details on how Ultra manages risk can be found on page 58 in the Governance section

Sustainability

Making a difference

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

For more about securing the talent pipeline, see page 44

In the Community:

Ultra's businesses continue to be active in local communities to create positive links by engaging with local people and local issues. Many businesses have formed special relationships with education establishments in the surrounding communities; offering work placements and visits to businesses as part of AS level courses; providing interview practice sessions, supporting lessons, careers events and school science fairs. Ultra also takes part in the broader dialogue on STEM* education at a national level and offers Arkwright scholarships, a scholarship which 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. Each operating business has its own locally-managed charitable budget, which it directs to maintain and grow connections with its local community. 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 in voluntary activities. Some noteworthy examples in 2014 include:

- Forensic Technology, runs a "CSI for a day" initiative in local schools with the goal of giving back to local communities. Employees teach the science behind forensic sciences, the students then apply their learning to a fictional situation in order to identify the guilty party. The winning team is rewarded with book scholarships if they continue their education.
- Ultra is sponsoring a new WWI exhibition at Bletchley Park, Milton Keynes. The Bletchley Park site played a significant role during the Second World War and this sponsorship will help to generate more visitors and also help to educate those who visit.
- Ultra's Maritime Systems business operates its own community working group choosing one main charity to focus on each year as well as helping various other organisations. This year they chose the local charity Feeding Others of Dartmouth (F.O.O.D) and undertook many fundraising activities and an employee volunteering programme to provide support to the charity.

*STEM (Science, Technology, Engineering & Maths)

making a difference to…

…Shareholders:

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

Read more on pages 8-11

…Customers:

Ultra aims to be an excellent strategic supplier to its customers. To do so, 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 2014 highlight Ultra's commitments to its broad customer base:

- In the aftermath of the search and rescue operation for Malaysian Air Flight 370, Ultra's Avalon and USSI businesses collaborated with the Australian Defence Force (ADF) to provide a flight recorder "black-box" locating solution through "specially-programed" sonobuoys. Involvement in providing this solution evolved from a conversation between Avalon and the ADF on search possibilities on a Wednesday; to USSI manufacturing pallets of the specially configured buoys for loading on a military aircraft on Saturday the same week. Due to this extraordinary effort from Ultra, the ADF was able to execute and deliver a plan for the special-programed buoys for search and rescue operations in just one week.
- The US Navy's NAVSEA Command has recognised Ultra 3Pi by awarding the Team Excellence Award for its role as prime contractor for the Torpedo Warning System and as a key member of the joint government/ industry Surface Ship Torpedo Defense (SSTD) Team. The SSTD Team met the Chief of Naval Operation's requirement to deliver a rapid prototype torpedo defence capability on to a deploying aircraft carrier in less than 2 years.
- Ultra's NCS business supported EDF Energy in planning and performing advanced signal diagnostics at one of their Dungeness B Advanced Gas Cooled Reactors to validate the operation of sensors without requiring the reactor to be shut down. The period from initial contract to data analysis at the station took less than two weeks and avoided the need for an expensive reactor outage in order to replace the sensors.

…Employees:

Ultra believes that the right people are its most important asset; the ability to innovate continually and meet customer needs is based on the capabilities of its employees. Ultra has a strong commitment to developing people and securing the talent pipeline, further 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 resides within each of Ultra's businesses, a number of which have launched unique initiatives to ensure continuing employee development. A few examples include:

- Ultra's Airport Systems business has introduced MAD (Making a Difference) awards and every day hero awards to provide recognition to staff who have exceeded performance or made an exceptional impact to the business. This is part of the effort to increase focus on thanking people for their contribution.
- During 2014 Precision Air & Land Systems launched its Employee Voice initiative with the aim of capturing employees' concerns following the move to a new site. Focus groups were organised to identify issues and following this Improvement Teams were put in place to follow through on action plans.
- Ultra's TCS business implemented a points system where employees can nominate other employees who went above and beyond their duties. The points can be used for small gifts. This program created an atmosphere of respect and recognition and ultimately of engagement.

To read more about Ultra's people, see pages 42-45

…the Environment:

Ultra is committed to implementing and enforcing effective measures to minimise the environmental impact of its activities. Following on from the pilot programme, launched last year, with the Carbon Trust, Ultra has assessed a further site in 2014. Site assessments look at the environmental impact of the operating businesses. At both its Loudwater and Weymouth sites opportunities have been identified to reduce the environmental impact while identifying material cost-savings which will benefit shareholders. Both sites have begun to implement the recommendations including; replacing all light bulbs and sensors with LED technology and updating insulation and pipework. The Loudwater site is also beginning the review process for some larger projects such as a new heating system and more efficient ventilation and heat recovery. The Carbon Trust will continue to audit other sites during 2015.

Ultra continues to be committed to investing in manufacturing facilities to offer increased efficiencies and reduce energy consumption, while improving productivity across the business. The Group also looks for its suppliers to reduce their environmental impact. At Ultra's Maritime Systems business cardboard packaging from suppliers has been eliminated from some assembly lines through the use of reusable, collapsible packaging. Additionally this report has been printed on a carbon neutral printer.

Read more on pages 47-49

…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. Many products and services 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. For example, Maritime Systems help local suppliers through the Canadian and US export registration processes.

*STEM (Science, Technology, Engineering & Maths)

Sustainability (continued)

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
The broad range of skills and capabilities held by the Group's employees are why Ultra is successful in innovating to meet customer needs.

As such the Board has recognised that the Group's right people are its 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 competent people.

Domain expertise
Ultra prides itself on its deep understanding of its specialist capability areas, combined with knowledge of the users' environment. These are the key factors in delivering innovative solutions to meet customers needs. To enable Ultra to develop its domain expertise it ensures that its employees also have the best expertise in their field. This allows the Group to have the right people available to the customer and who are best able to support their needs in understanding and creating solutions which fulfil these.

Graduates and apprentices really make a difference to the team spirit bringing engineers together to assist in their mentoring.

Andy Durrant Senior Engineer

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 support to their 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

Ultra's Nuclear Control Systems business is taking great strides to address the skills gap within the nuclear industry. They have developed a strong mentoring culture within the business to support the retention of young talent. A strong advocate and avid supporter of this is Senior Engineer, Andy Durrant.

Andy began his career in 1969 and has been in the Nuclear Industry for 39 years. He is a Chartered Engineer (CEng) and a member of the IET. Andy plays an integral part in the recruitment of graduates within the company and always goes that extra mile to help; providing working lunch talks with young talent on professional membership and the progression paths open to graduates and apprentices. Andy is truly passionate about helping the next generation learn and has invested significant time and effort into mentoring. He sees the importance not just of technical competence but also in developing broader skills by challenging his graduates to network with customers, engage in community and educational events, and by ensuring they too have a plan to progress to becoming a mentor. Without the "Andy's" in businesses such as this, role models would not be there to provide direction, commitment and most importantly that impetus to 'want to come to work' and make a difference.

Ultra is committed to developing people and securing the talent pipeline to ensure the continued growth and success of the Group. Great 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
Culture is what drives Ultra's success and includes values, role models, processes, procedures and the behaviours of its employees. Ultra is committed to keeping its culture strong as the Group expands through organic growth, natural staff turnover and acquisitions. 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 which are highly valued and encouraged. These are Leadership, Entrepreneurship, Audacity and Paranoia. 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. 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. Ultra's aim of delivering an efficient organisation, with engaged and committed people to meet the Group's business commitments is a goal all mangers work towards and is a measure of their success. 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 which 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 so ultimately, enable growth. **LAUNCH** is aligned with the Group's approach to systems engineering and project management.

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Sustainability (continued)
Developing Ultra's people

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 ATS business received the Distinguished Partnership Award from Del Valle Independent School District for its outstanding contributions throughout the year to Smith Elementary School.
- The Group's NCS business has sponsored the local Young Entrepreneur award, and the "Enterprise Challenge" through a social enterprise schools initiative. It held mock interviews at local schools to help develop employability skills, and hosted industry talks with a local college.
- In Middlesex Ultra has worked closely with Greenford High School and during this period the school has reported an increase in the number of students applying for engineering degrees at university.

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 10 scholars.

APPRENTICESHIPS
Many Ultra businesses have well established and successful apprenticeship programmes, which have later provided the Group with engineering leaders. The Group runs apprenticeship schemes at most of its UK businesses and we currently have 46 apprentices in training in the UK.

There have been a number of notable successes: this year one apprentice was a finalist in the West London Business Awards and received a commendation and another was ranked in the top eight in a World Skills competition.

NCS has worked with local engineering firms to promote the "Apprentices mean business" and the "Apprentice Ambassador" network for Dorset. Additionally it is an active member of the Dorset Young People Forum and Dorset Chamber of Commerce.

UNIVERSITIES AND COLLEGES
As well as traditional careers fairs Ultra actively engages with lecturers and faculties during degree courses as the Group has excellent links with universities around the world. This allows Ultra access to leading research and enables it 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 (16 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

UK data	
Employees	2,457
Apprentices	46
University placement students	16
Sponsored university students	10
Arkwright Scholars	10
US data	
Employees	1,660
Undergraduate interns	50
New graduates	13
Employees working on graduate-level degrees	17

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
- A school work experience student returned to Ultra for paid vacation work, was sponsored through their university degree, completed their undergraduate placement year and has begun work as a graduate for the Group
- One former Ultra Arkwright Scholar has been sponsored through university and is expecting to graduate with a first class degree in 2015 when it is hoped he will join Ultra in a full-time role

INSTITUTIONS
Ultra businesses worldwide have a variety of links with their local business forums and chamber of commerce members, helping to encourage STEM* activities. 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.

*STEM (Science, Technology, Engineering & Maths)

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

Engineering education

Case study

Local students teamed up with graduate engineers from Ultra's Precision Air & Land Systems business to design a man-worn health monitoring system for professional soldiers. The system monitors health aspects that the team deemed to be the most important to the soldier. The inspiration behind the project came from the news about 3 soldiers who died whilst undertaking a training mission in the Brecon Beacons from dehydration in a record heat wave in the summer of 2013.

The team developed a comprehensive list of the medical parameters and identified technologies which could help measure these key items. Research varied from the assessment of existing products to evaluating entirely new approaches, particularly in the area of water intake measurement which was a key issue for the project. The team went on to identify sensors for many of the key measurements and to specify suitable technologies. Supported by Ultra engineers the students were able to build a final prototype of the body worn equipment and programme the monitoring interface.

The value of the system to Ultra Precision Air & Land Systems has been clearly demonstrated and the Head of Advanced Technology Tony White, has proposed submitting the system design as a bid for funding from the Centre of Defence Enterprise.

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, available to all of the Group's businesses to support training.

Specific training programmes are provided for individuals as necessary. 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.

In 2014 Ultra's Controls business set up the 'Ultra Controls Academy' which is an inter-departmental initiative to formalise and structure internal training courses. Supporting drives to achieve best in class performance and be continually recognised as a world-class design and manufacturing facility. Controls has brought teaching practices in-house to create a more focused and relevant training environment. Additionally it can be expanded for all future needs, as well as, be made available to other businesses.

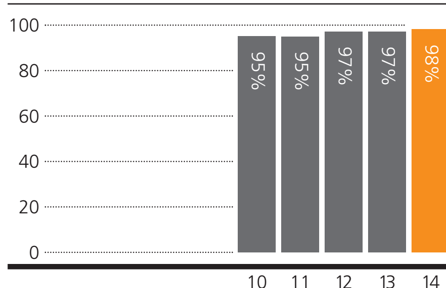
Businesses also look for further opportunities to develop training outside of their training budget. For example, Ultra's fuel cell business has received a $29,000 training grant from the Michigan Skilled Trades Training Fund. The fund is designed to provide funding to companies who are looking to enhance the existing skill-sets of their workforce and the business will use the funds to pay for Six Sigma Green Belt certification, soldering and wire harness certified instructor training, and programming and reporting training on their ERP system.

Ultra's businesses have 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. 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.

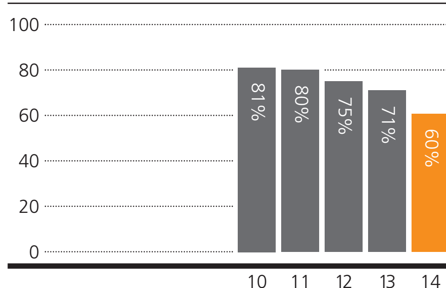
*STEM (Science, Technology, Engineering & Maths)

Sustainability (continued)
Developing Ultra's people

Retention of 'high-performers'



Internal appointments at ExecutiveTeam, Divisional and MD/President level (%)



Succession planning and retention
Each of Ultra's businesses prepares an annual 'Organisation, Succession and Development Plan' to ensure that Ultra has the right people in the right place in the organisation. The plan assesses individuals against their 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 standard 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, and in which they can start to perform to the required standards, It does not always mean that those individuals must leave Ultra.

Ultra 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. 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.

Ultra has been able to appoint a high proportion of its leaders at Board, divisional and business level 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.

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.

Each of Ultra's businesses prepares an annual organisation, succession and development plan to ensure that Ultra has the right people in the right place in the organisation.

For the Nomination Committee's work on succession planning see page 42-45

*STEM (Science, Technology, Engineering & Maths)

Sustainability (continued)

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 and a consistent track record of development and growth. This reputation is based on Ultra's businesses meeting their obligations and the manner in which they do so.

Ultra is committed to maintaining high standards of business ethics as part of being a responsible business. The Group strives to uphold the rights of its employees and create 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 not only its employees but all stakeholders and 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 as instructed by the UN Guiding Principles on Business and 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.

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 fully with its Policy Statement on Ethics and Business Conduct and 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, relevant national export control regulations and competition and anti-trust laws.

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. In addition, the Board reviews compliance with the code twice a year.

The Ethics Code can be found in Ultra's Policy Statement on Ethics and Business Conduct and 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. **www.ultra-electronics.com/about-us/corporate-responibility.aspx**

PROVIDING GUIDANCE AND TRAINING TO EMPLOYEES

The Group continues to strengthen its policies, processes and training to ensure employees have the clear guidance they need in identifying and managing ethical matters.

EthicsPoint is a Group-wide independent, confidential web-and telephone-based hotline, which enables all employees to anonymously report concerns about possible improprieties and other compliance issues. This is known as the Ultra Electronics Employee Helpline.

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 (other than US security-related issues which are routed through the directors of the Special Security Arrangement Board or Proxy Board). 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 with the remit to provide independent advice and scrutiny of Ultra's business activity, providing 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. It does this through discussions with senior managers, receiving reports and visiting Ultra's businesses. The Committee undertakes a formal review of business activities during these reviews 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 the EthicsPoint helpline.

Diversity and inclusion

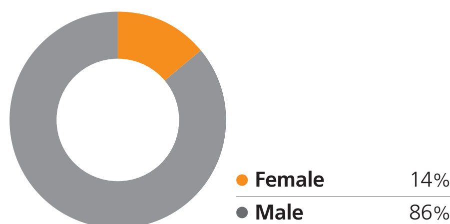
These values are embedded into the organisation to ensure a business which is truly representative of the environment in which it operates. It is essential that all employees feel fairly treated and are not discriminated against in any way. To enable this, Ultra complies with all applicable employment rights and legislation in the countries in which it operates. 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. This is exemplified by the formation of the Diversity working group, a Head Office initiative lead by Mary Waldner, Ultra's Group Finance Director to ensure diversity and inclusion is championed amongst all of the businesses.

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

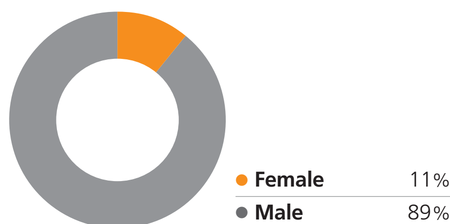
See Diversity charts **overleaf**

Sustainability (continued)
Corporate and Social Responsibility

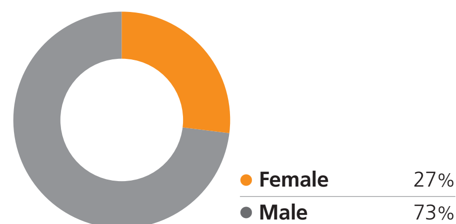
Diversity
Board of Directors



Diversity
Senior management



Diversity
All of Ultra Electronics



Disabled employees

Applications for employment by disabled people are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members 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 safety and well-being of the Group's employees and visitors is a key priority for Ultra. A healthy, committed workforce, working in a safe environment, is necessary to achieve superior business results. The businesses manage a wide range of safety risks, ranging from office employees, manufacturing employees and employees providing services at customer sites, including military bases and platforms. The Group is committed to upholding and improving health and safety across the whole business and engaging in continuous safety improvement activities.

The safety of the products and services provided to users and customers is also of importance to Ultra. Each individual 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 Ultra operating business's are required to have a written health and safety policy, which is to be upheld at all times. Managing Directors and Presidents are responsible for health and safety within their business and for providing adequate resource to meet the requirements of the health and safety policy. Compliance is assessed through independent external audits which take place bi-annually. The Chief Executive is the Board member with overall health and safety responsibility.

The Board reviews each business's annual report on health and safety performance, which they are required to submit, along with the result of the health and safety audits.

The reportable/recordable accident rate has decreased over recent years and 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 2014, fell from 0.77% to 0.51%.

Figure 1 Reportable/recordable accidents per employee (%)

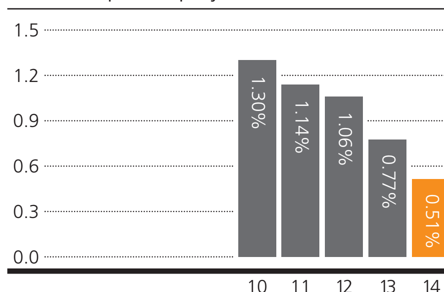
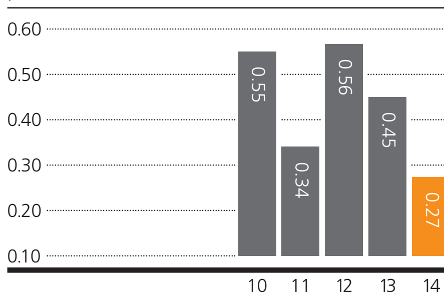


Figure 2 Lost time accidents per 200,000 hours



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

OPERATIONAL

The Managing Directors and Presidents of the operating businesses are responsible for the implementation of the environmental policy and the Chief Executive is the main Board member with overall environmental responsibility. Where it is appropriate, individual businesses have ISO14001 accreditation.

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 bi-annual external audit process, the most recent of which took place in 2014.

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 has caused no contamination of land in 2014, continuing the excellent track record of the previous five years.

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

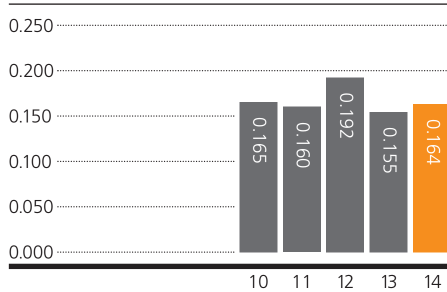
In the UK, businesses are encouraged and incentivised to reduce the net amount of waste they produce. Ultra measures and reports on its packaging waste annually and this is shown in **Figure 3**.

The Group is working hard 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 2013/14 were 8,424t CO_2. Historic performance data is shown in **figure 4**.

Ultra's data for 2013/14 is available on the Environment Agency's website.

Figure 3 Packaging Waste (t/£m sales) in UK Businesses



Greenhouse gas emissions

Ultra is committed to the systematic reduction of greenhouse gas emissions. In compliance with the 2013 Greenhouse Gas Emissions Regulations, Ultra has collected and consolidated information on carbon dioxide (CO_2) emissions from across its portfolio of 27 businesses; 2013 was the first year this was undertaken and serves as the baseline year.

Methodology

In 2014, each UK business reported on the appropriate greenhouse gas metrics. These metrics were aggregated to produce the figures reported below 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 which applies to Ultra. The scheme is run by the Environment Agency (like CRC) and its focus is to reduce the demand for energy. The first qualification phase ends on 31 December 2014 with reporting required in 2015. An initial piece of work has been launched which will lead to compliance.

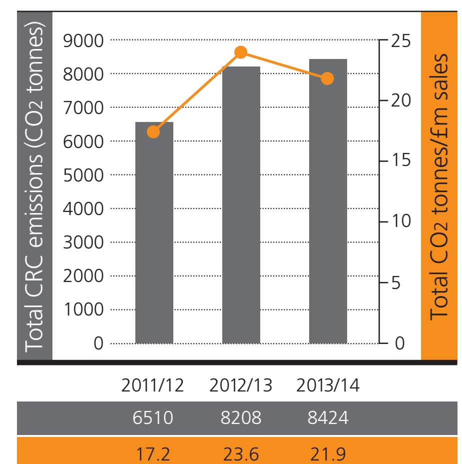
Additional environmental initiatives

In 2013, in addition to tracking its carbon emissions, Ultra partnered with the Carbon Trust to conduct a holistic Energy Review of Ultra's Command & Control Systems (CCS) business, headquartered in Loudwater, UK. Following on from this pilot programme the Carbon Trust has assessed a further site, in Weymouth (CEMS), in 2014. Both sites have begun to implement the recommendations including; replacing all light and sensors with LED technology and repairing and updating insulation and pipework. Loudwater are also beginning the review process from some larger projects such as a new heating system and more efficient ventilation and heat recovery. The Carbon Trust will continue onto other UK sites throughout 2015.

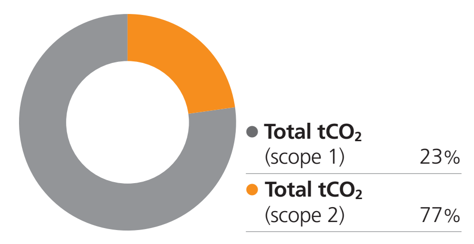
Ultra's Greenhouse gas emissions – tonnes of CO_2 (tCO_2)

Total tCO_2 emitted by all Ultra businesses	**20,992**
Total tCO_2 from Ultra's business activities (scope 1)	**4,769**
Total tCO_2 purchased by Ultra (scope 2)	**16,223**
Ultra's annual emissions in relation to Ultra's business activities shown as tCO_2 per £m of revenue	**29.41**

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



Total tonnes of CO_2 emitted by all Ultra businesses



Sharon Harris
Company Secretary & General Counsel

Governance

Board of Directors

Douglas Caster 1
Chairman

Time with Ultra: **21 years 2 months** | Time in position: **3 years 8 months**

Rakesh Sharma 2
Chief Executive

Time with Ultra: **21 years 2 months** | Time in position: **3 years 8 months**

Mary Waldner 3
Finance Director

Time with Ultra: **1 year 6 months** | Time in position: **1 years 6 months**

Mark Anderson 4
Group Marketing Director

Time with Ultra: **3 years 7 months** | Time in position: **2 years 8 months**

Chris Bailey* 5
Non-Executive Director

Time in position: **9 years 11 months**

Martin Broadhurst* 6
Non-Executive Director

Time in position: **2 years 5 months**

Sir Robert Walmsley* 7
Non-Executive Director

Time in position: **5 years 11 months**

Sharon Harris 8
Company Secretary & General Counsel

Time with Ultra: **3 years 1 month** | Time in position: **2 years 8 months**

Executive Director

Non-Executive Director

Company Secretary & General Counsel

*Audit, Remuneration and Nominations Committee member
NOTE: All details correct as at 31 December 2014

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 Caster 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.

2. Rakesh Sharma BSc EMBA MInstP 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, while delivering superior financial performance.

Rakesh Sharma started his career as an radio systems 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 FCMA

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 then 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 Electronics as Group Finance Director and was appointed to the Board in July 2013.

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 will benefit 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. Chris Bailey FCA MCT

Chris is a highly-experienced, former large plc Finance Director, who brings valuable specialist and general management expertise to Ultra's Board. He has knowledge and expertise in the organisation of operations in all of Ultra's main geographic markets.

Chris Bailey was appointed to the Board in January 2005. He was Group Finance Director of Aggregate Industries plc until 2004. Before this, he was the Finance Director of the precursor companies of Aggregate Industries from 1984 until its formation in 1997. He is a Fellow of the Institute of Chartered Accountants of England & Wales and is also a Member of the Association of Corporate Treasurers.

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 Broadhurst was appointed to the Ultra Board in July 2012. He 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.

7. 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 most recently 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 Walmsley is a Non-Executive Director of Cohort plc and of the General Dynamics Corporation. He was appointed to the Board in January 2009.

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 Harris 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

As the Directors review the strategy and carry out their other duties, it is my role as Chairman to lead the Board effectively. To my mind, good governance is at the heart of that.

Douglas Caster CBE
Chairman

Dear shareholder,
One of the key responsibilities of a board of directors is to agree its company's strategy. As the Chief Executive outlines in his Review on pages **4** to **7**, and as we seek to demonstrate throughout this Annual Report, Ultra has a very clear strategic path. Despite sustained pressures on government budgets, at home and abroad, Ultra's strategy, reinforced by its guiding principles, culture and approach to good corporate governance, ensures Ultra remains a strong, sustainable business.

Good governance

As the Directors review the strategy and carry out their other duties, it is my role as Chairman to lead the Board effectively. To my mind, good governance is at the heart of that. In order for you to see clearly how we achieve that, we have provided a corporate governance overview on pages **54** to **61**. We also briefly describe how this structure supports the delivery of our business strategy. You can find more detail in the full Corporate Governance Report. On pages **36** to **39**, we have also provided an overview of the principal risks that might prevent us from achieving the full potential of our strategy. On page **58** we explain how those risks are actively managed.

Board changes

During the year, the Board was engaged in recruiting a Non-Executive Director. Details of the process we followed are set out on page **57**. Mr John Hirst CBE joined the Board on the 1 January 2015 and will seek election at the 2015 Annual General Meeting. John's strong industry experience and his understanding of the role risk management plays in strategic decision-making, combined with his knowledge of regulatory and governance issues, will further strengthen the Board's governance processes. A summary of John's biographical details is on page **57**.

As was reported in the 2013 Annual Report and Accounts, having served for over ten years as a Non-Executive Director, Chris Bailey will resign at the 2015 Annual General Meeting. He will hand over the Chair of the Audit Committee to John Hirst and Chair of the Nomination Committee to Douglas Caster. Sir Robert Walmsley has agreed to take the role of the Senior Independent Director following Chris' retirement. On behalf of the Board, I would like to thank Chris for his excellent service in these roles and wish him well in his retirement. In November 2014, Martin Broadhurst became Chair of the Remuneration Committee.

Appreciation

Before closing, and on behalf of the Board, I want to thank the employees of Ultra whose efforts helped us achieve so much in what has been a difficult year. I want to express my appreciation to Rakesh and all the members of the Executive Team for the leadership they have shown. Finally, I would like to thank all my fellow Directors for the contribution they have made to our discussions throughout a busy 2014.

Douglas Caster CBE
Chairman
27 February 2015

Governance
Corporate Governance Report

Compliance statement
Throughout the financial year ended 31 December 2014, the Board considers that it and the Company have complied with the provisions set out in the September 2012 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 of reliable and consistent growth in shareholder value. The Executive Directors set the Group strategy which is subject to challenge before final agreement by the full Board. The Board also ensures that adequate controls are in place, including calibrating risk appetite and maintaining oversight of Ultra's risk management processes. The Board receives 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. During 2014 there were changes to the Executive Team structure. Details on this can be found on page **55**.

The Board is responsible for major investment decisions such as acquisitions and the allocation of the Group's R&D expenditure to major new projects. To this end, in addition to the ten scheduled Board meetings, the Board held seven unscheduled Board meetings in the year. The Board conducts regular reviews of the major projects being undertaken by the operating businesses.

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 'Matters reserved for the Board' which is available from the Investors' section of the Group website.

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, the overall outlook for the Group including health and safety performance
- 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
- A business presentation by a Managing Director/President

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

- 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
- Receiving 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; impairment; and the reappointment of the Auditors and the subsequent agreement to such recommendations
- 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
- Six-monthly reviews of Compliance Reports prepared by Divisional Managing Directors and Presidents which summarise the Governance Compliance Report submitted each month by the business MDs and Presidents
- Annual reviews of health & safety and environmental reports summarising the position across all Group businesses
- Approval of any changes to the rules of operation of the Group's employee share plans
- Effectiveness of internal controls
- Review of the risk register and the Group's insurance programme
- Post acquisition reviews
- Tax planning
- Board evaluation
- Consideration of Non-Executive Directors' fees
- Review of the terms of reference of the main Board and the Board Committees
- Corporate governance updates

Other significant matters addressed by the Board in 2014 included:

- Group organisation (further details are set out on page **14**)
- Cyber protection
- Extension of time and cost for the Oman Airport IT contract (further details are set out on page **63**)
- The Group's corporate structure and operations in China and Hong Kong
- Audit tendering – (further details are set out on page **64**)
- Refinancing

How does the way we are governed support the delivery of our strategy?
Good Governance is crucial to ensuring we are well managed and can deliver our strategic priorities.

The Board

Chairman: Douglas Caster; Senior Independent Director: Chris Bailey

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.

The Board has delegated some of its powers to **three Committees** (see below) and the **Chief Executive** (see below).

Members of the Board and their biographies are shown on pages 50 to 51.

Nomination Committee

Chairman: Chris Bailey

Talented people are critical to the delivery of the Group's strategy. The Nomination Committee's role is to keep under review the structure, size and composition of the Board; to recommend appointments to the Board and its Committees and to consider succession planning to Board positions.

Further details on page 60.

Audit Committee

Chairman: Chris Bailey

To deliver the Group's strategy we must have sound financial and non-financial controls. The Audit Committee is responsible for reviewing our financial reporting, internal controls, risk management and our relationship with our external auditor.

Further details on page 60.

Remuneration Committee

Chairman: Martin Broadhurst

We seek to reward senior management competitively, to enable Ultra to recruit, motivate and retain executives of high calibre whilst avoiding making excessive remuneration payments. The Remuneration Committee is responsible for ensuring the remuneration of Executive Directors and senior managers is aligned with corporate strategy and objectives along with the interests of shareholders.

Further details on page 60.

Chief Executive: Rakesh Sharma

The Executive Team comprises:
Chief Executive; Group Finance Director; Group Marketing Director; Chief Operating Officer; Group Human Resources Director and Company Secretary & General Counsel

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 also reviews those matters which are to be submitted to the Board for its consideration. The Chief Executive is responsible for establishing and chairing the Executive Team.

Ultra is committed to ethical business conduct. In this regard, the Group has the benefit of an independent Ethics Overview Committee.

Ethics Overview Committee

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

Three Ultra members:
Chief Executive; Company Secretary & General Counsel; Managing Director Aircraft & Vehicle Systems division

Further details about the Ethics Overview Committee are on page **47**.

Governance (continued)
Corporate Governance Report

Board meetings
Comprehensive briefing papers are circulated to the Directors in advance of each Board meeting to enable an informed debate to take place at Board meetings. Acquisition opportunities are presented to the Board by the appropriate Divisional Managing Director or President. This enables a full discussion of the merits and risks of any acquisition proposal to take place at an early stage. 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. 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.

The scheduled Board meetings are rotated around the sites of the operating businesses. During 2014, the Board visited seven operating businesses in the UK. The Board held one of the meetings at its joint venture subsidiary (Ultra Electronics in collaboration with Oman Investment Corporation LLC) in Oman, following a tour of the Salalah and Muscat airport developments.

During Board meetings at Ultra's operating units, presentations detailing recent performance, key opportunities and future forecasts are given by the senior managers of the host business. Product demonstrations and site tours also take place. This gives the Non-Executive Directors a good practical insight into the operating businesses. The Non-Executive Directors will also conduct individual visits to businesses.

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

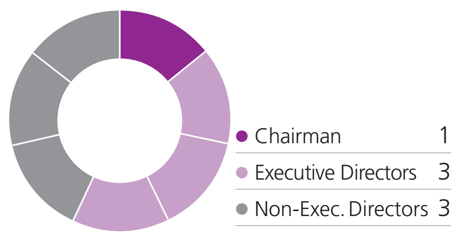
Meeting attendance 2014
The table below shows attendance by Directors at the Board and Committee meetings. To the extent Directors were unable to attend meetings, because unscheduled meetings were called at short notice or because of prior commitments, they received and read papers for consideration at the meeting, relayed their comments in advance and, where necessary, followed up with the Chairman on the decisions made.

	Main 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	**17**	17	**4***	4*	**4***	4*	**2**	2
Chief Executive								
Rakesh Sharma	**17**	17	**4***	4*	**4***	4*	**1**	1
Executive Directors								
Mark Anderson[1]	**15**	17	**4***	4*	-	-	-	-
Mary Waldner	**17**	17	**4***	4*	-	-	**1**	1
Non-Executive Directors								
Chris Bailey[2]	**16**	17	**4**	4	**4**	4	**2**	2
Martin Broadhurst	**17**	17	**4**	4	**4**	4	**2**	2
Sir Robert Walmsley	**17**	17	**4**	4	**4**	4	**2**	2

[1] Mark Anderson was unable to attend one scheduled Board meeting in February 2014 and one unscheduled Board meeting in April 2014.
[2] Chris Bailey was unable to attend one unscheduled Board meeting in October 2014.

*By invitation

Board composition



In 2014, Chris Bailey, Non-Executive Director, stepped down as the Chair of the Remuneration Committee and was replaced by Martin Broadhurst.

Throughout 2014, 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 objectives. 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. How the Board addressed diversity in its selection process for a Non-Executive Director is set out on page **60**. You can read more about the Company's initiatives to improve diversity across the Group, including information on the gender split across the Board, Executive Team and the Company as a whole, in the sustainability sections of our Strategic Report on page **47**.

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 biographical details on pages **50** and **51**.

The Company has a policy whereby Executive Directors, but not the Chief Executive, may accept one appointment as a Non-Executive Director in another listed 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	4	No	Yes*
Non-Executive Directors			
Chris Bailey	10	Yes	Yes
Martin Broadhurst	2.5	Yes	No
Sir Robert Walmsley	6	Yes	Yes
Executive Directors			
Rakesh Sharma	4	No	No
Mary Waldner	1.5	No	No
Mark Anderson	3	No	No

*In February 2014, Douglas Caster joined the board of Morgan Advanced Materials plc as a Non-Executive Director. This appointment has had no impact on his role as Chairman.

Board roles

There is a clear division of responsibilities between the Chairman, the Chief Executive and the Senior Independent Director, such that no one individual has unfettered powers of decision making. This formal division of responsibilities has been agreed by the Board and is summarised in a table which can be found on the Investors' section of the Group's website.

Non-Executive Directors

Chris Bailey, Sir Robert Walmsley and Martin Broadhurst are the Group's independent Non-Executive Directors. Chris has served on the Board for over 10 years and will retire as Non-Executive Director at the Annual General Meeting in 2015, therefore the Board determines that he is independent. John Hirst became a Non-Executive Director effective on 1 January 2015. The Board considers the 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 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. The process followed by the Nomination Committee in appointing Directors is described on page **60**. To ensure selection from the widest possible talent pool, it is the Company's normal practice to engage the services of independent, external search consultants in recruiting new Directors.

Welcome to John Hirst

Mr John Hirst CBE joined the Board on the 1 January 2015 and will seek election at the 2015 Annual General Meeting. John is a Chartered Accountant and an experienced leader of large global private and public sector organisations. He was Chief Executive Officer of electronics distributor, Premier Farnell, and Chief Executive of the UK Met Office. He has served for ten years as a Non-Executive Director of Hammerson, where he was also Chairman of the Audit Committee and is a Non-Executive Director of Marsh Ltd.

Governance (continued)
Corporate Governance Report

Directors' induction and training
All new appointments to the Board receive a comprehensive induction to the Group covering the Group's strategy, 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.

John Hirst joined Ultra as Non-Executive Director on 1 January 2015. On appointment, he received a full induction pack explaining Ultra's governance framework, policies and procedures. He had induction meetings with the Executive Directors, Company Secretary & General Counsel, HR Director, external audit engagement partner and head of internal audit. He will also undertake a programme of visits to the Group's businesses where he will meet with the management teams of these businesses.

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 anytime 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 next year, individual Director's performance is evaluated.

In 2014, Mr Telfer of Auxesis Consulting Ltd undertook an assessment of the effectiveness of the Board and its Committees. The evaluation was conducted through a questionnaire with follow up discussions. A report was prepared for the Board on the results of the exercise and Mr Telfer attended a Board meeting at which the report was discussed. The Board and its Committees were considered to be fully effective, and the action points, illustrated in the table above, were identified.

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

Board evaluation action points

Focus	Actions
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.
Succession planning for senior managers	The Board will receive annually a report on the succession planning and career progression of senior employees.
Continued improvements to risk management processes	A review of the Company's risk management processes in light of the Code's requirements will be undertaken.

Annual re-election of Directors
All the Directors will stand for re-election at the Annual General Meeting on 30 April 2015 except for Chris Bailey who, after ten years in tenure, will retire. In 2014, the Board appointed a new finance specialist Non-Executive Director, John Hirst. His appointment took effect on 1 January 2015. John will seek election at the Annual General Meeting and will replace Chris as the Chairman of the Audit Committee.

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 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 2014.

Internal controls
The Directors carry out an annual review of the effectiveness of the Group's internal control systems. This covers the ways in which identified strategic, operational and financial risks are managed. Particular attention in the year was paid to business continuity planning and improving information security management. Further, as part of this assessment of internal controls the Directors have considered the implications of the termination of the Oman Airport IT contract and have concluded that the control environment continues to operate effectively, and that the Company's risk management procedures remain appropriate. In light of this experience, the Directors will review the application of the risk management procedures to ensure that any required enhancements are captured as part of a continuous improvement.

Ultra's internal controls are designed, and have evolved over time, to meet the Group's particular needs and the risks to which it is exposed. However, no controls can provide absolute assurance against material errors, losses or fraud. The key features of the internal control system that operated during the year are described in the Audit Committee report on pages **62** to **64**.

Risk management
Risk assessment and management is not treated as a separate function within Ultra. It is assessed and managed as an integral part of all of Ultra's management and control processes. The key features of the risk management system are described in the Audit Committee report on pages **62** to **64**.

Financial reporting systems
The Group has a well-established process for collecting financial information from operating businesses and for consolidating this at Divisional and Group level.

Financial results for operating businesses, each Division and the whole Group are provided to the Board monthly and presented at every scheduled Board meeting. Ten scheduled Board meetings are held each year. 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 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.

Shareholder communication

Commitment to dialogue

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

The Chairman and Senior Independent Director offered to meet the small number of shareholders who voted against the resolutions to re-appoint the Directors at the 2014 Annual General Meeting to understand their reasons. These shareholders had voted against the resolutions because their voting guidelines prevented them voting in favour of a Board that was not made up of a majority of independent Non-Executive Directors. However, the shareholders emphasised their confidence in the Board.

The Remuneration Committee Chairman has also led a shareholder engagement exercise on the remuneration policy, details of which can be found in the Remuneration report on page **65**.

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 in London to shareholders and to analysts at Bletchley Park in November 2014. At this event the Directors gave presentations on the new acquisitions – Forensic Technology Inc and 3 Phoenix Inc. The briefing also covered updates on Sonar and Cyber capability. In addition, Ultra invited investors and members of the financial community to the Farnborough Airshow where a significant proportion of the Group's products and capabilities was 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 can also be found on the Investors' section of the Group's website, together with copies of all regulatory announcements, press releases and copies of the published full year and interim accounts and reports.

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 meeting on any changes to the holdings of the Company's main institutional shareholders.

All shareholders are invited to attend the Annual General Meeting 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 Ultra's website. 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 size of holding as at 31 December 2014

Fund	Holding	%
Unit trusts	39,398,653	56.31
Pension funds	8,686,854	12.41
Other managed funds	3,903,247	5.58
Sovereign wealth	2,207,343	3.16
Insurance companies	3,519,396	5.03
Private investor	5,195,065	7.43
Mutual fund	3,687,413	5.27
Investment trust	1,122,255	1.60
Custodians	1,099,543	1.57
Hedge fund	-	-
Exchange-traded fund	475,420	0.68
Employees share scheme trustees	235,247	0.34
Charity	194,906	0.28
Local authority	236,713	0.34
Other	-	-
Total issued share capital	**69,962,055**	**100.00**

Shareholder analysis by category of shareholder as at 31 December 2014

Size of shareholding	Total number of holdings	% of holders	Total number of shares	% issued capital
1-50	129	7.67	2,815	0.00
51-100	90	5.35	7,441	0.01
101-250	360	21.39	66,559	0.10
251-500	252	14.97	91,831	0.13
501-1,000	267	15.86	185,758	0.27
1,001-5,000	276	16.40	559,534	0.80
5,001-10,000	54	3.21	386,392	0.55
10,001-25,000	61	3.62	959,827	1.37
25,001-50,000	51	3.03	1,830,506	2.62
Over 50,000	143	8.50	65,871,392	94.15
Total	**1,683**	**100.00**	**69,962,055**	**100.00**

Governance (continued)
Corporate Governance Report

Financial calendar

24 March 2015	Annual Report & Accounts published
9 April 2015	Ex-dividend date
10 April 2015	Record date
30 April 2015	Annual General Meeting
6 May 2015	Final dividend payment date
3 August 2015	Interim results announced
25 September 2015	Interim dividend payment date

Board Committees
Ultra has established three Committees of the Board (the Audit, Remuneration and Nomination Committees), to which certain key responsibilities have been delegated. The detailed terms of reference of each Committee are available from the Investors' section of the Group website. The responsibilities of each Committee are in line with the recommendations of the Code. The membership of the Audit and Remuneration Committees comprises the three independent Non-Executive Directors – Chris Bailey, Sir Robert Walmsley and Martin Broadhurst. Chris is the Chairman of the Audit Committee and Martin is the Chairman of the Remuneration Committee. The membership of the Nomination Committee comprises the three independent Non-Executive Directors and Douglas Caster, with Chris as Chairman of the Committee. Summaries of the key activities of each Committee are given in the following paragraphs.

Audit Committee
The Committee met four times during the year. It is responsible for overseeing the Company's internal financial controls and risk management; recommending the half and full year financial results to the Board; and monitoring the integrity of all formal reports and announcements relating to the Company's financial performance. Full details of the activities of the Audit Committee during 2014 are given on page **62**.

Nomination Committee
Role
The function of the Nomination Committee is to keep under review the structure, size and composition of the Board, and to make proposals to the Board regarding the appointment of new directors and Board Committee Chairmen. The Board's policy on diversity is described on page **57**. The terms of reference (which are reviewed annually by the Nomination Committee) are available on the Company's website (**www.ultra-electronics.com**).

During 2014 the Committee met twice. A search firm, The Inzito Partnership, was engaged to identify potential candidates for the position of Non-Executive Director and, following the retirement of Chris Bailey at the 2015 Annual General Meeting, Chair of the Audit Committee. The search firm does not have any other connection with the Company. The selection criteria required the candidate to: be a qualified accountant; have recent and relevant financial experience; have experience in corporate finance matters; have experience in dealing with investors and analysts; and have the time capacity to take on the role. The list of shortlisted candidates included male and female applicants. The curriculum vitaes of the shortlisted candidates were considered by the Nomination Committee and members of the Nomination Committee were invited to attend the interviews. Following this process, upon the recommendation of the Nomination Committee, the Board appointed John Hirst as a Non-Executive Director effective on 1 January 2015. He will be appointed Chairman of the Audit Committee, subject to election at the 2015 Annual General Meeting. John comes with: a strong background in strategy, knowledge of the public/private sector and regulatory/governance issues; and experience in international operations.

Ultra's succession planning process is described in detail on page **46**.

Remuneration Committee
Role
The Committee met four times during the year. It is responsible for formulating and recommending to the Board the remuneration policy for Executive Directors and Chairman of the Board. Full details of the activities of the Remuneration Committee during 2014 are given in the Directors' Remuneration Report on page **65**, comprising the Directors Remuneration Policy Report and the Annual Report on Remuneration. Both sections of the report will be presented for approval by the shareholders at the Annual General Meeting.

Statement of going concern
Ultra's banking facilities amount to £300m in total, together with a £15m overdraft. They were established in two 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 and expires in December 2017. 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 July 2019. Both facilities have the same covenants.

The Group has a 'shelf' facility with Prudential Investment Management Inc. 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 will 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. The Group's banking covenants have all been met in 2014 with a comfortable margin. The approved Group budget for 2015 and strategic plan for later years give confidence that the Group will continue to meet these covenants. 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 Ultra has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt a going concern basis of accounting in preparing the annual financial statements.

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 International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the International Accounting Standards Regulation ("IAS") and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 of the Company and of the profit or loss of the Company for that period.

In preparing the Parent Company 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 Company's website. 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;
- the annual report and accounts are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy; and
- 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.

In accordance with Section 418 of the Companies Act 2006, each Director in office at the date the Directors' report is approved, confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- he/she has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The Annual Report on pages **1** to **79** was approved by the Board of Directors and authorised for issue on 27 February 2015 and signed on behalf of the Board 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.

Chris Bailey Chairman of the Audit Committee

The Company is committed to ensuring that we have robust and effective risk management and control processes. 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 that support this. The Board's report on the systems of internal control and their effectiveness, together with the going concern statement, can be found in the Corporate Governance section on pages **52** to **61**.

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 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 2014 was on compliance with the Company's Business Continuity and IT Disaster Recovery Policies by all of the Company's businesses. In addition, PricewaterhouseCoopers (PwC), the Company's internal auditors, continued to work with the businesses to ensure the Company's risk management procedures remain relevant to changing business conditions.

In 2014, the significant issues at the forefront of the Committee's deliberations were: valuation and impairment testing of goodwill and intangible assets; and long term accounting, in particular in respect of the Oman Airport IT contract. The Audit Committee received regular updates on the Oman Contract from management throughout the year and a presentation from the law firm representing the Company's joint venture subsidiary in its discussions regarding certification and payment for work completed.

At the Annual General Meeting in April, I will retire from the Board and Chair of the Audit Committee following ten years of service as a Non-Executive Director of Ultra. John Hirst, who was appointed to the Board with effect from the 1 January 2015, will seek election as a Director of the Company and if so elected, will be appointed as the Chairman of the Audit Committee. John has recent and relevant financial experience as well as being an experienced leader of large global private and public sector organisations.

Composition

The composition of the Committee is set out on page **60**. The Chairman of the Committee has the relevant financial and accounting experience required by the Code. The Chairman of the Committee 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 **51**.

Meetings and attendance

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

During 2014, the Committee Chairman 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 their views of the Group's financial management process and any matters that they thought should be brought to the Committee.

In terms of the effectiveness of the Committee, an externally facilitated evaluation was carried out (see page **58**) by way of questionnaire which was circulated to the Board. The role of the Committee, its skills mix and oversight of financial management, reporting and audit was considered to remain effective.

Role

The Committee's main responsibilities include the following:

- 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 performance, business model and strategy
- Reviewing the scope and effectiveness of the external audit process, including the external auditors' appointment, fees and independence
- Reviewing the effectiveness of the internal audit function and the Group's system of internal control, including financial reporting, and the processes for monitoring and evaluating the risks facing the Group.

The Committee has written terms of reference which includes all matters indicated by the Code. These terms of reference are reviewed and approved by the Board annually and are available on the Company'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.

Internal controls and risk management

The Committee reviews the Company's systems of internal controls and risk management and their effectiveness as well as continued improvements to these systems and resolution of any control issues identified. Clear terms of reference set out the duties of the Board and the Board Committees, with delegation of operating responsibility to management clearly described in the Group Operating Manual. Financial reporting systems are comprehensive and include monthly reporting cycles. Monthly finance reports are prepared by all businesses containing actual financial performance measures for the most recent month and year to date. These are compared with budget, forecasts and the prior year. These monthly reports are reviewed by the relevant Divisional Finance Director, Group Finance Director, members of the Executive Team and the Board. Financial information is uploaded monthly by all businesses to BPC, the Group's consolidation and reporting system, which is collated by the Head Office finance team and reconciled to the businesses' monthly reports. 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.

Every 6 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 Committee twice a year.

Effective and on-going monitoring and review are essential components of sound systems of risk management and internal control. Ultra's financial reporting and internal control systems are intended to allow the Board to consider whether the systems are aligned with the Company's strategic objectives and help to determine risks including, but not limited to, principal risks and uncertainties facing the Company. The Company's principal risks are set out on pages **36** to **39**. The Committee confirms its view that it has received sufficient, reliable and timely information from management in the last financial year to enable it to fulfil its responsibilities. The Board maintains an internal audit process, carried out by PwC, to review financial and information systems control procedures throughout the Group. All significant business units are audited at least once every 2 years, while other businesses are audited on a 3 year cycle. In addition, all newly acquired individually operating businesses are audited within a year of their acquisition date. The lead partner of PwC reports directly to the Chairman of the Committee and presents the findings of his team 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 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 and that they have disclosed full details of any fraud or suspected fraud within their business.

As part of the ongoing assessment of internal controls and risk management the Committee has considered the implications of the termination of the Oman Airport IT contract and has concluded that the control environment continues to operate effectively. Whilst the Committee considers the Company's risk management procedures to remain appropriate, in light of this experience the Committee will review the application of the risk management procedures to ensure that we capture any required enhancements.

The Board accepts overall responsibility for reviewing the operation and effectiveness of the Group's internal controls at least annually and has performed a specific assessment for the purposes of this Annual Report. The Board confirms that the risk management and internal control systems have been in place for the year under review and up to the date of approval of this Annual Report & Accounts. With the assistance of the Committee, all significant aspects of internal control for 2014 have been reviewed and internal procedures amended where necessary.

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 (see page below) and matters that required the exercise of significant management judgment (see page below) The going concern statement (see page **60**)
Internal controls	Reports on the internal control environment and risk management and their effectiveness Tracking compliance with the Group's Business Continuity and IT Disaster Recovery Policies
Key risk mitigation	Progress reports on work undertaken to strengthen controls around the Group's main risks (see page **62**)
Audit plans	Internal and external audit plans for the year
Whistleblowing	Reports of calls to the Group's external Employee Hotline and how they have been investigated and dealt with
External auditor	The external auditors' engagement policy, independence and effectiveness Review of audit and non-audit fees
Governance	Changes to IFRS, financial reporting and UK Corporate Governance Code The Committee's terms of reference

Significant financial judgements and financial reporting for 2014	How the Committee addressed these judgements
Oman airport IT contract termination	The Committee reviewed the documentation received in respect of the termination event and discussed the implications arising from this, in particular whether it was an adjusting post balance sheet event for FY14. The Committee considered the judgements taken in accounting for the termination event including revenue recognition, recoverability of assets, provisions for all known liabilities, and the associated disclosures presented in this Annual Report. The Committee further considered reports from, and held discussions with, the external auditors.
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

Governance (continued)

Audit Committee Report

External auditors

The performance, effectiveness and independence of the Company's auditors, 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 reappointment of Deloitte as external auditor should be recommended to the shareholders. Accordingly, a resolution to reappoint Deloitte will be put to shareholders at the Annual General Meeting.

The senior audit partner employed by Deloitte on the Ultra 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. 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. On this basis, the Committee considers it would be appropriate to conduct an external audit tender no later than 2023 (in line with applicable regulations and the Code) at which point Deloitte would be precluded from being Ultra's external auditors. There are no contractual obligations that restrict the Committee's choice of external auditors.

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 assignments undertaken by Deloitte, the Company has a policy to ensure that the provision of such services do not impair Deloitte's independence or objectivity. The policy is 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 acquisition due diligence work and certain consultancy work, 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 auditors 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 auditors must certify to the Company that they are acting independently.
- In providing a non-audit service, the external auditors should not:
  - audit their own work
  - make management decisions for the Company
  - create a mutuality of interest
  - find themselves in the role of advocate for the Company.
- The Group Finance Director has authority to commission the external auditors 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.
- 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 audit partner and senior audit managers. Key to the overall effectiveness of the process is that each of 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 auditors 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 6 to the Financial Statements.

The Group has a policy on employment of former employees of external auditors. 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, Audit Committee and Board, depending on the seniority of the appointment.

Fraud

The internal audit process carried out by PwC, described on page **63**, 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 Group 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. Any reports of fraud would immediately be investigated and the situation reported at the next Board meeting.

Whistleblowing

An independently hosted Employee Hotline is used to provide a process for reporting ethical concerns. 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). Employees can report ethical dilemmas or other similar concerns they may have via this external Employee Hotline and can remain anonymous if they wish. Employee concerns are forwarded to the Chairman of the Audit 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 2014, two reports were submitted (none in 2013) which were investigated and dealt with appropriately.

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 the code. Within 1 week of joining Ultra, Directors and employees undertake anti-bribery training. Further anti-bribery training is given to targeted groups throughout the year. The Group intranet contains a statement from the Chief Executive regarding compliance with Ultra's anti-bribery policies. 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 and reporting any breaches.

By order of the Board

Chris Bailey, Chairman of the Audit Committee
27 February 2015

Governance

Remuneration Report

As the recently appointed Chairman of the Remuneration Committee, I am pleased to present the Remuneration Report for the financial year ended 31 December 2014.

Martin Broadhurst, Chairman, Remuneration Committee

ANNUAL STATEMENT

Dear shareholder
As the recently appointed 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 2014. 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 2015 and how it was implemented in the year ended 31 December 2014.

The Committee is seeking to make a number of minor changes to the Directors' Remuneration Policy Report, and accordingly, a binding vote to approve the new three year Directors' Remuneration Policy Report will be proposed at the forthcoming 2015 AGM. The annual advisory vote on the Annual Report on Remuneration will be also tabled.

Remuneration policy for 2015
Following my appointment as Chairman of the Committee and a review of the Remuneration Policy in light of best and market practice, the Committee proposes to make a number of minor changes to the Remuneration Policy. Reflecting a comprehensive strategic review, the Company is realigning its capabilities to better position itself to enhance the marketing effectiveness and make the most of its extensive technology offerings. As such, the Committee considers it timely to introduce selected non-financial incentive measures within the Directors' annual bonus plan to a maximum of 25% of the 100% of salary maximum annual bonus potential.

In addition, and consistent with best practice, the Committee is proposing to extend and expand its incentive clawback provisions and introduce dividend equivalent provisions into the policy (the LTIP rules currently permit the payment of dividend equivalents although the provision has not been operated to date).

Finally, although not part of the Committee's remit, the Non-Executive Director fee policy will, subject to shareholder approval, be amended to introduce a separate responsibility fee for serving as Senior Independent Director.

Performance and reward during 2014
2014 was a challenging year: revenue and underlying operating profit* were £713.7m (2013: £745.2m) and £118.1m (2013: £121.7m) respectively; underlying earnings per share* were 123.1p (2013: 127.1p); operating cash flow* was £83.1m (2013: £79.0m); and total shareholder return was 8% (2013: 14%). Reflecting this, no annual bonus was payable for 2014 (no bonus was paid for 2013) and the 2012 LTIP awards which had been due to crystallise in 2015 based on three year TSR and EPS performance to 31 December 2014 will not vest as a result of performance targets not being met.

In light of these results, the Non-Executive Directors (including the Chairman of the Board) declined a fee increase for 2015.

Shareholder engagement
Our voting result at the 2014 AGM was 97.99% in favour of the Directors' Remuneration Policy Report and 99.56% in favour of the Annual Statement and Annual Report on Remuneration.

The Committee continues actively to seek shareholder views on our Remuneration Policy and is mindful of the concerns of shareholders and other stakeholders. As such, we carried out a consultation in December 2014 with all of our major shareholders as well as the IA and ISS on the proposed changes to the Remuneration Policy Report.

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

Martin Broadhurst, Chairman, Remuneration Committee
27 February 2015

Revenue
£713.7m -4.2%
2013: £745.2m

Underlying operating profit*
£118.1m -3.0%
2013: £121.7m

Underlying earnings per share*
123.1p -3.1%
2013: 127.1p

Operating cash flow*
£83.1m +5.2%
2013: £79.0m

Total shareholder return
+8%
2013: 14%

*see footnote on page **132**

Remuneration Report

Directors' Remuneration Policy

The policy described in this section, which was originally approved by shareholders at the 2014 Annual General Meeting, contains a number of minor amendments for which shareholder approval will be sought at the 2015 Annual General Meeting. In summary, the amendments are: (i) extending and expanding incentive clawback provisions; (ii) introducing a strategic/personal element to the annual bonus; (iii) introducing dividend equivalents to LTIP awards; and (iv) introducing a separate fee for acting as Senior Independent Director. The proposed changes, subject to shareholder approval, will become effective from the 2015 Annual General Meeting and will apply from 1 January 2015.

Policy overview

The Group's Remuneration Policy is to reward senior management competitively, enabling Ultra to recruit, motivate and retain executives of high calibre, whilst avoiding making excessive remuneration payments. The remuneration of Executive Directors and senior managers is aligned with corporate objectives and the interests of shareholders. The linkages between each element of the Executive Directors' remuneration packages with the Group's objectives and the interests of shareholders are set out in the following information.

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 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: (i) underlying performance of the individual; (ii) underlying performance of the business; (iii) underlying annual salary increases within the overall Group; (iv) any changes to the scope of the role in terms of size or complexity; and (v) 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 Company UK based 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

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 members Final Pensionable Earnings if they have completed over twenty 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	None
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

Remuneration Report (continued)
Directors' Remuneration Policy

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 they leave Ultra 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 similarly sized companies Chairman's remuneration is set by the Remuneration Committee which meets without him. 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 future policy table:

(1) A description of how the Company intends to implement the policy in 2015 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 operates 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 (further details of which are provided on page **71**) 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) All employee share plans do not operate performance conditions.

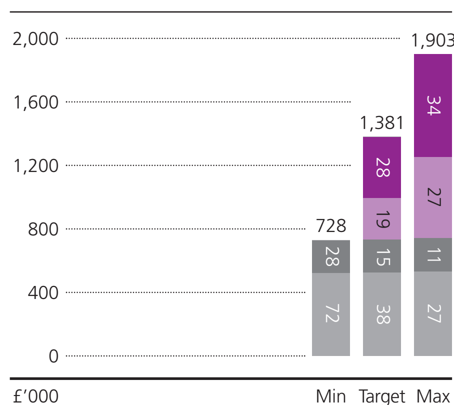
(5) As highlighted above, Ultra has a share ownership policy which requires the Executive Directors to build up and maintain a target holding equal to 100% of base salary (125% for the Chief Executive). Details of the extent to which the Executive Directors had complied with this policy as at 31 December 2014 are set out on page **74**.

(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.

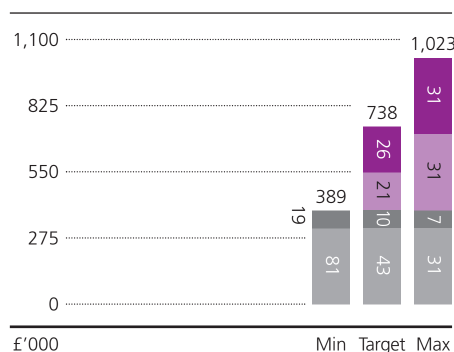
Remuneration scenarios for Executive Directors

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.

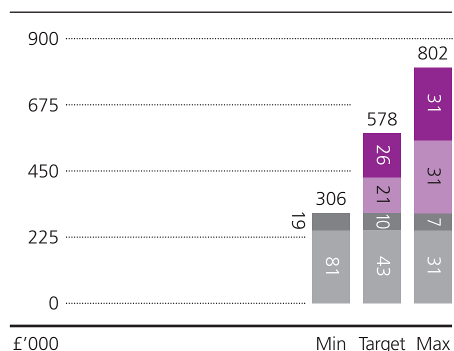
Chief Executive
remuneration composition levels (%)



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 January 2015.
(2) Benefit and pension value for 2015 has 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.
(4) Long-Term Incentive Share Awards assume a 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 incentive

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 Directors (i.e. 100% of salary p.a.).

Long-term incentive

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 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 Director's service contract:

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

The Chief Executive is not permitted to accept any external appointment as a Non-Executive Director. Other 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.

Remuneration Report (continued)
Directors' Remuneration Policy

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 service contracts
The Non-Executive Directors have fixed twelve-month contracts with no notice period. Details of their service contracts are in the table below:

Name	Date of contract	Notice period
C. Bailey[1]	31 Jan 2015	Nil
M. Broadhurst	2 Jul 2014	Nil
D. Caster	21 Apr 2014	Nil
J. Hirst	7 Oct 2014	Nil
Sir Robert Walmsley	31 Jan 2015	Nil

[1] Chris Bailey will retire as Non-Executive Director at the 2015 Annual General Meeting.

There are no provisions in their contracts 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 Remuneration 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 in relation to the Annual General Meeting each year. This, and any other feedback received during the year, is then considered as part of the Group's annual review of the Remuneration Policy. At the 2014 Annual General Meeting, 99.56% of our shareholders voted in favour of the Annual Statement and Annual Report on Remuneration and 97.99% voted for the Directors' Remuneration Policy. Additionally we carried out a consultation in December 2014 with all of our major shareholders as well as, the IA and ISS on the proposed changes to the Remuneration Policy Report and Executive Director Remuneration.

Claw back and malus policy
Consistent with common practice when clawback was first introduced, the Company operated a clawback provision in the annual bonus but not the LTIP. In addition, the trigger was limited to misstatement of the accounts. However, following a detailed review of practice at Ultra and how this compared to best and market practice, Ultra's recovery provisions will be amended to: introduce malus (i.e. the ability to reclaim deferred remuneration prior to payment/vesting) in addition to clawback (i.e. the ability to reclaim amounts paid); extend the provisions into the LTIP; and expand the triggers to include 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.

97.99%

Our voting result at the 2014 Annual General Meeting was 97.99% in favour of the Directors' Remuneration Policy Report...

99.56%

...and 99.56% in favour of the Annual Statement and Annual Report on Remuneration

Remuneration Report
Annual Report on Remuneration

Implementation of the Remuneration Policy in 2015

A summary of how the Directors' Remuneration Policy will be applied for the year ending 31 December 2015 is set out below.

Salaries

Current Executive Director salary levels are as follows:

	2015 Salary £'000	2014 Salary £'000	Increase %
R. Sharma	**522**	474	10
M. Waldner	**317**	302	5
M. Anderson	**248**	225	10

Consistent with its policy of moving base salary levels for recent appointments towards market levels over time, Rakesh Sharma's salary was increased to £522,000 and Mark Anderson's salary was increased to £248,000 from 1 January 2015. Reflecting Mary Waldner's performance in the year, her base salary was increased to £317,000 from the same date. Following the award of these increases, the Committee is satisfied that the base salary levels are now within the relevant competitive ranges.

Directors' pension entitlements

The Group will continue to operate a defined benefit pension scheme for Rakesh Sharma. Mary Waldner and Mark Anderson will continue to participate in the defined contribution scheme, receiving annual company contributions of up to 18% of their salary.

Non-Executive Directors' fees

A minor amendment to the fee structure for Non-Executive Directors is proposed in the Remuneration Policy table. There will be an additional fee paid to the Senior Independent Director equivalent to the additional fees paid to the Chairs of the Audit, Remuneration and Nomination Committees.

Annual bonus for 2015

The maximum bonus for Executive Directors in 2015 will continue to be 100% of base salary.

However, reflecting a comprehensive review, the Committee considers it timely to introduce selected non-financial incentive measures within the Directors' annual bonus plan. For 2015, a maximum 20% of salary will be payable for the achievement of strategic non-financial measures (assuming shareholder approval is obtained to amend the Remuneration Policy). 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. A maximum of 20% of salary will be payable for the achievement of an agreed profit target and a maximum of 60% payable for achievement of an agreed operating cash flow target. As the Committee considers that commercial sensitivities restrict the disclosure of forward-looking annual bonus targets, full retrospective disclosure of the targets will be provided in next year's Annual Report on Remuneration.

Long term awards to be granted in 2015

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 2015. 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) of 15% over the three year performance period.

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
2014								
Executive Directors								
M. Anderson	225	13	23	261	-	-	-	261
R. Sharma	474	26	180	680	-	-	-	680
M. Waldner	302	15	54	371	-	-	-	371
Non-Executive Directors								
C. Bailey	59	-	-	59	-	-	-	59
M. Broadhurst	51	-	-	51	-	-	-	51
D. Caster	192	-	-	192	-	-	-	192
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 67. 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 lifetime allowance for the individual Director under the relevant pension scheme has been exceeded.

[3] Annual performance bonus was £nil.

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

Remuneration Report (continued)
Annual Report on Remuneration

Single total figure of remuneration – Audited (continued)
Directors' emoluments are detailed below:

	Basic salary /fees	Benefits	Pension	Subtotal	Annual performance bonus	LTIP	Subtotal	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2013								
Executive Directors								
M. Anderson	205	12	18	235	-	-	-	235
R. Sharma	460	22	130	612	-	-	-	612
M. Waldner[1]	138	82	21	241	-	-	-	241
Non-Executive Directors								
C. Bailey	58	-	-	58	-	-	-	58
M. Broadhurst	46	-	-	46	-	-	-	46
D. Caster	188	-	-	188	-	-	-	188
Sir Robert Walmsley	46	-	-	46	-	-	-	46
Former Directors[2]	77	5	12	94	-	-	-	94
Total	1,218	121	181	1,520	-	-	-	1,520

[1] Mary Waldner joined the Board on 1 July 2013 and received a one-off relocation allowance of £75,000.
[2] Paul Dean stepped down from the Board with effect from 31 March 2013.

Annual bonus for year under review – Audited
Annual bonuses in relation to 2014 were based upon the achievement of a sliding scale of underlying profit before tax and operating cash flow targets. These 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 **24** and **25** for details. The bonus targets set by the Committee for 2014 were a maximum of 25% of salary (subject to the achievement of £120.5m profit before tax and loss on fair value movements on derivatives and amortisation of intangibles on acquisition), and a maximum of 75% of salary (subject to achieving an operating cash flow of £137m after capitalised development costs, capital expenditure, purchase of long-term incentive plan shares and taking account of movements in working capital).

The Committee assessed the achievement of performance against each target as follows:

	Threshold £'000	Maximum £'000	Actual Achieved £'000	Bonus Payable[1] %
Underlying profit before tax	108,450	120,500	112,034	-
Operating cash flow	72,540	137,020	83,072	-

[1] No bonus was payable in 2014 because in accordance with the bonus scheme rules, the operating cash flow was negatively adjusted to reflect working capital performance throughout the year. In order for a bonus to be payable both profit and cash bonus criteria are required to be met.

LTIP vesting for year under review – Audited
The LTIP award granted in March 2012 was based on performance to the year ended 31 December 2014. 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 against the constituents of a comparator group*. 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	Upper quartile	< Median	0%
Earnings Per Share Underpin	In addition to the main TSR condition, an "underpin" requires average annual growth in headline EPS growth of 7% p.a. over the performance period. In the event that this underpin is not met, the level of vesting falls to zero	7% EPS growth	n/a	2012: 3.6% 2013: 1.3% 2014: (3.1%)	n/a
Total					**0%**

*The comparator group comprised the following companies: ARM Holdings, Babcock International, BAE Systems, Chemring Group, Cobham, Dialight, Domino Printing Sciences, Halma, Laird Group, Meggitt, Oxford Instruments, QinetiQ, Renishaw, Rotork, Rolls-Royce, Senior, Serco Group, Smiths Group, Spectris, Spirax-Sarco Engineering, Spirent Communications, TT Electronics, Vitec Group and WS Atkins.

The award details for those Executive Directors granted 2012 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	24,634	-	24,634	-	-

[1] The estimated value of the vested shares is based on the average share price during the 3 months to 31 December 2014.

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*	17 March 2014	125% of salary	592,500	20%	100%	3 years to 31 December 2016
M. Waldner[1]	LTIP*	17 March 2014	100% of salary	302,000	20%	100%	3 years to 31 December 2016
M. Anderson[1]	LTIP*	17 March 2014	100% of salary	225,000	20%	100%	3 years to 31 December 2016

*Structured as a conditional award

[1] In addition, Rakesh Sharma purchased 149 shares, Mary Waldner purchased 22 partnership shares and Mark Anderson purchased 67 partnership shares under the AESOP during 2014.

For awards presented above, 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 2013 to 2014, and compares that to the average remuneration of employees of the Group in the UK, who were employed in November 2013 and November 2014. Such group best reflects the remuneration environment of the Chief Executive.

	Chief Executive % change	All UK Employees % change
Salary	3.04	2.00
Taxable benefits	18.18	4.99
Bonus[1]	-	25.36

[1] Based on the average bonus paid to employees of the Group in the UK for 2013 and 2014.

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:

	2014 £m	2013 £m	Change %
Staff costs[1]	**240.0**	229.0	4.8
Dividends[2]	**30.9**	29.3	5.5
Revenue[3]	**713.7**	745.2	(4.2)
Statutory profit before tax[3]	**21.5**	49.3	(56.4)

[1] £1.5m 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.

Remuneration Report (continued)
Annual Report on Remuneration

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. The table below sets out the pension benefits earned by Executive Directors for the year ended 31 December 2014:

	Age at year-end	Contributions during 2014[1]	Accrued benefit at beginning of year	Increase in 2014 net of indexation	Increase in value in period (net of contributions)	Accrued benefit at end of period[2]
		£	£	£	£	£
R. Sharma	53	10,073	70,911	(2,539)	(60,844)	70,287

[1] Over the period, contributions of £10,073 were paid on R. Sharma's behalf. R. Sharma will be entitled to a return of the contributions associated with the restricted benefits.

[2] The accrued benefit at the end of the period has been restricted by £14,751 so that R Sharma does not exceed his annual allowance. There has been no accrual since 6 April 2014 as R. Sharma ceased future accrual in the Scheme.

Payments to past directors – Audited

There were no payments made to past Directors during 2014.

Loss of office payments – Audited

There were no loss of office payments made to Directors during 2014.

Statement of Directors' shareholdings – Audited

	Legally owned		LTIP awards[1]	AESOP		SAYE				
	2014	2013	Unvested	Restricted[2]	Unrestricted[3]	Under option	Exercised	Total	% Share ownership guidelines	Share ownership guideline met Y/N
Executive Directors										
M. Anderson	337	-	31,421	67	-	-	270	31,758	3%	N
R. Sharma	41,342	41,193	89,499	2,754	-	433	-	131,274	157%	Y
M. Waldner	22	-	28,205	22	-	-	-	28,227	0.1%	N
Non-Executive Directors										
C. Bailey	-	2,500	-	-	-	-	-	-	-	-
M. Broadhurst	1,000	1,000	-	-	-	-	-	1,000	-	-
D. Caster	751,188	751,188	-	-	-	-	-	751,188	-	-
J. Hirst[4]	-	-	-	-	-	-	-	-	-	-
Sir Robert Walmsley	1,600	1,600	-	-	-	-	-	1,600	-	-

[1] There were no vested LTIP share awards within the period.

[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.

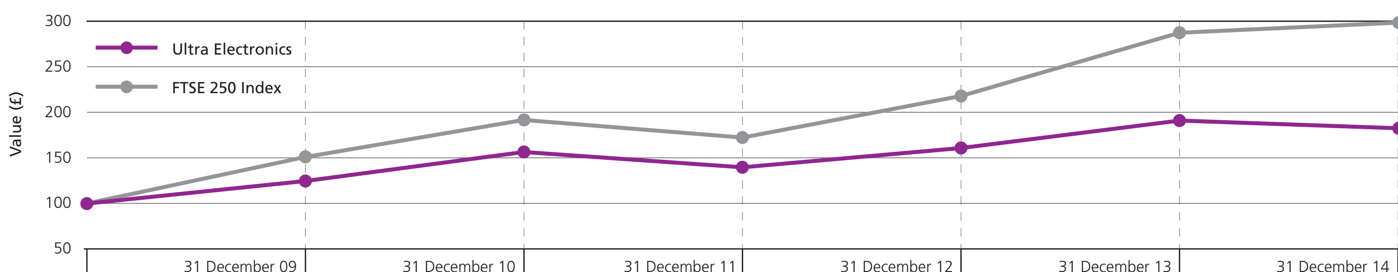
[4] John Hirst joined the Company on 1 January 2015.

Total shareholder return performance 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 six years. The graph shows the value at the end of 2014 of £100 invested at the start of the evaluation period, in Ultra and in the Index. The Committee considers the FTSE 250 a 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



Total shareholder return performance graph and single figure remuneration table (continued)

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

	Year ended	Total remuneration £'000	Annual bonus % max. payout	LTIP % max. payout
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 2014 Annual General Meeting, the 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	**59,746,818**	99.56	**58,803,834**	97.99
Votes against	**263,955**	0.44	**1,204,667**	2.01
Total votes cast (for and against)	**60,010,773**	100	**60,008,501**	100
Votes withheld	**9,588**		**11,860**	
Total votes cast (including withheld votes)	**60,020,361**		**60,020,361**	

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
2011 award	-	16,513	-	£16.96	March 2014
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
Interests at 1 January 2014	19,181	73,778	11,775		
2011 awards lapsed during the year	-	(16,513)	-		
2014 award	12,240	32,234	16,430	£18.38	March 2017
Interests at 31 December 2014	**31,421**	**89,499**[1]	**28,205**		

[1] This interest in LTIP awards includes the 2012 award of 24,634 which as a result of not meeting performance conditions will lapse in 2015. This will leave Rakesh Sharma with outstanding LTIP awards of 64,865.

The 2011 award lapsed during the year as detailed above as a result of the performance targets not being met. The actual date of the award was 14 March 2011. The market price of the shares when granted was £16.96. The aggregate gain made by the Directors under the LTIP during the year was £nil (2013: £nil). Ultra's share price on 31 December 2014 was £18.00. The range during 2014 was £16.24 to £19.87.

Directors' interests under the All-Employee arrangements

Name of Director	Interests as at 1 January 2014	Shares acquired during year	Interests as at 31 December 2014	Partnership shares acquired from 1 January 2015 to 27 February 2015	Interests as at 27 February 2015
M. Anderson	-	**337**	**337**	**17**	**354**
R. Sharma	2,605	**149**	**2,754**	**14**	**2,768**
M. Waldner	-	**22**	**22**	**6**	**28**

During the year, the Share Ownership Plan Trust, established and operated in connection with the AESOP, purchased 33,401 (2013: 30,206) Ultra Electronics Holdings plc. shares, with a nominal value of £1,670 (2013: £1,510) for £597,645 (2013: £497,205).

Remuneration Report (continued)
Annual Report on Remuneration

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 Ultra's website (**www.ultra-electronics.com**).

Composition

Chris Bailey was Chairman of the Remuneration Committee up to 26 November 2014 and Martin Broadhurst and Sir Robert Walmsley were members of the Committee. On the 26 November 2014, Martin took over as Chairman of the Committee and Chris and Sir Robert were members of the Committee.

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

Advice

Wholly independent advice on executive remuneration and share schemes is received from New Bridge Street, an Aon plc company. 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 2014, 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 2014 amounted to £28,201 (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 2014 amounted to £39,690 (excluding VAT). 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.

We strongly encourage shareholders to vote in favour of the two remuneration-related resolutions at the 2015 AGM. These resolutions ensure alignment between business strategy and remuneration and are designed to be fair and balanced as between employees and shareholders.

This Report was approved by the Board of Directors on 27 February 2015 and signed on its behalf by:

Martin Broadhurst, Chairman of the Remuneration Committee

Directors' Report
For the year ended 31 December 2014

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 2014.

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 2014. 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 **47** to **49** of the Strategic Report. The Corporate Governance statement on pages **52** to **61** 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 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 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 **39**.

Results and dividends
Group results and dividends are as follows:

	2014 £'000
Balance on retained earnings, beginning of year	**258,609**
Total comprehensive income for the year	**15,589**
Dividends: 2013 final paid of 29.5p per share	**(20,528)**
2014 interim paid of 13.2p per share	**(9,194)**
Equity-settled employee share schemes	**1,656**
Balance on retained earnings, end of year	**246,132**

The final 2014 dividend of 31.1p per share is proposed to be paid on 6 May 2015 to shareholders on the register on 10 April 2015. The interim dividend was paid on 26 September 2014, making a total of 44.3p (2013: 42.2p) per share paid 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** and **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 £157.1 million (2013: £130.4 million) was spent on engineering and business development of which £115.9 million (2013: £87.1million) was funded by customers and £41.2 million (2013: £43.3 million) by the Group.

Purchase of own shares
During the year Ultra purchased no (2013: nil) ordinary shares and no (2013: nil) ordinary shares were distributed following vesting of awards under the Ultra Electronics Long-Term Incentive Plan. At 31 December 2014, 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 2014).

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 2014 were 64 days (2013: 59 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.

Directors and their interests
The Directors who served throughout the year and to the date of signing these financial statements, and their interests in the shares and share options of Ultra at 27 February 2015 are listed on pages **74** and **75**.

Directors' Report (continued)

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.

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. Contracts placed with these customers are on a wide range of separate contracts placed 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.

Substantial shareholdings
As at 27 February 2015, 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	6.05	4,222,192	07 April 2014
Artemis Investment Management LLP	Direct & indirect	5.07	3,535,035	23 October 2013
Ameriprise Financial Inc	Direct & indirect	5.051	3,529,947	19 September 2014
Schroders plc	Indirect	4.683	3,269,563	25 April 2014
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. 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 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 the 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 Companies Acts and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of Directors are described in the 'Matters to be reserved to the Board' which is available from the Investors' section of the Group website.

Annual General Meeting
The next Annual General Meeting of Ultra will be held on 30 April 2015 at 417 Bridport Road, Greenford, Middlesex UB6 8UA at 10 am. 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 auditors are 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 auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of The Companies Act 2006.

By order of the Board,
Sharon Harris, Company Secretary & General Counsel
27 February 2015
Registered Office: 417 Bridport Road, Greenford, Middlesex UB6 8UA Registered Number: 02830397

Executives and advisors

Executive Team members

Rakesh Sharma
Chief Executive

Mary Waldner
Group Finance Director

Mark Anderson
Group Marketing Director

Sharon Harris
Company Secretary & General Counsel

Carlos Santiago
Chief Operating Officer

Keith Thomson
Group Human Resources Director

Divisional Managing Directors

Mike Baptist
Divisional Managing Director
Tactical Systems

Mike Clayton
Divisional Managing Director
Naval Systems

Chris Gane
Divisional Managing Director
Aircraft & Vehicle Systems

Graeme Stacey
Divisional Managing Director
Infrastructure & Power

Business MDs and Presidents

Olugbenga Erinle
President
3eTI

Andy Liverman
President
3 Phoenix

John McAlonan
President
Advanced Tactical Systems

Paul Owen
Managing Director
Airport Systems

Mark Doyle
Chief Executive Officer
Al Shaheen (49%)

Doug Burd
Managing Director
Avalon Systems
& Ultra Electronics, Australia

David Taylor
Managing Director
CEMS

Mike Williams
Managing Director
Command & Control Systems

Mike Baptist
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

Omar Al Ismaili
Managing Director
Ithra (70%)

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

Andy Yates
Managing Director
Precision Air & Land Systems

Michael Spencer
President
ProLogic

Ross Parsell
Managing Director
Sonar Systems

Michael Spencer
President
SOTECH

Mark Darvill
Managing Director
Surveillance & Security 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

Registrars

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

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 the Parent Company's affairs as at 31 December 2014 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; 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 49. 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).

Going concern

As required by the Listing Rules we have reviewed the Directors' statement contained within the Corporate Governance report on page **60** that the Group is a going concern. We confirm that:

- we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

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.

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
Oman contract termination Refer to page **125** (critical accounting judgements and key sources of estimation uncertainty – assessment of contract accounting); and page **63** (Audit Committee report – significant judgements considered). Subsequent to the year end the Oman contract was terminated and hence there is significant judgement as to: • the value of recoverable work performed and therefore revenue recognition of £12m in the year; • the required costs to deliver the remaining contractual obligations; • and the recoverabilty of contract balances and associated costs of recovering these contract balances leading to a £39m provision as disclosed in note 36.	Our audit work assessed the adequacy of the design and implementation of controls over the work performed on the contract and completeness and accuracy of costs on the contract. We have reviewed correspondence relating to the contract termination, in addition to understanding the events and circumstances surrounding the termination. This included a further visit to Oman post year-end to meet with our local component auditor to provide appropriate oversight of their work performed and conclusions reached. With regards to the work performed under the contract, we have reviewed evidence from the contract engineer, who reports on the completion of effort under the contract. To determine the remaining costs to deliver the contract, we have considered the status of sub-contractor contracts and invoices received to date, in addition to committed spend for completing all obligations under the contract. We assessed 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.

Our assessment of risks of material misstatement (continued)

Risk	How the scope of our audit responded to the risk
Revenue recognition Refer to page **125** (critical accounting judgements and key sources of estimation uncertainty – assessment of contract accounting); page **121** (accounting policies – revenue recognition); and page **63** (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 £387.1m. 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. • 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 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 billings and costs incurred to date. 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.

Independent auditor's report

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
Goodwill and other intangible assets Refer to page **125** (critical accounting judgements and key sources of estimation uncertainty – goodwill impairment); pages **120** and **122** (accounting policies – intangible assets); and page **63** (Audit Committee report – significant judgements considered). The Group recognised £299.0m of goodwill and £138.7m of acquired intangibles at 31 December 2014. 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. The key judgements include identification of cash generating units, 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. Independently we identified and challenged management's assessment of the cash generating units within the Group based on a review of the cashflows internally reported by management, and our understanding of the Group structure. 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.
Acquisition accounting Refer to page **125** (critical accounting judgements and key sources of estimation uncertainty – acquisition accounting); page **120** (accounting policies – business combinations); and page **63** (Audit Committee report – significant issues considered). During the year, the Group entered into four business combinations, being 3 Phoenix Inc., Forensic Technology WAI Inc., ICE Corporation Inc., and Lab Impex Systems. In aggregate, £104.5m was paid in respect of 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. For contingent consideration, we agreed the underlying data in the contingent consideration calculation to signed sale and purchase agreements and the trading performance for the audited entity for the current period, and approved budgets for future performance. We assessed whether management's treatment of contingent consideration payment arrangements for former owners, as either additional purchase consideration or post-acquisition remuneration, is appropriate. For historical acqusitions we compared the forecast contingent consideration positions to the post year end trading results, approved budgets and historical levels of settlement. We recalculated the release of £8.4m of the balance based on the audited financial results and assessed whether management has disclosed adequately the release of the provision in the Consolidated Income Statement.

Our assessment of risks of material misstatement (continued)

Risk	How the scope of our audit responded to the risk
Provisions Refer to page **125** (critical accounting judgements and key sources of estimation uncertainty – provisions); page **123** (accounting policies – provisions); and page **63** (Audit Committee report – significant issues considered). There is judgement required in respect of potential provisions required on long term support arrangements and warranties in respect of complex mission critical product manufacturing, due to the products being bespoke to the environment in which they are operating. Provisions total £31.3m at 31 December 2014. We have deemed the appropriateness and completeness of provisions made by management in respect of product warranties and other provisions to be a risk for these reasons.	Our audit work assessed the adequacy of the design and implementation of controls over the appropriateness and completeness of provisions. We recalculated and assessed management's estimates for the provisions in conjunction with our understanding of the potential liability as set out in contract terms. In respect of warranties, we assessed the level of provisioning by verifying the actual failure costs incurred to date and the products in circulation subject to a warranty. We used external evidence to evaluate the adequacy of the warranty provision, including sales data, credit notes raised post year-end and contract terms together with any correspondence with third parties in respect of product failures and claims. In response to other provisions, we circularised the Group's external legal advisors and reviewed legal costs incurred in the year to confirm the completeness of legal cases to which the Group is party. Through external evidence including submitted legal advice and discussion with management, we sought to substantiate the basis for the Group's expections over likely outcomes and their subsequent quantification of the related provisions.
Pensions Refer to page **125** (critical accounting judgements and key sources of estimation uncertainty – pensions); page **122** (accounting policies – pensions); and page **63** (Audit Committee report – significant issues considered). The Group operates five defined benefit pension schemes, for which there is judgement in determining the IAS 19 valuation as recorded at the balance sheet date. At 31 December 2014, these five schemes had a total net IAS 19 deficit of £87.3m. 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 confirmed the completeness of the pension assets and the valuation for which we further agreed a sample to publically available asset valuations.

The description of the risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page **63**. With the exception of the Oman contract termination, our risks are consistent with the 2013 year-end.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

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.

On this basis, we determined materiality for the Group to be £6.2 million (2013: £8 million), which represents 7% (2013: 9%) of adjusted underlying pre-tax profit, and 2% (2013: 2%) of equity.

Adjusted underlying pre-tax profit is defined as underlying pre-tax profit as presented by management, after adding back 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.

We agreed the materiality levels with the Audit Committee following the presentation of our Audit Plan in September 2014 and further agreed that we would report to the Committee all audit differences in excess of £124,000 (2013: £160,000) as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

Following on from the Oman contract termination post year-end, we revisited our materiality and concluded that it remained appropriate.

We further 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 25 (2013: 21) locations; the increase reflecting the acquisitions in the year. 14 (2013: 14) of these were subject to a full audit, whilst the remaining 11 (2013: 7) 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 25 (2013: 21) locations represent the principal business units and account for 87% (2013: 87%) of the Group's net assets, 91% (2013: 91%) of the Group's revenue and 91% (2013: 93%) 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 25 (2013: 21) 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 the part of the Corporate Governance Statement relating to the Company's compliance with ten 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). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. 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
27 February 2015

Group highlights

For the year ended 31 December 2014

	2014 £'000	2013 £'000	Change %
Revenue	**713,741**	745,154	(4.2)
Underlying operating profit*	**118,066**	121,717	(3.0)
Operating profit	**39,543**	57,398	(31.1)
Underlying profit before tax*	**112,034**	116,806	(4.1)
Profit before tax	**21,462**	49,281	(56.4)

	2014 pence	2013 pence	Change %
Underlying earnings per share*	**123.1**	127.1	(3.1)
Basic earnings per share	**29.8**	54.8	(45.6)
Dividend per share	**44.3**	42.2	5.0

* Ultra uses underlying figures as key performance indicators. Underlying figures are stated before the Oman Airport IT contract termination costs, amortisation charges relating to acquired intangibles, impairment of goodwill, 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 12.

Consolidated income statement

For the year ended 31 December 2014

	Note	2014 £'000	2013 £'000
Revenue	3	**713,741**	745,154
Cost of sales		**(494,294)**	(523,687)
Gross profit		**219,447**	221,467
Other operating income	4	**4,748**	497
Distribution costs		**(1,893)**	(1,883)
Administrative expenses		**(137,698)**	(126,371)
Share of profit from associate	16	**1,957**	1,424
Other operating expenses	5	**(1,149)**	(2,860)
Contingent consideration release	1	**8,364**	9,363
Impairment of goodwill	13	**(7,355)**	(44,239)
Oman contract termination costs	36	**(46,878)**	-
Operating profit	6	**39,543**	57,398
Investment revenue	8	**108**	1,606
Finance costs	9	**(18,189)**	(9,723)
Profit before tax		**21,462**	49,281
Tax	10	**(14,964)**	(11,124)
Profit for the year		**6,498**	38,157
Attributable to:			
Owners of the Company		**20,799**	38,157
Non-controlling interests		**(14,301)**	-
Earnings per ordinary share (pence)			
Basic	12	**29.8**	54.8
Diluted	12	**29.7**	54.7

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 2014

	Note	2014 £'000	2013 £'000
Profit for the year		**6,498**	38,157
Items that will not be reclassified to profit or loss:			
Actuarial loss on defined benefit pension schemes		**(5,704)**	(5,677)
Tax relating to items that will not be reclassified		**1,299**	(1,321)
Total items that will not be reclassified to profit or loss		**(4,405)**	(6,998)
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		**10,974**	(4,896)
(Loss)/gain on net investment hedges		**(4,161)**	810
Tax relating to items that may be reclassified	10	**(804)**	748
Total items that may be reclassified to profit or loss		**6,009**	(3,338)
Other comprehensive income for the year		**1,604**	(10,336)
Total comprehensive income for the year	28	**8,102**	27,821
Attributable to:			
Owners of the Company		**22,407**	27,821
Non-controlling interests		**(14,305)**	-

The accompanying notes are an integral part of this consolidated statement of comprehensive income.

Consolidated balance sheet

31 December 2014

	Note	2014 £'000	2013 £'000
Non-current assets			
Goodwill	13	**298,960**	252,115
Other intangible assets	14	**162,512**	125,445
Property, plant and equipment	15	**62,569**	59,146
Interest in associate	16	**8,105**	7,317
Deferred tax assets	25	**4,494**	5,147
Derivative financial instruments	23	**1,117**	4,226
Trade and other receivables	19	**4,694**	9,622
		542,451	463,018
Current assets			
Inventories	17	**73,745**	57,774
Trade and other receivables	19	**190,186**	239,916
Tax assets		**1,814**	2,454
Cash and cash equivalents		**41,259**	30,570
Derivative financial instruments	23	**1,725**	3,307
		308,729	334,021
Total assets		**851,180**	797,039
Current liabilities			
Trade and other payables	20	**(231,954)**	(269,907)
Tax liabilities		**(7,166)**	(16,927)
Derivative financial instruments	23	**(1,920)**	(777)
Obligations under finance leases	21	**-**	(44)
Short-term provisions	26	**(27,105)**	(18,140)
		(268,145)	(305,795)
Non-current liabilities			
Retirement benefit obligations	31	**(87,263)**	(86,078)
Other payables	20	**(9,512)**	(4,773)
Deferred tax liabilities	25	**(6,192)**	(222)
Derivative financial instruments	23	**(1,678)**	(269)
Obligations under finance leases	21	**-**	(19)
Borrowings	22	**(170,754)**	(72,664)
Long-term provisions	26	**(4,190)**	(6,040)
		(279,589)	(170,065)
Total liabilities		**(547,734)**	(475,860)
Net assets		**303,446**	321,179
Equity			
Share capital	27	**3,498**	3,490
Share premium account	28	**56,131**	53,908
Own shares	28	**(2,581)**	(2,581)
Hedging reserve	28	**(13,330)**	(9,169)
Translation reserve	28	**27,219**	16,240
Retained earnings	28	**246,132**	258,609
Equity attributable to equity holders of the company		**317,069**	320,497
Non-controlling interest		**(13,623)**	682
Total equity		**303,446**	321,179

The financial statements of Ultra Electronics Holdings plc, registered number 02830397, were approved by the Board of Directors and authorised for issue on 27 February 2015.

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 2014

	Note	2014 £'000	2013 £'000
Net cash flow from operating activities	29	**68,717**	63,932
Investing activities			
Interest received		**108**	136
Dividends received from equity accounted investments		**1,619**	2,825
Purchase of property, plant and equipment		**(8,362)**	(13,857)
Proceeds from disposal of property, plant and equipment		**55**	1,280
Expenditure on product development and other intangibles		**(9,289)**	(7,657)
Acquisition of subsidiary undertakings	32	**(111,285)**	(26,374)
Net cash acquired with subsidiary undertakings	32	**6,737**	4,623
Net cash used in investing activities		**(120,417)**	(39,024)
Financing activities			
Issue of share capital		**2,231**	5,176
Dividends paid		**(29,722)**	(28,071)
Funding from government loans		**687**	1,282
Loan syndication costs		**(1,495)**	(181)
Repayments of borrowings		**(68,331)**	(64,939)
Proceeds from borrowings		**161,700**	62,622
Increase in loan to associate		**(1,654)**	-
Repayment of obligations under finance leases		**(63)**	(24)
Net cash from/(used in) in financing activities		**63,353**	(24,135)
Net increase in cash and cash equivalents	29	**11,653**	773
Cash and cash equivalents at beginning of year		**30,570**	30,840
Effect of foreign exchange rate changes		**(964)**	(1,043)
Cash and cash equivalents at end of year		**41,259**	30,570

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 2014

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 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**
Balance at 1 January 2013	**3,470**	**48,752**	**(2,581)**	**(9,979)**	**21,119**	**252,745**	**699**	**314,225**
Profit for the year	-	-	-	-	-	38,157	-	38,157
Other comprehensive income for the year	-	-	-	810	(4,879)	(6,250)	(17)	(10,336)
Total comprehensive income for the year	**-**	**-**	**-**	**810**	**(4,879)**	**31,907**	**(17)**	**27,821**
Equity-settled employee share schemes	20	5,156	-	-	-	1,859	-	7,035
Dividend to shareholders	-	-	-	-	-	(28,071)	-	(28,071)
Tax on share-based payment transactions	-	-	-	-	-	169	-	169
Balance at 31 December 2013	**3,490**	**53,908**	**(2,581)**	**(9,169)**	**16,240**	**258,609**	**682**	**321,179**

Notes to accounts – Group
31 December 2014

1 Segment information

For management purposes, the Group is organised into three operating segments – Aircraft & Vehicle Systems, Information & Power Systems and Tactical & Sonar Systems. These segments are consistent with the internal reporting as reviewed by the Chief Executive. Each segment includes businesses with similar operating and market characteristics.

	2014			2013 As restated*		
	External revenue £'000	**Inter segment £'000**	**Total £'000**	External revenue £'000	Inter segment £'000	Total £'000
Revenue						
Aircraft & Vehicle Systems	**140,266**	**14,436**	**154,702**	140,910	19,077	159,987
Information & Power Systems	**204,043**	**6,487**	**210,530**	276,764	8,837	285,601
Tactical & Sonar Systems	**369,432**	**14,468**	**383,900**	327,480	19,247	346,727
Eliminations	**-**	**(35,391)**	**(35,391)**	-	(47,161)	(47,161)
Consolidated revenue	**713,741**	**-**	**713,741**	745,154	-	745,154

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

	Aircraft & Vehicle Systems £'000	**Information & Power Systems £'000**	**Tactical & Sonar Systems £'000**	**2014 Total £'000**
Underlying operating profit	**24,642**	**29,158**	**64,266**	**118,066**
Amortisation of intangibles arising on acquisition	**(3,071)**	**(7,415)**	**(18,305)**	**(28,791)**
Adjustments to deferred consideration net of acquisition costs†	**(223)**	**(183)**	**4,907**	**4,501**
Oman contract termination costs	**-**	**(46,878)**	**-**	**(46,878)**
Impairment of goodwill *(see note 13)*	**(7,355)**	**-**	**-**	**(7,355)**
Operating profit/(loss)	**13,993**	**(25,318)**	**50,868**	**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 (2013: £9,363,000) was released relating to the GigaSat earn-out agreement for which the 2014 targets were not met. GigaSat is in the Tactical & Sonar Systems division.

	Aircraft & Vehicle Systems £'000	Information & Power Systems £'000	Tactical & Sonar Systems £'000	2013 As restated* Total £'000
Underlying operating profit	34,779	37,335	49,603	121,717
Amortisation of intangibles arising on acquisition	(3,555)	(9,042)	(16,486)	(29,083)
Adjustments to deferred consideration net of acquisition costs†	(274)	(36)	9,313	9,003
Impairment of goodwill *(see note 13)*	-	(44,239)	-	(44,239)
Operating profit/(loss)	30,950	(15,982)	42,430	57,398
Investment revenue				1,606
Finance costs				(9,723)
Profit before tax				49,281
Tax				(11,124)
Profit after tax				38,157

*During 2014 the Command & Control business was moved from the Group's Information & Power Systems division into the Tactical & Sonar Systems division and MSI and AMI were moved from the Aircraft & Vehicle Systems division into the Information & Power Systems and Tactical & Sonar Systems divisions respectively. The prior year segmented analysis has been restated to reflect this change.

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	
	2014 £'000	2013 £'000 As restated*	**2014 £'000**	2013 £'000 As restated*
Aircraft & Vehicle Systems	**7,069**	10,016	**5,867**	5,660
Information & Power Systems	**3,492**	5,574	**12,141**	15,146
Tactical & Sonar Systems	**7,090**	5,924	**25,021**	22,526
Total	**17,651**	21,514	**43,029**	43,332

The 2014 depreciation and amortisation expense includes £32,202,000 of amortisation charges (2013: £31,967,000) and £10,827,000 of property, plant and equipment depreciation charges (2013: £11,365,000).

Total assets by segment

	2014 £'000	2013 £'000 As restated*
Aircraft & Vehicle Systems	**165,069**	154,928
Information & Power Systems	**205,821**	251,812
Tactical & Sonar Systems	**429,881**	344,595
	800,771	751,335
Unallocated	**50,409**	45,704
Consolidated total assets	**851,180**	797,039

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

Total liabilities by segment

	2014 £'000	2013 £'000 As restated*
Aircraft & Vehicle Systems	**41,292**	35,737
Information & Power Systems	**92,660**	124,933
Tactical & Sonar Systems	**144,537**	142,589
	278,489	303,259
Unallocated	**269,245**	172,601
Consolidated total liabilities	**547,734**	475,860

Unallocated liabilities represent derivatives at fair value, tax payables, 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:

	2014 £'000	2013 £'000
United Kingdom	**227,419**	243,650
Continental Europe	**70,186**	61,860
Canada	**15,051**	17,130
USA	**296,736**	313,352
Rest of World	**104,349**	109,162
	713,741	745,154

During the year there were two direct customers (2013: one), that individually accounted for greater than 10% of the Group's total turnover. Sales to these customers in 2014 were £79.6m and £144.0m (2013: £70.9m and £164.8m) across all segments.

*During 2014 the Command & Control business was moved from the Group's Information & Power Systems division into the Tactical & Sonar Systems division and MSI and AMI were moved from the Aircraft & Vehicle Systems division into the Information & Power Systems and Tactical & Sonar Systems divisions respectively. The prior year segmented analysis has been restated to reflect this change.

1 Segment information (continued)

Other information (by geographic location)

	Non current assets		Total assets		Additions to Property, Plant & Equipment and intangible assets (excluding acquisitions)	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'000	**2014 £'000**	2013 £'000
United Kingdom	**221,461**	221,362	**376,744**	375,315	**9,876**	14,607
USA	**215,030**	159,927	**291,203**	229,563	**4,805**	3,852
Canada	**88,205**	47,960	**113,856**	62,983	**2,537**	2,719
Rest of World	**12,144**	24,396	**18,968**	83,474	**433**	336
	536,840	453,645	**800,771**	751,335	**17,651**	21,514
Unallocated	**5,611**	9,373	**50,409**	45,704	**-**	-
	542,451	463,018	**851,180**	797,039	**17,651**	21,514

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:

	2014 £'000	2013 £'000
Operating profit	**39,543**	57,398
Amortisation of intangibles arising on acquisition *(see note 14)*	**28,791**	29,083
Impairment of goodwill *(see note 13)*	**7,355**	44,239
Adjustments to contingent consideration net of acquisition related costs	**(4,501)**	(9,003)
Oman contract termination costs *(see note 36)*	**46,878**	-
Underlying operating profit	**118,066**	121,717
Profit before tax	**21,462**	49,281
Amortisation of intangibles arising on acquisition *(see note 14)*	**28,791**	29,083
Impairment of goodwill *(see note 13)*	**7,355**	44,239
Adjustments to contingent consideration net of acquisition related costs	**(4,501)**	(9,003)
Unwinding of discount on provisions *(see note 26)*	**1,172**	1,268
Loss/(profit) on fair value movements of derivatives *(see note 23)*	**7,243**	(1,470)
Net interest charge on defined benefit pensions *(see note 9)*	**3,634**	3,408
Oman contract termination costs *(see note 36)*	**46,878**	-
Underlying profit before tax	**112,034**	116,806
Cash generated by operations *(see note 29)*	**96,067**	93,476
Purchase of property, plant and equipment	**(8,362)**	(13,857)
Proceeds on disposal of property, plant and equipment	**55**	1,280
Expenditure on product development and other intangibles	**(9,289)**	(7,657)
Dividend from equity accounted investment	**1,619**	2,825
Acquisition related payments	**2,982**	2,973
Underlying operating cash flow	**83,072**	79,040

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 **124** for further details.

3 Revenue

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

	2014 £'000	2013 £'000
Sales of goods	**326,613**	331,598
Revenue from long term contracts	**387,128**	413,556
	713,741	745,154

4 Other operating income

Amounts included in other operating income were as follows:

	2014 £'000	2013 £'000
Foreign exchange gains	**4,748**	497
	4,748	497

5 Other operating expenses

Amounts included in other operating expenses were as follows:

	2014 £'000	2013 £'000
Amortisation of development costs	**780**	608
Foreign exchange losses	**369**	2,252
	1,149	2,860

6 Operating profit

Operating profit is stated after charging/(crediting):

	2014 £'000	2013 £'000
Raw materials and other bought in inventories expensed in the year	**218,256**	226,096
Staff costs *(see note 7)*	**239,985**	228,994
Depreciation and amounts written off property, plant and equipment	**10,827**	11,365
Amortisation of internally generated intangible assets	**780**	608
Amortisation of acquired intangible assets (and other intangibles)	**31,422**	31,359
Impairment of goodwill *(see note 13)*	**7,355**	44,239
Government grant income *(see note 24)*	**(1,931)**	(1,819)
Net foreign exchange (gain)/loss	**(1,169)**	2,771
(Profit)/loss on disposal of property, plant and equipment	**(3)**	130
Operating lease rentals		
– plant and machinery	**1,405**	1,590
– other	**12,219**	10,043
Research and development costs	**36,149**	36,952
Auditor's remuneration for statutory audit work (including expenses)	**780**	705

The Company only audit fee included in the Group audit fee shown above was £20,000 (2013: £20,000).

Analysis of auditor's remuneration

	2014 £'000	2013 £'000
Fees payable for the audit of the annual accounts	**183**	179
Fees payable for the audit of subsidiaries	**597**	526
Total for statutory Group audit services	**780**	705

	2014 £'000	2013 £'000
Analysis of non-audit services:		
Audit related services	**-**	27
Tax compliance	**10**	7
Other tax advisory services	**-**	3
Corporate finance services – due diligence	**436**	341
Other services	**15**	13
Total for non-audit services	**461**	391

7 Staff costs

Particulars of employees (including Executive Directors) are shown below.
Employee costs during the year amounted to:

	2014 £'000	2013 £'000
Wages and salaries	**209,639**	198,369
Social security costs	**18,518**	19,595
Pension costs	**11,828**	11,030
	239,985	228,994

The average monthly number of persons employed by the Group during the year was as follows:

	2014 Number	2013 Number
Production	**1,875**	1,698
Engineering	**1,936**	1,725
Selling	**304**	262
Support services	**672**	589
	4,787	4,274

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.

8 Investment revenue

	2014 £'000	2013 £'000
Bank interest	108	136
Fair value movement on derivatives	-	1,470
	108	1,606

9 Finance costs

	2014 £'000	2013 £'000
Amortisation of finance costs of debt	662	616
Interest payable on bank loans, overdrafts and other loans	5,478	4,431
Total borrowing costs	6,140	5,047
Retirement benefit scheme finance cost	3,634	3,408
Unwinding of discount on provisions	1,172	1,268
Fair value movement on derivatives	7,243	-
	18,189	9,723

10 Tax

	2014 £'000	2013 £'000
UK taxes		
Corporation tax	9,145	15,453
Adjustment in respect of prior years	(722)	1,853
	8,423	17,306
Overseas taxes		
Current taxation	8,373	7,238
Adjustment in respect of prior years	(875)	414
	7,498	7,652
Total current tax	15,921	24,958
Deferred tax		
Origination and reversal of temporary differences:		
UK deferred tax	(776)	(3,711)
Overseas deferred tax	(181)	(10,123)
Total deferred tax credit	(957)	(13,834)
Total tax charge	14,964	11,124

Corporation tax in the UK is calculated at 21.5% (2013: 23.25%) 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:

	2014 £'000	2013 £'000
Current tax		
Net investment hedges	(804)	748
Deferred tax		
Arising on income and expenses recognised in other comprehensive income:		
Actuarial loss on defined benefit pension schemes	1,299	(1,321)
Total income tax charge recognised directly in other comprehensive income	495	(573)

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:

	2014 £'000	2013 £'000
Current tax		
Excess tax deductions related to share based payments on exercised options	26	117
Deferred tax		
Change in estimated excess tax deductions related to share-based payments	(153)	52
Total income tax recognised directly in equity	(127)	169

10 Tax (continued)

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:

	2014 £'000	2013 £'000
Group profit before tax	**21,462**	49,281
Tax on Group profit at standard UK corporation tax rate of 21.5% (2013: 23.25%)	**4,614**	11,458
Tax effects of:		
Income/expenses that are not taxable/allowable in determining taxable profits	**606**	1,264
Effect of change in UK tax rate	**-**	(2,049)
Change in unrecognised deferred tax assets	**5,391**	-
Different tax rates of subsidiaries operating in other jurisdictions	**6,395**	(324)
Adjustments in respect of prior years	**(2,042)**	775
Tax expense for the year	**14,964**	11,124

11 Dividends

Amounts recognised as distributions to equity holders in the year:

	2014 £'000	2013 £'000
Final dividend for the year ended 31 December 2013 of 29.5p (2012: 27.8p) per share	**20,528**	19,259
Interim dividend for the year ended 31 December 2014 of 13.2p (2013: 12.7p) per share	**9,194**	8,812
	29,722	28,071
Proposed final dividend for the year ended 31 December 2014 of 31.1p (2013: 29.5p) per share	**21,685**	20,523

The 2014 proposed final dividend of 31.1p per share is planned to be paid on 6 May 2015 to shareholders on the register at 10 April 2015. It was approved by the Board after 31 December 2014 and has not been included as a liability as at 31 December 2014.

12 Earnings per share

	2014 pence	2013 pence
Basic underlying *(see below)*	**123.1**	127.1
Diluted underlying *(see below)*	**122.8**	126.7
Basic	**29.8**	54.8
Diluted	**29.7**	54.7

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

	2014 £'000	2013 £'000
Earnings		
Earnings for the purposes of basic earnings per share being profit for the year	**20,799**	38,157
Underlying earnings		
Profit for the year	**20,799**	38,157
Profit on fair value movements on derivatives (net of tax)	**5,794**	(1,322)
Amortisation of intangibles arising on acquisition (net of tax)	**20,417**	20,727
Unwinding of discount on provisions (net of tax)	**1,172**	973
Acquisition-related costs net of contingent consideration (net of tax)	**(4,960)**	(9,061)
Net interest charge on defined benefit pensions (net of tax)	**2,851**	2,609
Impairment of goodwill (net of tax)	**7,355**	36,394
Oman contract termination costs (net of tax)	**46,878**	-
Elimination of non-underlying non-controlling interest	**(14,301)**	-
Earnings for the purposes of underlying earnings per share	**86,005**	88,477

The adjustments to profit are explained in note 2.

	2014 Number of shares	2013 Number of shares
The weighted average number of shares is given below:		
Number of shares used for basic earnings per share	**69,864,755**	69,588,526
Effect of dilutive potential ordinary shares – share options	**158,862**	218,397
Number of shares used for fully diluted earnings per share	**70,023,617**	69,806,923

12 Earnings per share (continued)

	2014 £'000	2013 £'000
Underlying profit before tax	112,034	116,806
Tax rate applied for the purposes of underlying earnings per share	23.23%	24.25%

13 Goodwill

	2014 £'000	2013 £'000
Cost		
At 1 January	293,988	291,824
Exchange differences	6,471	(3,670)
Recognised on acquisition of subsidiaries	47,601	9,790
Other changes	538	(3,956)
At 31 December	348,598	293,988
Accumulated impairment losses		
At 1 January	(41,873)	-
Exchange differences	(410)	2,366
Impairment of goodwill	(7,355)	(44,239)
Carrying amount at 31 December	298,960	252,115

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. Other changes in 2013 relate to the release of an earn-out provision of £4,276,000 relating to a 2008 acquisition which was credited to goodwill, and other adjustments relating to the re-assessment of initial fair values.

Goodwill acquired in a business combination is allocated, at acquisition, to the Cash-Generating Units (CGUs) that are expected to benefit from that business combination. These consist of the Group's operating businesses. Goodwill has been allocated to CGUs as set out below:

	2014 Discount rate %	2013 Discount rate %	2014 £'000	2013 £'000 As restated
Blue Sky Group	10.8	12.3	-	7,333
Controls	10.8	12.3	10,085	7,876
Precision Air & Land Systems	10.8	12.3	10,317	10,317
Other	10.8 to 11.8	12.3 to 13.3	13,074	13,074
Aircraft & Vehicle Systems			33,476	38,600
Airport Systems	11.8	13.3	27,942	28,064
EMS	10.8	13.3	20,129	2,356
NSPI	11.8	13.3	11,138	10,518
SOTECH	10.8	12.3	9,161	8,652
Other	10.8 to 11.8	12.3 to 13.3	11,478	11,457
Information & Power Systems			79,848	61,047
3eTI	10.8	12.3	19,927	18,817
3Phoenix	13.7	-	15,885	-
AEP	11.8	13.3	24,908	24,908
Command & Control Systems	10.8	12.3	5,827	5,827
Flightline	10.8	12.3	10,080	9,519
Forensic Technology	12.5	-	24,707	-
GigaSat	11.8	13.3	9,544	9,544
Security & Surveillance Systems	10.8	12.3	9,851	9,851
Tactical Communication Systems	10.8	12.3	19,398	36,054
UnderSea Sensor Systems	10.8	12.3	26,040	24,487
Other	10.8	12.3	19,469	13,461
Tactical & Sonar Systems			185,636	152,468
Total – Ultra Electronics			298,960	252,115

During the year the Command & Control Systems business moved from the Information & Power Systems division into the Tactical & Sonar Systems Division and split into two units, Command & Control Systems and Security & Surveillance Systems. The MSI and AMI businesses moved from the Aircraft & Vehicle Systems division into the Information & Power Systems division and Tactical & Sonar Systems division respectively. Prior year comparators have been restated. Goodwill relating to the legacy DNE business has been reallocated between the Tactical Communication Systems and EMS businesses during 2014.

13 Goodwill (continued)

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

The key assumptions used in the value-in-use calculations are those regarding the discount rate, future revenues, growth rates and forecast gross margins. Management estimates the discount rate using pre-tax rates that reflect current market assessments of the time value of money and risks specific to the Group, being the Weighted Average Cost of Capital (WACC). The WACC is then risk-adjusted to reflect risks specific to each business. The pre-tax discount rate used during 2014 varied between 10.8% and 13.7% (2013: 12.3% to 13.8%). Future revenues are based on orders already received, opportunities that are known and expected at the time of setting the budget and strategic plans and future growth rates. Budget and strategic plan growth rates are based on a combination of historical experience, available government spending data and management and industry expectations of the growth rates that are expected to apply in the major markets in which each CGU operates. Longer-term growth rates, applied for the ten year period after the end of the strategic planning period, are set at 2.5%. Ultra considers the long-term growth rate to be appropriate for the sectors in which it operates. Forecast gross margins reflect past experience, factor in expected efficiencies to counter inflationary pressures, and also reflect likely margins achievable in the shorter-term period of greater defence spending uncertainty.

Within each of the strategic plans a number of assumptions are made about business growth opportunities, contract wins, product development and available markets. A key assumption is that there will be continued demand for Ultra's products and expertise from a number of US government agencies and prime contractors during the strategic plan period.

Sensitivity analysis has been performed on the value-in-use calculations to:
(i) reduce the post-2019 growth assumption from 2.5% to nil.
(ii) apply a 10% reduction to forecast operating profits in each year of the modelled cash inflows.
(iii) consider specific market factors.

Certain of these sensitivity scenarios give rise to potential impairments at SOTECH, Airport Systems, AEP and Tactical Communications Systems. Headroom for these businesses, which represents the value derived from the key growth assumptions in the value-in-use calculations, is as follows: Tactical Communication Systems £32.3m, Airport Systems £4.9m, SOTECH £16.5m and AEP £8.3m. Consideration of specific market factors has identified the following:
(a) in Tactical Communication Systems a material delay in bringing a key programme to market, combined with failure to secure sufficient business with new and existing customers would result in impairment
(b) following the termination of the Oman Airport IT contract, the Airport Systems CGU is sensitive to the ability of the remaining business to win sufficient new customers over the medium term; and
(c) the SOTECH CGU is sensitive to the ability to successfully expand the business into new geographic areas and market sectors.

Accordingly if assumption (ii) was extended further, the level of reduction to forecast operating profits required to indicate impairment is as follows: Tactical Communication Systems 60%, Airport Systems 14%, SOTECH 43% and AEP: 15%.

Following a review of the performance of our businesses in the Middle East, a potential indicator of impairment was identified for the Blue Sky Group CGU, and an impairment review was undertaken. 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 has been recorded in the year. The pretax discount rate used during this assessment was 10.8%. Following the impairment charge, the carrying value of goodwill for the Blue Sky Group CGU as at 31 December 2014 is £nil. As set out in note 2, the £7.4m impairment charge has been included as part of the non-underlying operating results of the Group. Blue Sky Group is within the Aircraft & Vehicle Systems operating segment.

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

The reduction in placement of US service contracts particularly impacted the ProLogic business. During the prior year the value-in-use of the ProLogic CGU was lower than the carrying value of the CGU's net operating assets and consequently an impairment charge of £44.2m was recorded in administrative expenses in 2013. As set out in note 2, the £44.2m prior year impairment charge was included as part of the non-underlying operating results of the Group. ProLogic is within the Information & Power Systems operating segment.

14 Other intangible assets

	Acquired intangibles				Internally generated capitalised development costs £'000	Other intangibles £'000	Total £'000
	Customer relationships £'000	Intellectual property £'000	Profit in order book £'000	Other acquired £'000			
Cost							
At 1 January 2013	157,286	73,220	22,536	1,695	17,139	19,475	291,351
Foreign exchange differences	(3,234)	(1,085)	(557)	(24)	(331)	(351)	(5,582)
Acquired on acquistion of subsidiary undertakings	9,114	-	1,987	715	-	-	11,816
Additions	-	-	-	-	6,312	1,345	7,657
Disposals	-	-	-	-	-	(232)	(232)
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 31 December 2014	**202,154**	**91,468**	**26,941**	**4,847**	**30,120**	**25,572**	**381,102**
Accumulated amortisation							
At 1 January 2013	(75,396)	(28,270)	(22,402)	(646)	(13,635)	(11,842)	(152,191)
Foreign exchange differences	2,660	862	557	21	139	122	4,361
Disposals	-	-	-	-	-	232	232
Charge	(18,921)	(8,580)	(1,169)	(413)	(608)	(2,276)	(31,967)
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 31 December 2014	**(112,788)**	**(46,356)**	**(25,961)**	**(1,650)**	**(15,105)**	**(16,730)**	**(218,590)**
Carrying amount							
At 31 December 2014	**89,366**	**45,112**	**980**	**3,197**	**15,015**	**8,842**	**162,512**
At 31 December 2013	71,509	36,147	952	1,348	9,016	6,473	125,445

'Other intangibles' represents software, patents and trademarks. Of the £8,842,000 (2013: £6,473,000) net book value, £504,000 (2013: £482,000) related to patents and trademarks. The amortisation of intangible assets charge is included within administrative expenses.

Intangible assets, other than goodwill, are amortised over their estimated useful lives, typically as follows:

Customer relationships	5 to 16 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

15 Property, plant and equipment

	Land and Buildings			
	Freehold £'000	Short leasehold £'000	Plant and machinery £'000	Total £'000
Cost				
At 1 January 2013	27,945	19,794	89,162	136,901
Foreign exchange differences	(568)	(199)	(1,367)	(2,134)
Acquisitions	-	3	858	861
Additions	4,014	2,447	7,396	13,857
Disposals	(1,080)	(1,268)	(3,571)	(5,919)
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 31 December 2014	**34,416**	**21,220**	**100,225**	**155,861**
Accumulated Depreciation				
At 1 January 2013	(4,630)	(8,118)	(66,397)	(79,145)
Foreign exchange differences	302	118	1,161	1,581
Charge	(1,407)	(1,742)	(8,216)	(11,365)
Disposals	201	1,070	3,238	4,509
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 31 December 2014	**(6,727)**	**(10,000)**	**(76,565)**	**(93,292)**
Carrying amount				
At 31 December 2014	**27,689**	**11,220**	**23,660**	**62,569**
At 31 December 2013	24,777	12,105	22,264	59,146

Freehold land amounting to £3,502,000 (2013: £3,502,000) has not been depreciated. The net book value of plant and machinery held under finance leases was £nil (2013: £48,000). Depreciation charged in the year on assets held under finance leases was £nil (2013: £65,000). Included within Land and Buildings is £nil (2013: £nil) of assets in the course of construction.

16 Interest in associate

	2014 £'000	2013 £'000
The value of the Group's investment is made up as follows:		
Total assets	**15,085**	13,894
Total liabilities	**(6,980)**	(6,577)
Interest in associate	**8,105**	7,317

	2014 £'000	2013 £'000
Total revenue of associate	**41,340**	29,370
Group's share of profit recognised	**1,957**	1,424

The Group's interest in associate is represented by its 49% holding of ordinary shares in Al Shaheen Adventure LLC, a Company incorporated in the UAE. The Group has significant influence over the entity but does not control it, consequently the associate is incorporated in these financial statements using the equity method of accounting. The associate's year end is 31 December 2014.

17 Inventories

	2014 £'000	2013 £'000
Raw materials and consumables	**44,226**	36,888
Work in progress	**18,462**	13,774
Finished goods and goods for resale	**11,057**	7,112
	73,745	57,774

The amount of any write down of inventory recognised as an expense in the year was £3,051,000 (2013: £2,727,000).

18 Long-term contract balances

	2014 £'000	2013 £'000
Contracts in progress at the balance sheet date:		
Amounts due from contract customers included in trade and other receivables	**82,662**	133,368
Amounts due to contract customers included in trade and other payables	**(70,138)**	(124,122)
	12,524	9,246
Contract costs incurred plus recognised profits less recognised losses to date	**1,546,394**	1,375,409

Advances received from customers for contract work amounted to £68,391,000 (2013: £81,585,000).

19 Trade and other receivables

Non-current	2014 £'000	2013 £'000
Trade receivables	**7,279**	5,296
Provisions against receivables *(note 36)*	**(6,884)**	-
Amounts due from contract customers *(note 18)*	**4,299**	4,326
	4,694	9,622

Current	2014 £'000	2013 £'000
Trade receivables	**92,617**	87,174
Provisions against receivables	**(1,043)**	(1,605)
Net trade receivables	**91,574**	85,569
Amounts due from contract customers	**110,612**	129,042
Provisions against amounts due from contract customers *(note 36)*	**(32,249)**	-
Net amounts due from contract customers *(note 18)*	**78,363**	129,042
Other receivables	**10,547**	17,150
Prepayments and accrued income	**9,702**	8,155
	190,186	239,916

Trade receivables do not carry interest. The average credit period on sale of goods is 35 days (2013: 34 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:

	2014 £'000	Related provision £'000	Total £'000	2013 £'000	Related provision £'000	Total £'000
1 to 3 months	**15,877**	**(311)**	**15,566**	12,698	(364)	12,334
4 to 6 months	**1,433**	**(49)**	**1,384**	2,123	(358)	1,765
7 to 9 months	**269**	**(165)**	**104**	791	(143)	648
Over 9 months	**518**	**(518)**	**-**	740	(740)	-
Total overdue	**18,097**	**(1,043)**	**17,054**	16,352	(1,605)	14,747

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.

Movement in the provision for trade receivables was as follows:

Current	2014 £'000	2013 £'000
Balance at beginning of year	**1,605**	1,445
Foreign exchange differences	**9**	(8)
Increase in provision for trade receivables regarded as potentially uncollectable	**546**	731
Decrease in provision for trade receivables recovered during the year	**(1,117)**	(563)
Balance at end of year	**1,043**	1,605

Non-current	2014 £'000	2013 £'000
Balance at beginning of year	**-**	-
Increase in provision for trade receivables regarded as potentially uncollectable	**6,884**	-
Balance at end of year	**6,884**	-

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19 Trade and other receivables (continued)

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 36, the Oman Airport IT contract has been terminated. Specific provisions, as set out above, have been 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.

20 Trade and other payables

	2014 £'000	2013 £'000
Amounts included in current liabilities:		
Trade payables	**92,855**	85,709
Amounts due to contract customers *(note 18)*	**69,257**	122,856
Other payables	**23,924**	19,505
Accruals and deferred income	**45,918**	41,837
	231,954	269,907
Amounts included in non current liabilities:		
Amounts due to contract customers *(note 18)*	**881**	1,266
Other payables	**5,607**	1,174
Accruals and deferred income	**3,024**	2,333
	9,512	4,773

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

21 Finance leases

Minimum lease payments

	2014 £'000	2013 £'000
Amounts payable under finance leases:		
Within one year	**-**	48
Between one and five years	**-**	24
	-	72
Less: future finance charges	**-**	(9)
Present value of finance lease liabilities	**-**	63
Present value of finance lease liabilities – payments due:		
Within one year	**-**	44
Between one and five years	**-**	19
	-	63

22 Borrowings

	2014 £'000	2013 £'000
Amounts due after less than one year:		
Bank loans	**-**	-
	-	-
Amounts due after more than one year:		
Bank loans	**120,177**	25,975
Unsecured loan notes	**44,849**	42,352
Loans from government	**5,728**	4,337
	170,754	72,664
Total borrowings:		
Amount due for settlement within 12 months	**-**	-
Amount due for settlement after 12 months	**170,754**	72,664
	170,754	72,664

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	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**

	Level 2 £'000	2013 Total £'000
Financial assets at fair value		
Foreign exchange derivative financial instruments (through profit and loss)	7,533	7,533
Financial liabilities at fair value		
Foreign exchange derivative financial instruments (through profit and loss)	1,046	1,046

	Current assets/(liability)		Non-current assets/(liability)	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'000
Financial assets/(liabilities) carried at fair value through profit or loss				
Foreign exchange currency liabilities	**(1,920)**	(777)	**(1,678)**	(269)
Foreign exchange currency assets	**1,725**	3,307	**1,117**	4,226

Financial assets

The financial assets of the Group were as follows:

	2014 £'000	2013 £'000
Cash and cash equivalents	**41,259**	30,570
Currency derivatives used for hedging	**2,842**	7,533
Amounts due from contract customers	**82,662**	133,368
Other receivables	**10,547**	17,150
Trade receivables	**91,969**	90,865

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:

	2014 £'000	2013 £'000
Currency derivatives used for hedging	**3,598**	1,046
Other financial liabilities:		
Bank loans and overdrafts	**120,177**	25,975
Loan notes	**44,849**	42,352
Finance leases	**-**	63
Government loans	**5,728**	4,337
Trade payables	**92,855**	85,709
Amounts due to contract customers	**70,138**	124,122
Deferred consideration	**6,108**	11,593
Accruals	**28,222**	28,729

The Directors consider that the carrying amount for all financial liabilities approximates to their fair value.

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 two facilities in place; one provides £100 million of revolving credit and expires in December 2017 and a second, which was put in place in August 2014 to replace the previous £90 million facility, provides £200 million of revolving credit which expires in July 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 further £15 million overdraft is available for short-term working capital funding.

All bank loans are unsecured. Interest was predominantly charged at 1.00% (2013: 1.45%) over base or contracted rate.

At 31 December 2014, the Group had available £177,956,000 (2013: £163,000,000) 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. On 2 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**
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**
2013					
Bank loans and overdrafts	496	496	27,736	-	28,728
Loan notes	1,525	1,525	10,510	36,386	49,946
Government loans	-	-	-	4,337	4,337
Finance leases	48	23	1	-	72
Trade payables	85,709	-	-	-	85,709
Currency derivatives used for hedging	777	169	56	44	1,046
Deferred consideration	11,593	-	-	-	11,593
Accruals	26,396	1,262	775	296	28,729

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 2014, the net fair value of the Group's currency derivatives is estimated to be a liability of approximately £756,000 (2013: asset £6,487,000), comprising £2,842,000 assets (2013: £7,533,000) and £3,598,000 liabilities (2013: £1,046,000). The loss on derivative financial instruments included in the Group's consolidated income statement for the period was £7,243,000 (2013: profit £1,470,000).

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**
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**
2013				
US dollars/Sterling	50,873	55,614	-	106,487
US dollars/Canadian dollars	6,333	-	-	6,333
Canadian dollars/Sterling	3,173	-	-	3,173
Euro/other currencies	1,724	6,349	3,464	11,537
Total	62,103	61,963	3,464	127,530

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.

Interest rate risk

The Group has USD70 million of long term fixed rate debt with an interest rate of 3.60%. This was 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**
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**
2013						
Cash and cash equivalents	0.39%	30,570	30,570	-	-	-
Loan notes	3.60%	42,352	-	-	6,050	36,302
Unsecured bank loans	1.84%	25,975	-	-	25,975	-
Government loans	4.43%	4,337	-	-	-	4,337
Finance lease liabilities	4.89%	63	44	19	-	-

Market risk sensitivity analysis

Interest rate risk

During 2014 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 2014. There is no significant difference between the amount recharged to the income statement and equity in the year.

	1% change
	Profit before tax £'000
2014	
Interest rate sensitivity	**(1,043)**
2013	
Interest rate sensitivity	(229)

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
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**
2013								
Transaction	7,089	7,089	(7,089)	(7,089)	17,723	17,723	(17,723)	(17,723)
P&L translation	1,680	2,831	(1,680)	(2,831)	4,199	7,078	(4,199)	(7,078)
Foreign exchange derivatives	(11,577)	(11,577)	9,581	9,581	(34,294)	(34,294)	21,208	21,208
Total foreign exchange	(2,808)	(1,657)	812	(339)	(12,372)	(9,493)	(714)	(3,593)

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 2016 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 applicable at the time the agreements were signed.

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:

	2014 £'000	2013 £'000
Fair value of SADI loan brought forward	**4,337**	2,914
Contributions	**687**	1,282
Interest charged to finance costs	**823**	539
Foreign exchange differences	**(119)**	(398)
Fair value of SADI loan carried forward	**5,728**	4,337

Government grants credited to profit in the year

	2014 £'000	2013 £'000
SADI	**1,709**	1,128
IQ	**-**	426
Other†	**222**	265
	1,931	1,819

†Ultra Electronics Limited received a £222,000 (2013: £265,000) 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 2013	(18,652)	624	(1,150)	19,227	(8,840)	2,850	(5,941)
Credit/(charge) to income	2,088	43	(300)	(550)	7,631	2,874	11,786
Credit/(charge) to other comprehensive income	-	-	-	1,106	-	-	1,106
Charge direct to equity	-	63	-	-	-	-	63
Exchange differences	669	-	-	-	455	(145)	979
Effect of change in tax rate							
– income statement	1,922	(20)	152	(32)	19	8	2,049
– other comprehensive income	-	-	-	(2,427)	-	-	(2,427)
– equity	-	(11)	-	-	-	-	(11)
Arising on acquisition	(2,656)	-	-	-	-	(23)	(2,679)
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 31 December 2014	**(21,737)**	**419**	**151**	**17,607**	**(1,736)**	**3,598**	**(1,698)**

	2014 £'000	2013 £'000
Non current assets	**4,494**	5,147
Non current liabilities	**(6,192)**	(222)
	(1,698)	4,925

†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 £9.5 million (2013: £3.47 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 will reduce from 21% to 20% from 1 April 2015. The rate of 20% has been used to calculate the deferred tax balances at 31 December 2014 as this rate reduction was enacted before the balance sheet date.

26 Provisions

	Warranties £'000	**Contract related provisions £'000**	**Total £'000**
At 1 January 2014	6,274	17,906	24,180
Created	1,816	22,313	24,129
Reversed	(1,603)	(10,690)	(12,293)
Utilised	(1,929)	(4,545)	(6,474)
Unwinding of discount	-	1,172	1,172
Exchange differences	58	523	581
At 31 December 2014	**4,616**	**26,679**	**31,295**
Included in current liabilities	3,395	23,710	27,105
Included in non-current liabilities	1,221	2,969	4,190
	4,616	**26,679**	**31,295**

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 (*see note 36*). 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: £8,364,000 of the provision was released in the year when the 2014 GigaSat earn-out target was not met. As at 31 December 2014 the remaining contingent consideration provision is £3,276,000 (2013: £7,679,000), 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

	2014		2013	
	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	69,962,055	3,498	69,804,884	3,490

157,239 ordinary shares having a nominal value of £7,862 were allotted during the year under the terms of the Group's various Share Option Schemes. The aggregate consideration received was £2,231,000.

Share options

During the year to 31 December 2014, 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 2014, share options outstanding under the Savings Related Share Option Schemes were as follows:

Options granted	Number of shares 2014	Number of shares 2013	Option price (£)	Exercise dates
2012 – US scheme	-	32,970	13.79	September 2014 - December 2014
2013 – US scheme	51,191	53,335	17.16	September 2015 - December 2015
2014 – US scheme	35,730	-	15.94	September 2016 - December 2016
2012 – Canadian scheme	29,802	31,108	13.79	September 2015 - March 2016
2013 – Canadian scheme	3,113	3,373	16.80	September 2016 - December 2016
2008 – UK 5 year scheme	-	1,462	12.00	December 2013 - June 2014
2009 – UK 5 year scheme	1,622	8,353	11.48	December 2014 - June 2015
2010 – UK 3 year scheme	-	2,743	15.54	December 2013 - June 2014
2010 – UK 5 year scheme	9,567	9,943	15.54	December 2015 - June 2016
2011 – UK 3 year scheme	3,995	18,530	13.33	December 2014 - June 2015
2011 – UK 5 year scheme	16,847	19,058	13.33	December 2016 - June 2017
2012 – UK 3 year scheme	24,047	27,200	13.85	December 2015 - June 2016
2012 – UK 5 year scheme	30,602	33,601	13.85	December 2017 - June 2018
2013 – UK 3 year scheme	26,539	29,450	16.80	December 2016 - June 2017
2013 – UK 5 year scheme	16,869	19,617	16.80	December 2018 - June 2019
2014 – UK 3 year scheme	17,979	-	16.13	December 2017 - June 2018
2014 – UK 5 year scheme	13,193	-	16.13	December 2019 - June 2020

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 2014, share options outstanding under the Company Share Option Plan were as follows:

Options granted	Number of shares 2014	2013	Option price (£)	Exercise dates
2005	**2,472**	4,395	7.28	March 2008 - March 2015
2006	**968**	2,355	10.32	February 2009 - February 2016
2007	**3,858**	5,172	12.07	May 2010 - May 2017
2008	**2,261**	2,261	12.00	March 2011 - March 2018
2009	**4,922**	6,417	11.90	March 2012 - March 2019
2010	**14,278**	14,680	14.83	March 2013 - March 2020
2011	**22,455**	26,829	16.97	March 2014 - March 2021
2012	**29,484**	29,484	17.10	March 2015 - March 2022
2013	**58,075**	59,369	17.18	March 2016 - March 2023
2014	**34,377**	-	18.29	March 2017 - March 2024

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 2014, share options outstanding under the Executive Share Option Scheme were as follows:

Options granted	Number of shares 2014	2013	Option price (£)	Exercise dates
2007	**-**	19,740	12.07	May 2010 - May 2014
2008	**16,408**	33,568	12.00	March 2011 - March 2015
2009	**50,632**	69,431	11.90	March 2012 - March 2016
2010	**46,608**	83,331	14.83	March 2013 - March 2017
2011	**112,534**	131,473	16.97	March 2014 - March 2018
2011	**8,183**	8,183	15.70	August 2014 - August 2018
2012	**167,258**	176,781	17.10	March 2015 - March 2019
2013	**181,251**	182,136	17.18	March 2016 - March 2020
2014	**196,303**	-	18.29	March 2017 - March 2021

4. Long-Term Incentive Plan

Details in relation to the LTIP are included in the Directors' Remuneration report on pages **65** to **76**.

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 (£) 2014	Number of options 2014	Weighted average exercise price (£) 2013	Number of options 2013
Beginning of year	**12.34**	**1,456,124**	11.40	1,575,958
Granted during the year	**12.97**	**418,791**	13.24	454,025
Forfeited during the year	**12.83**	**(25,877)**	14.59	(23,581)
Expired during the year	**3.70**	**(136,892)**	5.18	(194,727)
Exercised during the year	**14.17**	**(148,084)**	13.08	(355,551)
Outstanding at the end of the year	**13.07**	**1,564,062**	12.34	1,456,124
Exercisable at the end of the year	**14.93**	**283,013**	13.04	245,555

The Group recognised total expenses of £1,783,000 (2013: £1,859,000) 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 £18.03. The fair value of options granted during the year was £1,725,239 (2013: £1,869,986).

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 LTIP schemes are measured by use of the Black Scholes option pricing model using the following assumptions:

	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

	Share save*	CSOP*	ESOS*	LTIP*
				2013
Weighted average share price (£)	15.82	17.14	17.10	n/a
Weighted average exercise price (£)	14.60	17.10	17.07	n/a
Expected volatility %	25.2	25.7	25.8	n/a
Expected option life (years)	3.6	6	5	n/a
Risk-free interest rate %	1.1	1.5	1.1	n/a
Expected dividends %	2.2	1.6	2.2	n/a

*Figures in the above table show an average across the invested schemes at year end.

For the 2011, 2012 and 2013 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:

	2014	2013
Exercise price (£)	**n/a**	n/a
Share price at grant (£)	**17.83**	17.22
Expected option life (years)	**3.0**	3.0
Expected volatility %	**23.1**	24.2
Expected dividend yield %	**0.0**	0.0
Risk-free interest rate %	**1.0**	0.7

Figures in the above table show an average across the schemes.

The weighted average fair value of options granted during the year was £4.44 (2013: £4.51).

The weighted average remaining contractual life of share options was 3.7 years (2013: 3.8 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 2013	3,470	48,752	(2,581)	(9,979)	21,119	252,745	699	314,225
Total comprehensive income for the year	-	-	-	810	(4,879)	31,907	(17)	27,821
Equity-settled employee share scheme	20	5,156	-	-	-	2,028	-	7,204
Dividends to shareholders	-	-	-	-	-	(28,071)	-	(28,071)
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 31 December 2014	**3,498**	**56,131**	**(2,581)**	**(13,330)**	**27,219**	**246,132**	**(13,623)**	**303,446**

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 2014, the number of own shares held was 235,245 (2013: 235,245).

29 Notes to the cash flow statement

	2014 £'000	2013 £'000
Operating profit	**39,543**	57,398
Adjustments for:		
Depreciation of property, plant and equipment	**10,827**	11,365
Amortisation of intangible assets	**32,202**	31,967
Impairment of goodwill	**7,355**	44,239
Cost of equity-settled employee share schemes	**1,783**	1,859
Adjustment for pension funding	**(8,448)**	(6,103)
(Profit)/loss on disposal of property, plant and equipment	**(3)**	130
Share of profit from associate	**(1,957)**	(1,424)
Increase/(decrease) in provisions	**2,564**	(13,508)
Operating cash flow before movements in working capital	**83,866**	125,923
Increase in inventories	**(4,443)**	(4,197)
Decrease/(increase) in receivables	**73,977**	(43,144)
(Decrease)/increase in payables	**(57,333)**	14,894
Cash generated by operations	**96,067**	93,476
Income taxes paid	**(22,899)**	(25,591)
Interest paid	**(4,451)**	(3,953)
Net cash from operating activities	**68,717**	63,932

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

	2014 £'000	2013 £'000
Net increase in cash and cash equivalents	**11,653**	773
Cash (inflow)/outflow from movement in debt and finance leasing	**(94,817)**	521
Change in net debt arising from cash flows	**(83,164)**	1,294
Loan syndication costs	**1,495**	-
Amortisation of finance costs of debt	**(662)**	(616)
Translation differences	**(5,007)**	165
Movement in net debt in the year	**(87,338)**	843
Net debt at start of year	**(42,157)**	(43,000)
Net debt at end of year	**(129,495)**	(42,157)

Net debt comprised the following:

	2014 £'000	2013 £'000
Cash and cash equivalents	**41,259**	30,570
Borrowings	**(170,754)**	(72,664)
Obligations under finance leases included in current liabilities	**-**	(44)
Obligations under finance leases included in non-current liabilities	**-**	(19)
	(129,495)	(42,157)

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:

	2014 £'000	2013 £'000
Contracted but not provided	**720**	2,688

b) Lease commitments
At 31 December 2014, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2014 £'000	2013 £'000
Within one year	**11,980**	9,065
Between one and five years	**33,305**	27,811
After five years	**17,029**	13,009
	62,314	49,885

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 acquired Forensic Technology group has a defined benefit scheme.

Defined contribution schemes

The total cost charged to income in respect of the defined contribution schemes was £4,696,000 (2013: £4,916,000).

Defined benefit schemes

All the defined benefit schemes were actuarially assessed at 31 December 2014 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 2014 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 2014	**Canada 2014**	**Switzerland 2014**	UK 2013	Canada 2013
Discount rate	**3.65%**	**3.65%**	**1.50%**	4.45%	4.45%
Inflation rate – RPI	**3.05%**	**3.05%**	**1.40%**	3.40%	3.40%
Inflation rate – CPI	**2.05%**	**2.05%**	**1.40%**	2.40%	n/a
Expected rate of salary increases	**3.30%**	**3.30%**	**1.00%**	3.90%	3.90%
Future pension increases (pre 6/4/08)	**2.85%**	**3.05%**	**1.40%**	3.10%	3.40%
Future pension increases (post 6/4/08)	**1.90%**	**n/a**	**n/a**	2.00%	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 3.55% would increase the scheme's liabilities by 1.8% and 1.9% respectively. If the members' life expectancy were to increase by 1 year, the scheme liabilities would increase by 3.6%. The average duration of the scheme liabilities is 19 years (2013: 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:

	2014	2013
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 2014 £m	Canada 2014 £m	Switzerland 2014 £m	Total 2014 £m	UK 2013 £m	Canada 2013 £m	Total 2013 £m
Current service cost	**4.9**	**0.1**	**0.1**	**5.1**	4.7	0.1	4.8
Administration expenses	**0.5**	**0.1**	**-**	**0.6**	0.6	0.3	0.9
Interest on pension scheme liabilities	**12.0**	**0.4**	**-**	**12.4**	11.0	0.5	11.5
Expected return on pension scheme assets	**(8.4)**	**(0.4)**	**-**	**(8.8)**	(7.7)	(0.4)	(8.1)
Loss on settlements	**-**	**-**	**-**	**-**	-	0.3	0.3
	9.0	**0.2**	**0.1**	**9.3**	8.6	0.8	9.4

Of the current service cost for the year, £3.8 million (2013: £3.7 million) has been included in cost of sales, and £1.3 million (2013: £1.1 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 2014 £m	Canada 2014 £m	Switzerland 2014 £m	Total 2014 £m	UK 2013 £m	Canada 2013 £m	Total 2013 £m
Fair value of scheme assets	**220.8**	**9.9**	**3.7**	**234.4**	185.0	9.3	194.3
Present value of scheme liabilities	**(306.5)**	**(11.1)**	**(4.1)**	**(321.7)**	(270.2)	(10.2)	(280.4)
Scheme deficit	**(85.7)**	**(1.2)**	**(0.4)**	**(87.3)**	(85.2)	(0.9)	(86.1)
Related deferred tax asset	**17.1**	**0.3**	**0.2**	**17.6**	17.0	0.3	17.3
Net pension liability	**(68.6)**	**(0.9)**	**(0.2)**	**(69.7)**	(68.2)	(0.6)	(68.8)

Movements in the present value of defined benefit obligations during the year were as follows:

	UK 2014 £m	Canada 2014 £m	Switzerland 2014 £m	Total 2014 £m	UK 2013 £m	Canada 2013 £m	Total 2013 £m
Present value of obligation at 1 January	**(270.2)**	**(10.2)**	**-**	**(280.4)**	(235.4)	(11.1)	(246.5)
Current service cost	**(4.9)**	**(0.1)**	**(0.1)**	**(5.1)**	(4.7)	(0.1)	(4.8)
Interest cost	**(12.0)**	**(0.4)**	**-**	**(12.4)**	(11.0)	(0.5)	(11.5)
Actuarial gains and losses	**(25.7)**	**(1.6)**	**(0.2)**	**(27.5)**	(26.0)	(0.9)	(26.9)
Exchange difference	**-**	**0.3**	**0.2**	**0.5**	-	0.9	0.9
Liabilities extinguished on settlements	**-**	**-**	**-**	**-**	-	0.9	0.9
Liabilities assumed on business combinations	**-**	**-**	**(4.0)**	**(4.0)**	-	-	-
Benefits paid	**6.3**	**0.9**	**-**	**7.2**	6.9	0.6	7.5
Present value of obligation at 31 December	**(306.5)**	**(11.1)**	**(4.1)**	**(321.7)**	(270.2)	(10.2)	(280.4)

Movements in the fair value of scheme assets during the year were as follows:

	UK 2014 £m	Canada 2014 £m	Switzerland 2014 £m	Total 2014 £m	UK 2013 £m	Canada 2013 £m	Total 2013 £m
Fair value at 1 January	**185.0**	**9.3**	**-**	**194.3**	153.4	10.0	163.4
Expected return on scheme assets	**8.4**	**0.4**	**-**	**8.8**	7.7	0.4	8.1
Actuarial gains and losses	**21.0**	**0.6**	**0.2**	**21.8**	20.0	1.2	21.2
Exchange differences	**-**	**(0.3)**	**(0.1)**	**(0.4)**	-	(0.9)	(0.9)
Employer contributions	**13.2**	**0.8**	**0.1**	**14.1**	11.4	0.7	12.1
Administration expenses	**(0.5)**	**(0.1)**	**-**	**(0.6)**	(0.6)	(0.3)	(0.9)
Assets distributed on settlements	**-**	**-**	**-**	**-**	-	(1.2)	(1.2)
Assets assumed on business combinations	**-**	**-**	**3.6**	**3.6**	-	-	-
Benefits paid	**(6.3)**	**(0.8)**	**(0.1)**	**(7.2)**	(6.9)	(0.6)	(7.5)
Fair value at 31 December	**220.8**	**9.9**	**3.7**	**234.4**	185.0	9.3	194.3

31 Retirement benefit schemes (continued)

Scheme assets were as follows:

	UK 2014 £m	Canada 2014 £m	Switzerland 2014 £m	Total 2014 £m	UK 2013 £m	Canada 2013 £m	Total 2013 £m
Fair value:							
Equities	55.6	4.2	1.0	60.8	63.0	4.9	67.9
Bonds	65.5	4.0	1.8	71.3	60.7	4.1	64.8
Property	11.3	-	0.4	11.7	8.1	-	8.1
Other assets	14.4	1.7	0.5	16.6	0.2	0.3	0.5
Other investment funds	74.0	-	-	74.0	53.0	-	53.0
	220.8	9.9	3.7	234.4	185.0	9.3	194.3

The analysis of the actuarial loss in the consolidated statement of comprehensive income was as follows:

	UK 2014 £m	Canada 2014 £m	Switzerland 2014 £m	Total 2014 £m	UK 2013 £m	Canada 2013 £m	Total 2013 £m
Actual return less expected return on pension scheme assets	21.0	0.6	0.2	21.8	20.0	1.2	21.2
Experience gains arising on scheme liabilities	(2.3)	(0.2)	-	(2.5)	2.9	(0.6)	2.3
Changes in assumptions underlying the present value of the scheme liabilities	(23.4)	(1.4)	(0.2)	(25.0)	(28.9)	(0.3)	(29.2)
	(4.7)	(1.0)	-	(5.7)	(6.0)	0.3	(5.7)

Cumulative actuarial losses, net of deferred tax, recognised in the consolidated statement of comprehensive income at 31 December 2014 were £52.1 million (2013: £47.7 million).

The five-year history of experience adjustments is as follows:

	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Present value of defined benefit obligations	(321.7)	(280.4)	(246.5)	(232.0)	(221.6)
Fair value of scheme assets	234.4	194.3	163.4	149.1	143.1
Scheme deficit	(87.3)	(86.1)	(83.1)	(82.9)	(78.5)
Experience adjustments on scheme liabilities	(2.5)	2.3	(3.1)	0.4	7.5
Percentage of scheme liabilities	0.8%	(0.8%)	1.3%	(0.2%)	(3.4%)
Experience adjustment on scheme assets	21.8	21.2	2.8	(11.6)	6.1
Percentage of scheme assets	9.3%	10.9%	1.7%	(7.8%)	4.3%

The amount of contributions expected to be paid to defined benefit schemes during the 2015 financial year is £13.9m. For the UK scheme this includes an additional deficit payment of £8.5m agreed with the Trustee. This will be followed by £9.0m per annum for the following 8.5 years to fund the scheme deficit.

32 Acquisitions

Acquisitions during the year

In aggregate, consideration of £104.5m 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	111,285
Cash acquired with subsidiaries	(6,737)
Net cash outflow	104,548

Aggregate assets and liabilities acquired comprised intangible assets of £53.2m, property, plant and equipment of £5.0m, cash of £6.7m, inventories of £11.6m, net receivables of £14.4m and payables of £25.4m.

If all the acquisitions had occurred on 1 January 2014 the revenue for the Group would have been £731.1m and operating profit would have been £42.4m.

With respect to prior year acquisitions, fair value adjustments totalling net £0.5m 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)

3 Phoenix Inc.

On 18 February 2014, the Group acquired the entire share capital of 3 Phoenix Inc. ("3Pi") for cash consideration of £46.0m. A further sum, estimated at the time of acquisition as £1.4m (discounted), is payable if certain earnings targets are met for the years ending 31 December 2014, 2015 and 2016. This contingent consideration has been recorded against goodwill in accordance with IFRS 3. Additional amounts of up to £6.0m will be payable subject to performance and retention of certain members of staff over the next three years and will be expensed to the income statement as incurred, in accordance with IFRS 3.

3Pi is a leading supplier of specialist sonar, radar, intelligence, surveillance and reconnaissance products and solutions. The company has a 10 year track record of delivering critical real-time sensor and processing systems, primarily to the US Navy, but also to commercial customers. 3Pi is a bolt-on acquisition to Ultra's existing Tactical & Sonar Systems division, with which there are a significant number of internal and external synergies.

The provisional fair values of the net assets acquired are stated below:

	Book value	Revaluations	Provisional fair value
	£'000	£'000	£'000
Intangible assets	249	21,005	21,254
Property, plant and equipment	763	-	763
Cash and cash equivalents	2,873	-	2,873
Receivables	6,355	-	6,355
Payables	(4,581)	-	(4,581)
Net assets acquired	5,659	21,005	26,664
Goodwill arising on acquisition			20,782
Purchase consideration			47,446

The net revenue and profit contributions from 3 Phoenix were approximately £31.3m and £2.4m respectively in the year from the date of acquisition to 31 December 2014.

The goodwill arising on the acquisition is attributable to the assembled workforce of 3 Phoenix, the immediate access to certain technology/know-how and US Navy programmes and the strategic premium to gain access to the 3 Phoenix market niche relative to an organic entry. Some of this goodwill has been allocated to relevant businesses within the Tactical & Sonar Systems division.

Acquisition costs of £0.4m 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 £20.8m.

Forensic Technology WAI Inc.

On 13 May 2014, the Group acquired the entire share capital of Forensic Technology WAI Inc. ("Forensic Technology") for initial cash consideration of £55.2m. Additional payments, estimated at the time of acquisition as £0.9m (discounted), are payable if certain earnings targets are met for the years ending 31 December 2014 and 2015. This contingent consideration has been recorded against goodwill in accordance with IFRS 3.

Forensic Technology provides automated firearm ballistics identification and forensic analysis systems to law enforcement agencies in over 65 countries. The company is currently developing a number of document security and analytic products based on its existing capabilities and areas of expertise.

The provisional fair values of the net assets acquired are stated below:

	Book value	Revaluations	Provisional fair value
	£'000	£'000	£'000
Intangible assets	179	27,654	27,833
Property, plant and equipment	3,084	-	3,084
Cash and cash equivalents	3,351	-	3,351
Inventories	6,570	2,274	8,844
Receivables	6,610	-	6,610
Payables	(11,137)	(6,878)	(18,015)
Net assets acquired	8,657	23,050	31,707
Goodwill arising on acquisition			24,426
Purchase consideration			56,133

The net revenue and profit contributions from Forensic Technology were approximately £25.1m and £6.4m respectively in the year from the date of acquisition to 31 December 2014.

The goodwill arising on the acquisition is attributable to the assembled workforce of Forensic Technology, access to new customers and opportunities in new geographic markets, and development of new technologies.

Acquisition costs of £0.9m 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.

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32 Acquisitions (continued)

ICE Corporation Inc.

On 5 May 2014, the Group acquired the entire share capital of ICE Corporation Inc. ("ICE") for initial cash consideration of £5.9m. Additional payments, estimated at the time of acquisition as £0.4m (discounted), are payable subject to certification, and future sales, of the new WheelTug electric taxi system for which ICE provides essential parts. This contingent consideration has been recorded against goodwill in accordance with IFRS 3.

ICE designs, develops, manufactures and supports aerospace products including, motor control electronics, electrothermal ice protection controllers, pneumatic valve controls and engine control interface units.

The provisional fair values of the net assets acquired are stated below:

	Book value	Revaluations	Provisional fair value
	£'000	£'000	£'000
Intangible assets	-	2,414	2,414
Property, plant and equipment	1,008	-	1,008
Cash and cash equivalents	513	-	513
Inventories	1,062	(118)	944
Receivables	767	-	767
Payables	(429)	(1,047)	(1,476)
Net assets acquired	2,921	1,249	4,170
Goodwill arising on acquisition			2,110
Purchase consideration			6,280

The net revenue and profit contributions from ICE were approximately £2.8m and £0.3m respectively in the year from the date of acquisition to 31 December 2014.

The goodwill arising on the acquisition is attributable to the strategic premium to gain access to ICE's market and technology relative to an organic entry.

Acquisition costs of £0.2m 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.

Lab Impex Systems

On 15 June 2014, the Group acquired the trade and assets of Lab Impex Systems Limited ("LIS") for cash consideration of £3.2m.

LIS is a developer and supplier of radiation measurement solutions and services for use within the nuclear industry. LIS provides systems engineering, installation and support of full environmental radiation monitoring systems, including alpha, beta and gamma radiation and associated safety systems. The acquisition extends Ultra's radiation monitoring product capabilities, strengthens the Group's nuclear qualified engineering expertise and Ultra's position within the global nuclear sector.

The provisional fair values of the net assets acquired are stated below:

	Book value	Revaluations	Provisional fair value
	£'000	£'000	£'000
Intangible assets	20	1,660	1,680
Property, plant and equipment	108	-	108
Inventories	1,797	-	1,797
Receivables	650	-	650
Payables	(1,318)	-	(1,318)
Net assets acquired	1,257	1,660	2,917
Goodwill arising on acquisition			283
Purchase consideration			3,200

The net revenue and profit contributions from LIS were approximately £2.8m and £0.4m respectively in the year from the date of acquisition to 31 December 2014.

The goodwill arising on the acquisition is attributable to the value of synergies arising from the acquisition and the immediate access to the acquiree's technology.

Acquisition costs of £0.2m 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 £0.3m.

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 **71** to **74**.

	2014 £'000	2013 £'000
Short-term employee benefits	3,241	2,837
Post-employment benefits	423	395
Share-based payments	905	900
	4,569	4,132

Transactions with associate

At 31 December 2014, a loan of £2,428,000 (2013: £643,200) was due from Al Shaheen Adventure LLC (ASA), the Group's 49% equity-accounted investment.

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 subsidiary 'Ultra Electronics in Collaboration with Oman Investment Corporation', incorporated in the Sultanate of Oman, that has a material non-controlling interest held by Oman Investment Corporation ('OIC'). The Group is currently in negotiations with OIC to determine the future obligations in light of the loss recognised following the termination of the Airport IT contract *(see note 36)*.

	2014 £'000	2013 £'000
Non-controlling interest percentage	30%	30%
Net (liabilities)/assets	(45,410)	2,273
Carrying amount of non-controlling interest	13,623	(682)
Revenue	11,650	41,730
(Loss)/profit	(47,670)	-
Total comprehensive income for the year	(47,670)	-
Profit allocated to non-controlling interest	(14,301)	-
Other comprehensive income allocated to non-controlling interest	(4)	-

35 Contingent liabilities

The Group has entered into a number of guarantee and performance bond arrangements in the normal course of business totalling £59.6m (2013: £62.6m).

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 the ordinary course of business. In addition, as set out in note 36, the Oman Airport IT contract has been terminated. There is significant uncertainty regarding the likely outcome of negotiations regarding this event. The Group is, from time to time, party to legal proceedings and claims which arise in the ordinary course of business. The Directors do not anticipate that the outcome of these proceedings, actions and claims, either individually or in aggregate, will have a material adverse effect upon the Group's financial position.

36 Post balance sheet events – Oman Airport IT contract termination

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 balance sheet date and consequently the termination is considered to be an adjusting post balance sheet event for 2014 in accordance with IAS 10. There is significant uncertainty regarding the likely outcome of negotiations with the Sultanate of Oman, Ministry of Transport & Communications, over the timing of receipt of any agreed settlement, or whether agreement can be reached without the need to enter a formal arbitration or judicial process. Consequently, a number of significant judgements and estimates are required with respect to matters arising due to the termination event. Revenue has been recognised, in accordance with group policy, to the extent of work performed that it is probable will be recovered at the time. Trade debtors and amounts recoverable on contracts have been assessed for recoverability and allowances made for estimated irrecoverable amounts. Specific provisions have been booked 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. Material items have been disclosed separately within the financial statements. Disclosure is provided on the consolidated income statement and in note 2 regarding the £46.9m termination cost, comprising the £37.2m provision charge booked against contract receivables balances *(see note 19)* and other termination provisions of £9.7m *(see note 26)*.

37 Subsidiaries

The Company owns either directly or indirectly 100% of the ordinary share capital of the following principal subsidiary undertakings which are consolidated in the Group results:

Name	Place of registration or incorporation
Ultra Electronics Limited	England and Wales
Ultra Electronics USA Group Inc.	USA
Ultra Electronics Canada Inc.	Canada

The principal activity of the subsidiary undertakings is the design, development and manufacture of electronic systems for the international defence and aerospace markets. A full list of subsidiary undertakings will be annexed to the Company's next Annual Return filed with the Registrar of Companies.

38 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 **58**
- Contractual arrangements – see Directors' Report on page **78**
- Details of independent directors – see Corporate Governance Report on page **57**
- Substantial shareholders – see Directors' Report on page **78**

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).

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:

- IAS 27 (Revised) Separate Financial Statements
- IAS 28 (Revised) Investments in Associates and Joint Ventures
- Amendment to IAS 32 Financial Instruments: Presentation – Amendments to application guidance on the offsetting of financial assets and financial liabilities

The following standards were also adopted in the current year and have had the impact as set out below:

- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that dealt with consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over an investee; (b) it is exposed, or has rights, to variable returns from its involvement with the investee; and (c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The adoption of IFRS 10 had no impact on the consolidation of entities held by the Group.

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities – Non-monetary Contributions by Venturers. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under IFRS 11, there are only two types of joint arrangements – joint operations and joint ventures. The application of IFRS 11 did not have an effect on these consolidated financial statements.

IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of IFRS 12 has resulted in more extensive disclosures in the consolidated financial statements (see accounting policies note and note 34).

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 2017.

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 statement on Corporate Governance on page **60**.

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.

Basis of consolidation (continued)

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 Special Operations Technology Inc ("SOTECH"), 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 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.

Taxation (continued)
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.

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 are presented separately.
- The amortisation of intangible assets arising on acquisitions and impairment of goodwill 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.

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 2014 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 13.

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

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 balance sheet date and consequently the termination is considered to be an adjusting post balance sheet event for 2014 in accordance with IAS 10. There is significant uncertainty regarding the likely outcome of negotiations with the Sultanate of Oman, Ministry of Transport & Communications, over the timing of receipt of any agreed settlement, or whether agreement can be reached without the need to enter a formal arbitration or judicial process. Consequently, a number of significant judgements and estimates are required with respect to matters arising due to the termination event. Revenue has been recognised, in accordance with group policy, to the extent of work performed that it is probable will be recovered at the time. Trade debtors and amounts recoverable on contracts have been assessed for recoverability and allowances made for estimated irrecoverable amounts. Specific provisions have been booked 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. Material items have been disclosed separately within the financial statements. Disclosure is provided on the consolidated income statement and in note 2 regarding the £46.9m termination cost, comprising the £37.2m provision charge booked against contract receivables balances (see note 19) and other termination provisions of £9.7m *(see note 26)*.

Company balance sheet
31 December 2014

	Note	**2014 £'000**	2013 £'000
Fixed assets			
Tangible assets	40	**711**	879
Investments	41	**709,228**	650,885
		709,939	651,764
Current assets			
Debtors: Amounts falling due within one year	42	**24,125**	10,242
Cash at bank and in hand		**-**	-
		24,125	10,242
Creditors: Amounts falling due within one year	44	**(145,442)**	(124,334)
Net current liabilities		**(121,317)**	(114,092)
Total assets less current liabilities		**588,622**	537,672
Creditors: Amounts falling due after more than one year	45	**(165,026)**	(68,327)
Net assets		**423,596**	469,345
Capital and reserves			
Called-up share capital	47	**3,498**	3,490
Share premium account	48	**56,131**	53,908
Profit and loss account	48	**366,548**	414,528
Own shares	48	**(2,581)**	(2,581)
Shareholders' funds		**423,596**	469,345

The financial statements of Ultra Electronics Holdings plc, registered number 02830397, were approved by the Board of Directors and authorised for issue on 27 February 2015.

On behalf of the Board
R. Sharma, Chief Executive
M. Waldner, Finance Director

The accompanying notes are an integral part of this balance sheet.

Notes to accounts – Company
31 December 2014

39 Staff costs

	2014 £'000	2013 £'000
Employee costs during the year amounted to:		
Wages and salaries	3,644	3,615
Social security costs	312	353
Other pension costs	7,976	7,724
	11,932	11,692

The average number of persons employed by the Company during the year was as follows:

	2014 number	2013 number
Support services	21	21

40 Tangible fixed assets

	Plant and machinery £'000
Cost	
At 1 January 2013	2,026
Additions	-
At 1 January 2014	2,026
Additions	8
At 31 December 2014	**2,034**
Accumulated depreciation	
At 1 January 2013	969
Charge	178
At 1 January 2014	1,147
Charge	176
At 31 December 2014	**1,323**
Net book value	
At 31 December 2014	**711**
At 31 December 2013	879

41 Investments

a) Principal subsidiary undertakings

The Company owns either directly or indirectly 100% of the ordinary share capital of the following principal subsidiary undertakings:

Name	Place of registration or incorporation
Ultra Electronics Limited	England and Wales
Ultra Electronics USA Group Inc.	USA
Ultra Electronics Canada Inc.	Canada

The principal activity of the subsidiary undertakings is the design, development and manufacture of electronic systems for the international defence and aerospace markets. A full list of subsidiary undertakings will be annexed to the Company's next Annual Return filed with the Registrar of Companies.

b) Investment in subsidiary undertakings

	Total £'000
At 1 January 2014	650,885
Additions	163,583
Disposals	(84,062)
Impairments	(21,178)
At 31 December 2014	709,228

The additions in the year related to the acquisitions of the ordinary share capital of certain Forensic Technology entities, and to a further investment in an intermediate holding company. The impairments arise following review of the recoverability of investments within the corporate Company structure. The disposals in the period relate to restructurings of intermediate holding companies.

42 Debtors

	2014 £'000	2013 £'000
Amounts falling due within one year:		
Amounts due from subsidiary undertakings	**21,060**	6,979
Deferred tax assets	**43**	308
Other debtors	**2,691**	2,729
Prepayments and accrued income	**331**	193
VAT	**-**	33
	24,125	10,242

43 Deferred tax

Movements in the deferred tax asset were as follows:

	2014 £'000	2013 £'000
Beginning of year	**308**	670
Charge to the profit and loss account	**(265)**	(362)
End of year	**43**	308

The deferred tax balances are analysed as follows:

	2014 £'000	2013 £'000
Other temporary differences relating to current assets and liabilities	**43**	308
Deferred tax asset	**43**	308

These balances are shown as follows:

	2014 £'000	2013 £'000
Debtors: Amounts falling due within one year	**43**	308

At the balance sheet date the Company had nil unprovided deferred tax (2013: nil).

44 Creditors: amounts falling due within one year

	2014 £'000	2013 £'000
Bank loans and overdraft	**37,851**	36,877
Amounts owed to subsidiary undertakings	**93,750**	71,657
Other creditors:		
– VAT	**64**	-
– social security and PAYE	**330**	337
– other creditors	**11,520**	11,310
Accruals and deferred income	**1,927**	4,153
	145,442	124,334

The bank loans are unsecured. Interest was predominantly charged at 1.00% (2013: 1.45%) over base or contracted rate.

45 Creditors: amounts falling due after more than one year

	2014 £'000	2013 £'000
Borrowings	**165,026**	68,327
	165,026	68,327

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.

46 Borrowings

Borrowings fall due as analysed below:

	2014 £'000	2013 £'000
Bank loans and overdraft		
In one year or less, or on demand	**37,851**	36,877
	37,851	36,877
Less: included in creditors: amounts falling due within one year	**(37,851)**	(36,877)
Amounts due after more than one year		
Bank loans	**120,177**	25,975
Unsecured loan notes	**44,849**	42,352
	165,026	68,327

The loan notes are unsecured and due for repayment in 2018 and 2019. Interest was charged at 3.60% (2013: 3.60%).

47 Called-up share capital

	2014		2013	
	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	**69,962,055**	**3,498**	69,804,884	3,490

157,239 ordinary shares having a nominal value of £7,862 were allotted during the year under the terms of the Group's various Share Option Schemes. The aggregate consideration received by the Company was £2,231,000.

48 Reserves and reconciliation of movement in shareholders' funds

	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Own shares £'000	2014 £'000	2013 £'000
Balance at 1 January	3,490	53,908	414,528	(2,581)	**469,345**	408,870
Issue of new shares	8	2,223	-	-	**2,231**	5,176
Retained (loss)/profit for the year	-	-	(20,041)	-	**(20,041)**	81,511
Dividends paid	-	-	(29,722)	-	**(29,722)**	(28,071)
Share based payments	-	-	1,783	-	**1,783**	1,859
Balance at 31 December	**3,498**	**56,131**	**366,548**	**(2,581)**	**423,596**	**469,345**

The profit and loss account includes £195,462,000 (2013: £188,222,000) which is not distributable. A net foreign exchange gain of £7,941,000 was taken to reserves in the year. Further details in respect of dividends are presented in note 11 to the Group financial statements and share based payments in note 27 to the Group financial statements.

The Company holds 235,245 own shares (2013: 235,245).

49 Guarantees and other financial commitments

Lease commitments

The minimum rentals for the next 12 months are as follows:

	Plant and machinery 2014 £'000	Plant and machinery 2013 £'000
Operating lease rentals which expire		
– within one year	**3**	25
– between two to five years	**45**	41
	48	66

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 applicable United Kingdom accounting standards. No profit and loss account is presented for the Company, as permitted by section 408 of the Companies Act 2006. The Company's retained profit for the year is disclosed in note 48.

Fixed assets and depreciation
Tangible fixed assets 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 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.

The amount charged to the profit and loss account for defined benefit schemes is the estimated regular cost of providing the benefits accrued in the period adjusted to reflect variations from the cost. The regular cost is calculated so that it represents a substantially level percentage of current and future pensionable payroll. Any difference between the amount charged to the profit and loss account and contributions paid to the pension scheme is shown as a separately identifiable liability or asset in the balance sheet.

Certain employees and Directors participated in the UK defined benefit scheme operated by Ultra Electronics Limited. Paragraph 9(b) of FRS 17 allows for a defined benefit scheme to be accounted for as a defined contribution scheme where there are multi-employers and one employer is unable to identify its share of the underlying assets and liabilities on a consistent and reasonable basis. The Ultra Electronics Limited defined benefit scheme has been accounted for on this basis. The deficit in the scheme at 31 December 2014 was £85.7 million (2013: £85.2 million). Further disclosures in relation to this pension scheme are given in note 31 to the Group financial statements. Payments to defined contribution pension schemes are charged as an expense as they fall due.

Investments
Fixed asset investments are shown at cost less provision for impairment.

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 statement on Corporate Governance on page **60**.

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
The Company has taken the FRS 8 (revised) exemption from disclosure of transactions between wholly-owned subsidiaries. Remuneration of the Directors is provided in the audited part of the Directors' Remuneration Report on pages **71** to **74**.

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*	2010 £m	2011 £m	2012 £m	2013 £m	**2014 £m**
Revenue					
Aircraft & Vehicle Systems	154.6	146.4	130.9	140.9	**140.3**
Information & Power Systems	176.2	194.5	297.2	276.8	**204.0**
Tactical & Sonar Systems	379.2	390.8	332.7	327.5	**369.4**
Total revenue	710.0	731.7	760.8	745.2	**713.7**
Underlying operating profit[1]					
Aircraft & Vehicle Systems	20.5	30.2	32.3	34.8	**24.6**
Information & Power Systems	24.7	23.6	41.9	37.3	**29.2**
Tactical & Sonar Systems	64.8	67.9	47.6	49.6	**64.3**
Total underlying operating profit[1]	110.0	121.7	121.8	121.7	**118.1**
Margin[1]	15.5%	16.6%	16.0%	16.3%	**16.5%**
Profit before tax	89.8	89.1	79.8	49.3	**21.5**
Profit after tax	65.2	64.6	61.3	38.2	**6.5**
Operating cash flow[2]	106.4	133.7	89.6	79.0	**83.1**
Free cash flow before dividends, acquisitions and financing[3]	83.4	100.1	57.4	43.8	**51.2**
Net cash/(debt) at year-end[4]	17.8	(46.1)	(43.0)	(42.2)	**(129.5)**
Underlying earnings per share (p)[5]	108.5	121.1	125.5	127.1	**123.1**
Dividend per share (p)	34.6	38.5	40.0	42.2	**44.3**
Average employee numbers	4,006	4,206	4,430	4,274	**4,787**

[1] Before acquisition-related costs and amortisation of intangibles arising on acquisition and impairment of goodwill and Oman Airport IT contact termination 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, impairment of goodwill, fair value movement on derivative financial instruments, defined benefit pension interest charges and unwinding of discount on provisions.

*Comparatives have been restated following the move of the Command & Control Systems business from the Information & Power Systems division into the Tactical & Sonar Systems division and the move of MSI and AMI from the Aircraft & Vehicle Systems division into the Information & Power Systems division and Tactical & Sonar Systems division respectively.

Footnote

underlying operating profit before Oman Airport IT contract termination costs, amortisation of intangibles arising on acquisition, impairment of goodwill and adjustments to contingent consideration net of acquisition related costs. IFRS operating profit was £39.5m (2013: £57.4m).

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 Airport IT contract termination 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 29.8p (2013: 54.8p).

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.

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Information & Power Systems

INFRASTRUCTURE & POWER

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