positioned for **growth** through **portfolio** strength focused on **customer** need

SOLDIER SYSTEMS
LOGISTICS AND SUPPORT
SATELLITE SYSTEMS
RADIO SYSTEMS
COMMAND, CONTROL, COMMUNICATIONS AND COMPUTERS
DATA TRAFFIC MANAGEMENT AND QUALITY OF SERVICE
MISSION SUPPORT

AVIONICS
MANNED AIRCRAFT SYSTEMS
AIRCRAFT WEAPON SYSTEMS
UNMANNED AIRBORNE VEHICLE SYSTEMS
MANNED NAVAL VESSEL SYSTEMS
UNMANNED NAVAL SYSTEMS
NAVAL WEAPON SYSTEMS
WEAPON SYSTEMS
MANNED VEHICLE SYSTEMS
UNMANNED GROUND VEHICLE SYSTEMS

DEFENCE

SECURITY

DATA INTERCEPT
WIRELESS SURVEILLANCE SYSTEMS
SITUATIONAL AWARENESS
INFRASTRUCTURE SECURITY
SYSTEMS PROTECTION
PROACTIVE DEFENCE
FIRST RESPONSE

TRANSPORT

MASS TRANSIT
BAGGAGE SYSTEMS
PASSENGER SYSTEMS
AIRPORT INFORMATION SYSTEMS
MASTER SYSTEMS INTEGRATION

ENERGY

RESOURCE MANAGEMENT
REMOTE POWER
RENEWABLES
OIL AND GAS
CIVIL NUCLEAR

making a difference

Ultra ELECTRONICS

Ultra Electronics is a group of specialist businesses designing, manufacturing and supporting electronic, electro-mechanical and software systems, sub-systems and products for DEFENCE, SECURITY, TRANSPORT and ENERGY applications worldwide.

Contents

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

Cautionary statement

This document contains forward looking statements that 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.

Financial and operational highlights

Operational highlights

Award of a £19m+ contract with the US Air Force for provision of airborne communication gateways.

A high level of internal investment maintained to underpin future growth.

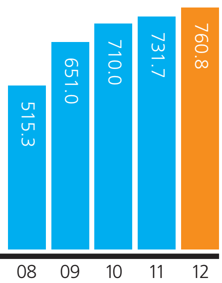
Three acquisitions to augment Ultra's existing portfolio of specialist niche capabilities.

Revenue

£760.8m

KPI

+4.0%
(2011: £731.7m)

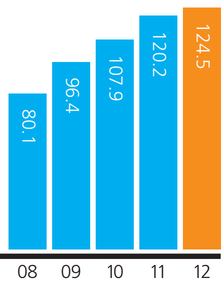


Underlying earnings per share

124.5p

KPI

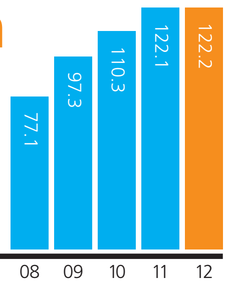
+3.6%
(2011: 120.2p)



Underlying operating profit

£122.2m

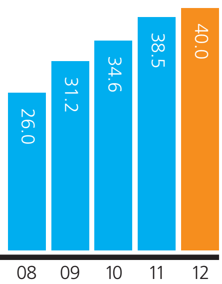
+0.1%
(2011: £122.1m)



Dividend per share

40.0p

+3.9%
(2011: 38.5p)

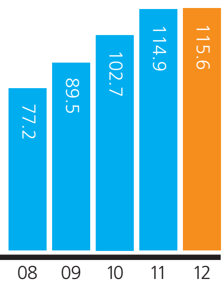


Underlying profit before tax

£115.6m

KPI

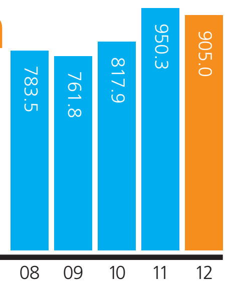
+0.6%
(2011: £114.9m)



Group order book

£905.0m

-4.8%
(2011: £950.3m)



Dividend

The proposed final dividend is 27.8p, bringing the total dividend for the year to 40.0p (2011: 38.5p). This represents an annual increase of 4%, with the dividend being covered 3.1 times (2011: 3.1 times) by underlying earnings per share. If approved at the Annual General Meeting, the dividend will be paid on 3 May 2013 to shareholders on the register on 12 April 2013.

KPI = Key Performance Indicator, see **pages 10 and 11** for details

Footnote

Underlying operating profit is before amortisation of intangibles arising on acquisition and adjustments to deferred consideration net of acquisition costs. IFRS operating profit £88.7m (2011: £99.2m). **Underlying profit before tax** and **underlying earnings per share** are before amortisation of intangibles arising on acquisition, fair value movements on derivatives, unwinding of discounts on provisions and adjustments to deferred consideration net of acquisition costs. Basic EPS 91.5p (2011: 96.2p). **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 cash generated by operations and dividends from associates, less net capital expenditure, R&D and LTIP share purchases as % of operating profit before amortisation of intangibles arising on acquisition and adjustments to deferred consideration net of acquisition costs. **Net debt** comprises loans and overdrafts less cash and cash equivalents. **organic revenue/profit growth** is the annual rate of increase in revenue/profit that was achieved, assuming that acquisitions made during the prior year were only included for the same proportion of the current year.

Chairman's statement

"The Group will continue to differentiate itself from its competitors through its technical innovation and the high standards of behaviour for which Ultra is known."

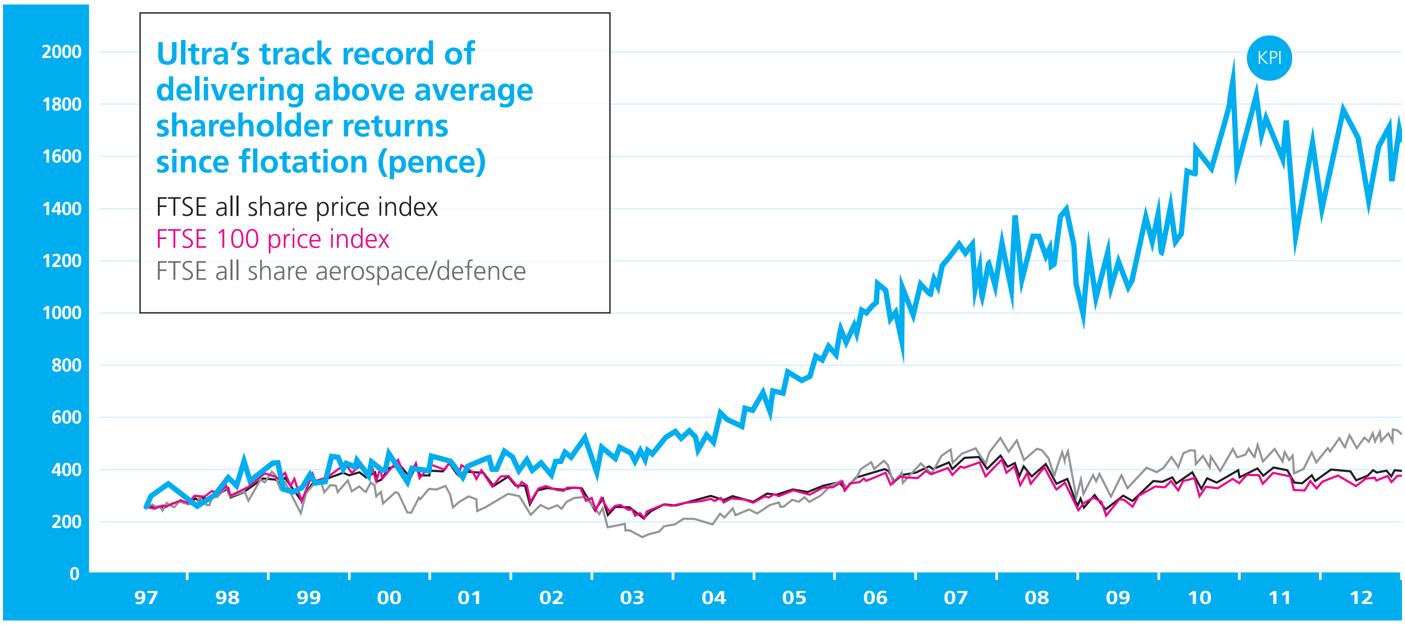
Douglas Caster CBE,
Chairman

Dear shareholder

I am pleased to report that Ultra has successfully managed a year of challenging market conditions where expenditure in the Group's main defence markets continues to be under extreme pressure as governments address their budget deficits and debt levels. Through Ultra's robust strategic review process, the Group was able to recognise the tightening of defence budgets and has reacted by positioning itself into areas of preferential spend within these markets. At the same time the Group has made good progress in adjacent, non-defence, security, transport and energy markets so that, in 2012, revenue from its traditional defence markets represented less than 60% of the Group total. Ultra's recent investments in new products and acquisitions have enabled the Group to achieve this repositioning to provide both a degree of resilience to tough market conditions and a platform for future growth. The Group's overall performance in 2012 underlines the resilience of its business model and this is explained in more detail on **pages 12 to 17.**

Ultra's strategy is constantly to increase its share of the markets in which it has positioned itself and the Group continues to focus on those specialist sectors within the markets where customers preferentially target their expenditure. An important role of the Board is to participate fully in robustly reviewing and testing the Executive Directors' strategic plans for the Group, to ensure that they deal not just with the particularly challenging short-term market conditions, but also fully address the need to continue to position for medium and long-term growth.

It has long been a core part of Ultra's strategy to acquire companies that bring world leading niche technologies and market positions to the Group, in addition to supplementing its organic growth. The Board plays a key role in reviewing any potential acquisition to ensure that it is complementary to the existing portfolio,



achieves an appropriate strategic fit, is valued sensibly and will add to future shareholder value. In 2012 Ultra completed three acquisitions: GigaSat, Barron McCann and RFI. These businesses augment Ultra's existing specialist capabilities in communications, cyber & security and power markets, all of which have been identified as future growth areas.

Another core element of Ultra's strategy is continued investment in the development of new, differentiated offerings, particularly where the Group's specialist domain knowledge provides competitive advantage. As with acquisitions, the Board takes a key role in reviewing, testing and approving all major investment cases. This includes confirming that the Group's resources are being focused and prioritised in an appropriate manner, that risks are identified and mitigated and that the return is viable. Such developments are reviewed regularly against performance, time and cost criteria to ensure that the Group is managing its resources and overall level of risk appropriately. In the same way, Ultra's major programmes are reviewed by the Board, during both the bid and execution phases.

In Ultra, risk is assessed and managed at the most appropriate level of the business. Those risks that are identified as strategic in nature are elevated to the Board where they are subjected to formal scrutiny to ensure that the appropriate mitigations are in place. In addition to assessing specific risks, the Board will also regularly assess and confirm the status of the overall business, with a focus on the Group's competitive strategies, business performance, regulatory and compliance measures and the financial performance and accounts. Further information on how Ultra manages risk is available in the risk management section of this report on **pages 40 to 43**.

The Group will continue to differentiate itself from its competitors through its technical innovation and the high standards of behaviour for which Ultra is known. The Group remains committed to achieving and sustaining high standards of ethical business conduct and corporate governance. This report contains a specific section devoted to the framework and processes that are in place to maintain the high standards of governance that the Board requires of Ultra. Further detail about how the Board provides effective leadership on these matters can be found in the sustainability section on **pages 38 to 39** and the governance section, starting on **page 44** of this report.

I should like to finish by thanking, on behalf of the Board, all of Ultra's employees for their continued hard work, engagement and passion in what has been a challenging year. With so many committed, professional and enthusiastic people supporting the Group's management, I am confident that Ultra is better placed than most in addressing the current market uncertainties and ensuring that growth continues into the future.

Douglas Caster CBE
Chairman

KPI = Key Performance Indicator, see **pages 10 and 11** for details

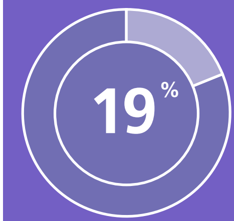
Group at a glance
How Ultra operates

The Group is organised into three divisions: Aircraft & Vehicle Systems, Information & Power Systems and Tactical & Sonar Systems. Ultra's divisions deliver specialist solutions to the defence, security, transport and energy markets.

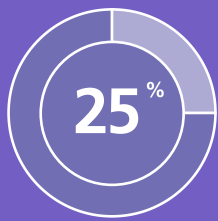
The Chief Executive chairs an Executive Team that reports through him to the Board. This team comprises the Chief Executive, the Group Finance and Marketing Directors and Divisional Managing Directors and Presidents, along with the Company Secretary.

Ultra's Divisional Managing Directors and Presidents play a vital role in ensuring that an appropriate management span of control is maintained across the Group. Within a structure of delegated authorities, Divisional Managing Directors and Presidents work closely with business management teams to ensure that the agreed strategy is being delivered, that the financial performance is as planned and that the employees skills and capabilities are being developed. The Divisional Managing Directors and Presidents meet as members of Ultra's Executive Team at least once a month. Cross-divisional as well as intra-divisional co-operation is actively encouraged.

Aircraft & Vehicle Systems



% of Group revenue



% of Group profit*

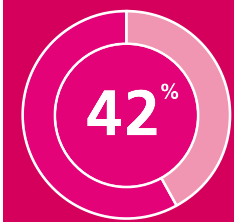
Number of employees
1,098

Revenue
£147.0m **-11.5%**
2011: £166.1m

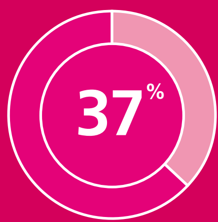
Underlying operating profit*
£30.8m **-1.0%**
2011: £31.1m

Order book
£163.6m **-7.8%**
2011: £177.4m

Information & Power Systems



% of Group revenue



% of Group profit*

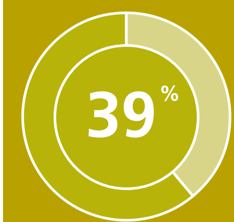
Number of employees
1,843

Revenue
£315.8m **+22.9%**
2011: £257.0m

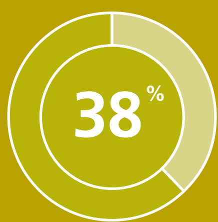
Underlying operating profit*
£45.0m **+47.5%**
2011: £30.5m

Order book
£391.4m **-11.5%**
2011: £442.2m

Tactical & Sonar Systems



% of Group revenue



% of Group profit*

Number of employees
1,739

Revenue
£298.0m **-3.4%**
2011: £308.6m

Underlying operating profit*
£46.4m **-23.3%**
2011: £60.5m

Order book
£350.0m **+5.8%**
2011: £330.7m

*see footnote on page 1

Capabilities	Highlights in 2012	Major customers in 2012
Ultra specialises in high integrity, safety critical, real-time control systems for aircraft and vehicle applications. These include airframe 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, including those to control unmanned ground and air vehicles. Ultra provides innovative small power sources including miniature pneumatic systems, propane-powered fuel cells and multi-fuel UAV engines.	• positions on Boeing 787 and Gulfstream aircraft that will provide long-term returns as new build programmes ramp up to full rate production • establishment of a five-year agreement with Kongsberg for the CROWS3 remote vehicle weapon station for the US Army • award of a contract for a range of equipment for the Embraer's KC-390, reflecting growing business with the world's third largest aircraft manufacturer	• **BAE Systems** • **UTC** • **Boeing** • **ACMA** • **ITT** More information about Aircraft & Vehicle Systems can be found on **pages 26 and 27**
Ultra supplies advanced command and control systems for battlespace visualisation, surveillance systems, air defence and naval combat management. The Group provides perimeter security solutions for critical infrastructure, crisis response planning & management software, and 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 that are used for naval vessels and mass transit. Ultra is a world-leading integrator of airport and airline management & information systems.	• signing of a 'preferred supplier' agreement with Areva that positions Ultra for new build UK nuclear plants as well as legacy plants globally • success in winning additional contracts to develop and fit Ultra's TACPOD product onto US unmanned air vehicles • development and provision of electrical power management equipment to current and future UK submarines (Astute, Vanguard and 'Successor')	• **US DoD** • **Oman Ministry of Trade and Communication** • **Rolls-Royce** • **BAE Systems** • **UK MoD** More information about Information & Power Systems can be found on **pages 28 and 29**
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 world-leading ship, submarine and airborne sonar equipment and systems to meet the challenges of the underwater battlespace, including anti-submarine warfare and torpedo defence. Ultra has developed a range of highly efficient acoustic hailing devices.	• End Cryptographic Unit Replacement Programme (ECU-RP) contract was successfully negotiated following volume adjustments to reflect the UK's defence review outcome • orders for additional Litening advanced targeting pods and associated support for the RAF Typhoon aircraft, following excellent performance during operations in Libya • a further contract for a torpedo defence system to Turkey for its Landing Ship Tank programme, building on recent success for similar systems for the Turkish Navy's MILGEM corvettes	• **US DoD** • **UK MoD** • **Boeing** • **Lockheed Martin** • **Raytheon** More information about Tactical & Sonar Systems can be found on **pages 30 and 31**

Chief Executive's report

"…Ultra's robust business model and inherent agility, has enabled the Group to be positioned for growth…"

Rakesh Sharma, Chief Executive

The prime objective
The Board'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 Executive Team has the responsibility for developing and implementing the strategies and plans that will deliver against this prime objective.

Ultra's strategic framework
The strategic framework, pictured below, is focused on ensuring that Ultra meets its prime objective. This is achieved through the strategies for growth which are described on **pages 8 and 9** allied with the business model described on **pages 12 to 17**. Underpinning these are Ultra's strategic tenets described on **pages 18 and 19** which help to shape and define the values and behaviors embodied within Ultra's culture. Ultra's culture is described on **pages 36 and 37**.

Executing the strategies for growth
To increase Ultra's portfolio of specialist capabilities, the Group continues to invest over 5% of revenue in internal development. This investment is to generate further specialist, differentiated offerings in the niche market sectors where customers preferentially focus their expenditure. These activities are led by the businesses and are robustly reviewed by the Executive Team and the Board.

In parallel, Ultra continues to invest in value adding acquisitions which bring complementary, world-leading niche technologies and market access to the Group's portfolio. In 2012, Ultra bought three specialist businesses. In May the Group acquired GigaSat, a UK company that develops, manufactures, sells and supports fixed, mobile and transportable satellite earth stations, or satcom terminals. Their products and services are provided to the military, government and commercial markets around the world. GigaSat is part of Ultra's Tactical & Sonar Systems division.

In June, Ultra acquired specialist UK cyber security companies Barron McCann Technology Limited and Barron McCann Payments Limited (BeMac). BeMac provides commercial-grade cryptographic and key management services to the UK Government, military, law enforcement agencies and the finance sector. BeMac's proprietary products are accredited by CESG/GCHQ, the UK government's national technical authority for secure electronic communications. BeMac has been integrated into Ultra's AEP Networks business to form a centre of excellence for baseline and enhanced-grade cryptographic and secure communication products and services. This business is also part of Ultra's Tactical & Sonar Systems division.

In August the Group acquired RFI, a specialist US electronic component company that manufactures high-voltage, power conversion sub-systems and a variety of other products designed for industrial, military and commercial applications. RFI has been integrated into Ultra's EMS business and is a part of Ultra's Information & Power Systems division.

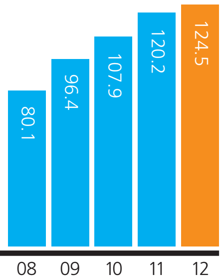
Objective	Delivered through…	Underpinned by…
To outperform the market in terms of annual increases in shareholder return	**Strategies for growth** (see page 08) + **Robust business model** (see page 12)	**Strategic tenets** (see page 18) + **Culture** (see page 36)

Underlying earnings per share

124.5p

KPI

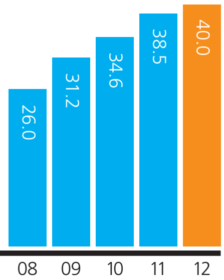
+3.6%
(2011: 120.2p)



Dividend per share

40.0p

+3.9%
(2011: 38.5p)



The four main strategies for growth are:

Increase the Group's portfolio of specialist capability areas
+
Augment the number of long-term platforms and programmes on which Ultra's specialist capabilities are specified
+
Broaden the Group's customer base
+
Widen Ultra's geographic footprint

As a consequence of this continuous investment, the Group's 28 businesses now cover more than 180 specialist capability areas across Ultra's core markets of defence, security, transport and energy. This broad diversity gives significant resilience to Ultra's financial performance and drives the Group's growth momentum.

Augmenting this wide diversity of capability is Ultra's constant determination to broaden its customer base and to widen its geographical footprint. Both of these activities are carried out in a measured and controlled manner with due consideration of risk. New markets and geographical sectors take time to enter and Ultra has therefore made the strategic decision to focus its resources in a prioritised number of regions and sectors with high growth potential. Ultra, as an independent, non-threatening partner, is able to support all of the main prime contractors and local industry partners with its unique capabilities and solutions. Ultra 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 12 to 17**.

Building and sustaining long-term relationships

The ability to execute these strategies successfully is entirely reliant upon the Group's employees. Ultra's reputation as a global leader in electronics and software for defence, security, transport and energy applications is built on the endeavours of its exceptional employees and their ability to develop long term value adding relationships with customers. In the current climate of changing market dynamics, it is even more important that the Group continues to differentiate itself through its behaviours and attitudes. To support this Ultra has developed a number of internal initiatives and tools that help it gain a better understanding of customers real needs and hence improve its ability to offer differentiated and comprehensive solutions. One of these key initiatives is **LAUNCH**: see **page 36**.

Underpinning all of Ultra's behaviours is a strong ethical policy that is mandatory for all employees across the entire Group. In addition to educating employees on anti-bribery and corruption policies, including gifts and hospitality practices, the training also gives guidance on identifying warning flags to ensure potential issues are raised immediately and can be dealt with appropriately. In the period Ultra decided not to pursue business in certain areas where its ethical standards might be at risk.

Executing against the growth strategies, shown above, requires consistency of management focus and drive. The continuity of Ultra's management team ensures that the expertise and experience is retained to maintain growth momentum in the Group. 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.

Summary

Early recognition of current changes in market dynamics, coupled with Ultra's robust business model and inherent agility, has enabled the Group to be positioned for growth in these challenging times.

I am confident that Ultra is extremely well placed to execute successfully the strategies and plans to meet the Board's prime objective.

Rakesh Sharma
Chief Executive

KPI = Key Performance Indicator, see **pages 10 and 11** for details

Ultra's four strategies for growth

Strategic objectives

In order to outperform the market, and thereby improve the Group's ranking in the FTSE index, Ultra must add shareholder value and increase its market capitalisation more rapidly than other companies. This is 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 that 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 that provide differentiated solutions to customers' requirements. Across Ultra's businesses there are more than 180 of these specialist capability areas.

In 2012…
Ultra added **9 new specialist capability areas** to its portfolio.

Strategies in action…

The acquisition of BeMac brings to Ultra's portfolio of specialist capabilities:

- baseline-grade cryptographic equipment
- key management services
- secure financial transaction systems

BeMac's capabilities are provided to UK Government, military, law enforcement agencies and the finance sector. BeMac's proprietary products are accredited by CESG/GCHQ, the UK government's national technical authority for secure electronic communications. BeMac has been integrated into Ultra's AEP Networks business to form a centre of excellence for baseline and enhanced grade cryptographic and secure communication products and services.

2

Augment 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 that drives Ultra's performance year after year, despite market fluctuations. Ultra is positioned on more than 350 such platforms and programmes. Excluding the Oman Airport IT project, no single programme contributes more than 5% of Ultra's revenue in any one year.

In 2012…
the Group's specialist capabilities were specified on **9 new platforms and programmes**.

Strategies in action…

Ultra's PMES business is part of a joint team with Babcock and UK MoD that is now under contract to fit Ultra's new main-static convertor equipment to the UK Vanguard class submarines, which will continue in-service beyond the next decade.

58%

opening firm order cover compared to analysts' consensus forecast for 2013 revenue **(2011: 54%)**

19%

increase in sales to countries outside Europe and North America
£111.2m (2011: £93.2m)

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.

In 2012…
Ultra won business with
19 new customers.

Strategies in action…

Ultra's Nuclear Controls business, a strategic supplier of nuclear-qualified instrumentation and control systems, has signed a Memorandum of Understanding with AREVA that will open the way for a future partnership in power generation and the build of two new nuclear reactors in the UK. The collaboration could also extend to other reactors including those planned at Sizewell.

Ultra's 3eTI business has been extremely successful with providing 'virtual' perimeter fence and EnergyGuard capabilities to the US Navy to protect and manage its buildings and infrastructure. Building on this success, 3eTI has now started to deliver similar capabilities to the US Army and large US Air Force estate infrastructure.

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 more on defence each year than the rest of NATO 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 are capable of expansion. The Group's growing presence in Australia, and the Middle East regions indicates Ultra's intent in this regard.

In 2012…
the Group was successful in
9 new geographic areas.

Strategies in action…

Ultra's Card Systems business, through its Magicard product, provided the physical access control and attendee registration at the G20 summit in Los Cabos, Mexico.

Strategic objectives

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%

2011:
3%

2010:
9%

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 grew by 4.0% to £760.8m, an increase of £29.1m. The positive effects of both foreign exchange on translation of overseas revenues and the incremental benefit of self-funded acquisitions outweighed a decline in underlying constant currency revenues of 4%.

KPI 2

Profit before tax growth

+1%

2011:
12%

2010:
15%

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 are not being diluted.

Comment
Underlying profit before tax increased slightly to £115.6m and the underlying operating margin fell a little to 16.1%. The additional contribution from acquisitions and favourable foreign currency translation was offset by an adverse organic performance mainly owing to a difficult defence market in 2012.

KPI 3

Growth in earnings per share over a three-year period

+9%

2011:
15%

2010:
16%

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 124.5p (2011: 120.2p), an increase of 3.6%. A final dividend of 27.8p (2011: 26.8p) is proposed. If this is approved at the Annual General Meeting, this will give a full year dividend of 40.0p (2011: 38.5p) and will be covered 3.1 times by profits.

*see footnote on page 1

KPI 4

Cash conversion

73%

2011:
110%

2010:
96%

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 £89.6m and the ratio of cash to underlying operating profit was 73%. As anticipated, this was a reduction from the very strong £133.7m (110% conversion) recorded in 2011, due predominantly to the phasing of working capital movements and increased level of capital expenditure in 2012. The cash to underlying operating profit ratio over a rolling five year period is 98%.

KPI 5

Interest cover

23 times

2011:
23 times

2010:
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 6

Relative total shareholder return

+6% per annum

2011:
+9% per annum

2010:
+5% per annum

Description
Annual total shareholder return (capital growth plus dividends paid, assuming dividends reinvested) over a rolling five-year period compared to the FTSE 250 index.

Comment
The shareholder return compares favourably to the FTSE 250 index.

Non-financial performance indicators

Ultra's four strategies for growth are described on **pages 8 and 9** 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 37** of this report.

*see footnote on page 1

Why we're different

Business model

Products
What we do

Ultra focuses on developing specialist capabilities that provide differentiated solutions to customers' requirements

Ultra businesses constantly innovate to create solutions to customer requirements that are different from and better than those of the Group's competitors.

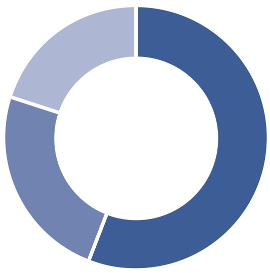
Solutions
By applying these differentiated solutions to a wide range of international platforms and programmes, Ultra has built an exceptionally broad portfolio of specialist capability areas. Where the Group has a number of complementary capabilities it can also combine these to offer broader solutions. In other words, the products, capabilities and the associated domain expertise uniquely position Ultra to be able to meet sub-system and system requirements. These solutions are underpinned by through-life support offerings that ensure the capabilities are delivered and sustained in-service.

Support
Ultra offers support to its customers through the design, delivery and support phases of a programme. Ultra's deep understanding of its specialist capability areas combined with knowledge of the customer environment is a key factor in delivering innovative solutions to meet the customers' through-life needs.

Capabilities
Throughout the Group's businesses there are more than 180 of these specialist capability areas across Ultra's broad market areas of:

- **Defence & Aerospace**
- **Security & Cyber**
- **Transport and Energy**

Revenue by capability



Defence & Aerospace	56%
Security & Cyber	24%
Transport and Energy	20%

Ultra provides these specialist capabilities on more than 350 long term multi-year platforms and programmes. Excluding the Oman Airport IT project, no single programme contributes more than 5% of Ultra's revenue in any one year.

The Group is constantly seeking to increase the number of specialist capabilities in narrow market niches and to increase the number of long-term platforms and programmes on which Ultra's specialist capabilities are specified. Ultra's ever broadening range of specialist market capabilities coupled with its increasing presence on long-term programmes and platforms drives the Group's growth momentum.

The expansive spread of specialist capability areas mapped onto so many platforms and programmes provides resilience to Ultra's financial performance and reduces the Group's risk profile.

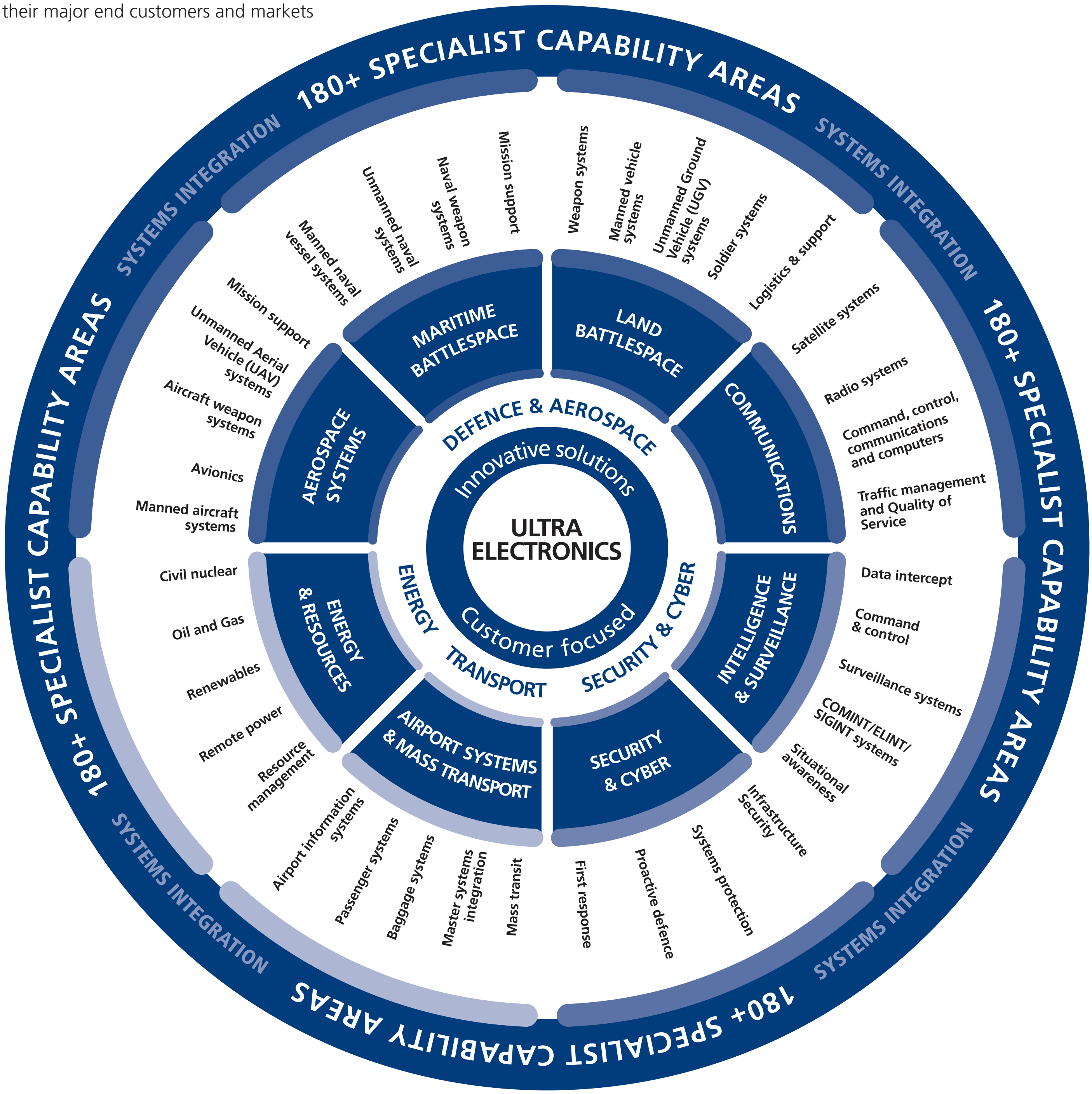
>8
core capability areas

>180
specialist capabilities

>350
platforms & programmes

Ultra has more than 180 specialist capability areas across the Group's broad market areas of Defence & Aerospace, Security & Cyber, Transport and Energy

The diagram below shows how the **180+ specialist capabilities** relate to their major end customers and markets



Why we're different

Business model
(continued)

Markets
Where we operate

Ultra focuses on constantly and continuously positioning itself in areas of preferential customer spend within its main markets

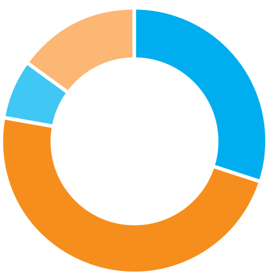
Ultra is constantly repositioning itself in high growth sectors within its main Defence & Aerospace, Security & Cyber, Transport and Energy markets.

Market sectors

Through its tried and tested strategic review process, the Group has demonstrated a long track record of identifying future high growth market sectors. Ultra then invests to create differentiated positions in these sectors. Ultra's ever broadening range of specialist market positions and growing geographic reach underpins the Group's growth.

Ultra continues to focus on maximising revenue from the largest addressable defence budgets in the world. Within these markets, the Group continues to follow a strategy of identifying and pursuing areas of preferential funding. The Group has expanded and developed a transatlantic capability and derives around half its revenue from North America. The Middle East and Asia Pacific regions are capable of being larger markets for Ultra and the Group is focused on broadening its geographic reach in line with Strategic Objective 4 **see page 9**. A full analysis of Ultra's markets is on **pages 20 to 23**.

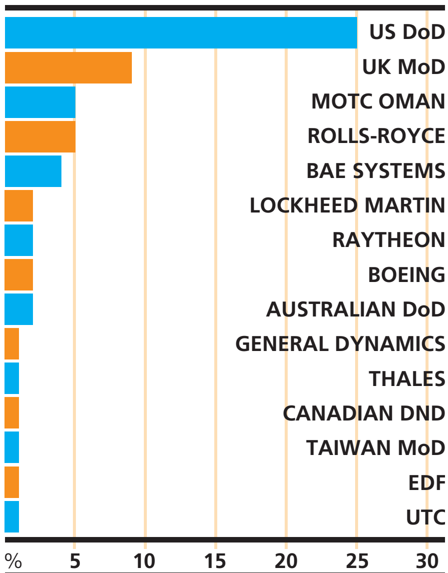
Revenue by region

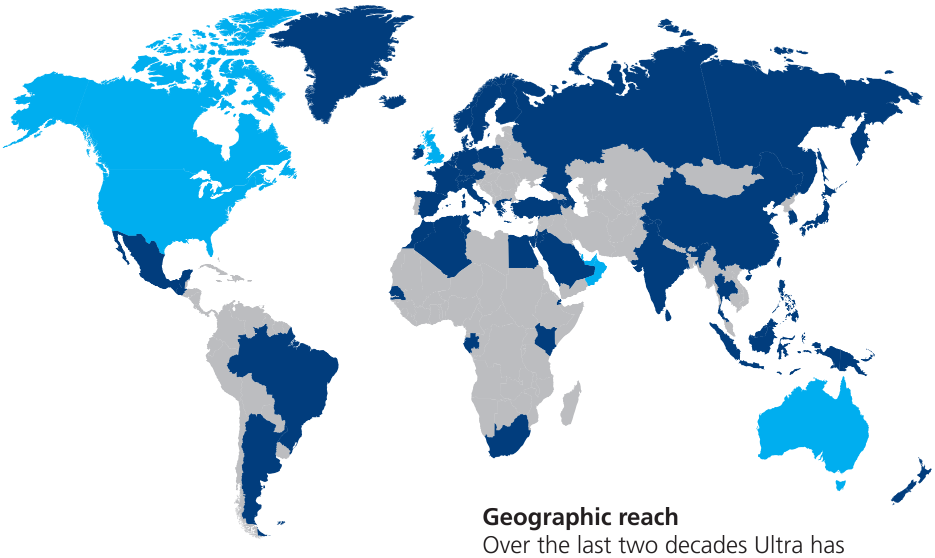


United Kingdom	30%
North America	48%
Mainland Europe	7%
Rest of the world	15%

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 to the right shows the major customers for the Group's 2012 revenue. Within the Group'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 first suggest.





Geographic reach

Over the last two decades Ultra has expanded and developed its international footprint and now has significant operations in **Europe**, **North America**, **Middle East** and **Asia Pacific**. Ultra has businesses based in the countries shaded light blue on the map (above), and furthermore, conducts business in the countries shaded in dark blue.

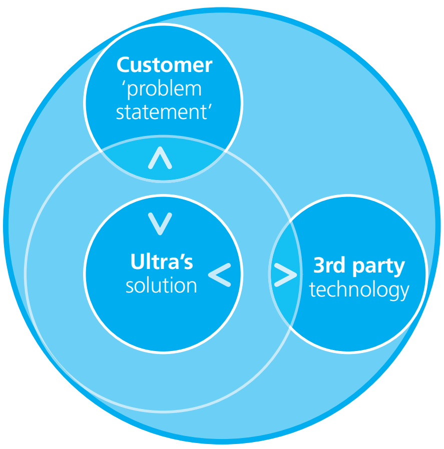
Partnerships
How we operate

Ultra focuses on developing innovative solutions that are delivered in close collaboration with partners, suppliers and customers

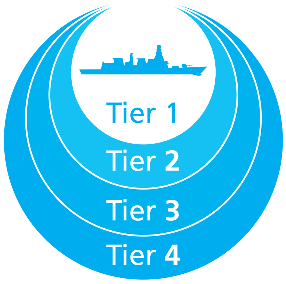
In its specialist capability areas, Ultra's understanding of the customer environment and the projected capability gaps that the customer would like addressed – in short, its understanding of the customer's 'problem statement' – is a key differentiator.

Ultra businesses constantly innovate to create solutions to customer requirements that are different from and better than those of the Group's competitors in a way that the customer values. In identifying differentiated solutions, prime consideration is given not to what Ultra would like to sell but to what the customer needs. This flexibility covers not just the technical attributes of the product or system but also the commercial package, the training and the support in which the customer is interested.

The Group is agnostic as to the source of technology that is required to deliver solutions. When proven technology that meets customers' requirements exists outside the Group, Ultra is happy to form teaming partnerships to access it. Ultra sees these teaming arrangements as a source of competitive advantage, allowing Ultra to deliver differentiated solutions that meet customer needs efficiently. It is important that these teaming arrangements are of benefit to all parties – by working together, the team members are able to win opportunities that would not be possible without teaming.



Supply chain



Platform provider	Tier 1
Sub-system integrator	Tier 2
Equipment supplier	Tier 3
Component supplier	Tier 4

Ultra's position in the supply chain

Within the definition of the supply chain shown in the graphic above, Ultra's specialist capabilities are mainly at Tiers 3 and 4, supplying equipment and components to support Tier 1 and 2 subsystems and programmes. The Group does undertake Tier 2 subsystem 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 sub-system integration activities.

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 Rolls-Royce and counts them amongst its largest customers. They can rely on Ultra to provide the specialist capabilities at which the Group is expert. Concentrating on Tiers 3 and 4, rather than aiming to be a Tier 1 platform provider, means that, with the exception of the Oman Airport IT programme, no single platform or programme typically accounts for more than 5% of Group revenue for the year, so the cancellation or curtailment of any single programme is unlikely to have a significant adverse impact on the Group.

Typical tier offerings

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 that will make up a functional element of the platform. Examples of sub-system integration that 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.

Investment

The Group has a strategy to continuously invest to strengthen its capabilities across its specialist niche markets.

Product and business development spend 2012

Group funded	6.5%
Customer funded	12.9%

Ultra consistently invests over 5% of revenue in new product and business development. In addition, over 10% of Group revenue is customer-funded product development. In total therefore over 15% of revenue spend is focused on augmenting the portfolio of capabilities and programme positions that underpin further growth.

Why we're different

Business model
(continued)

Flexibility
How we are organised

Ultra focuses on delivering agile and responsive support to customers through a high degree of operational autonomy

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

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

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.

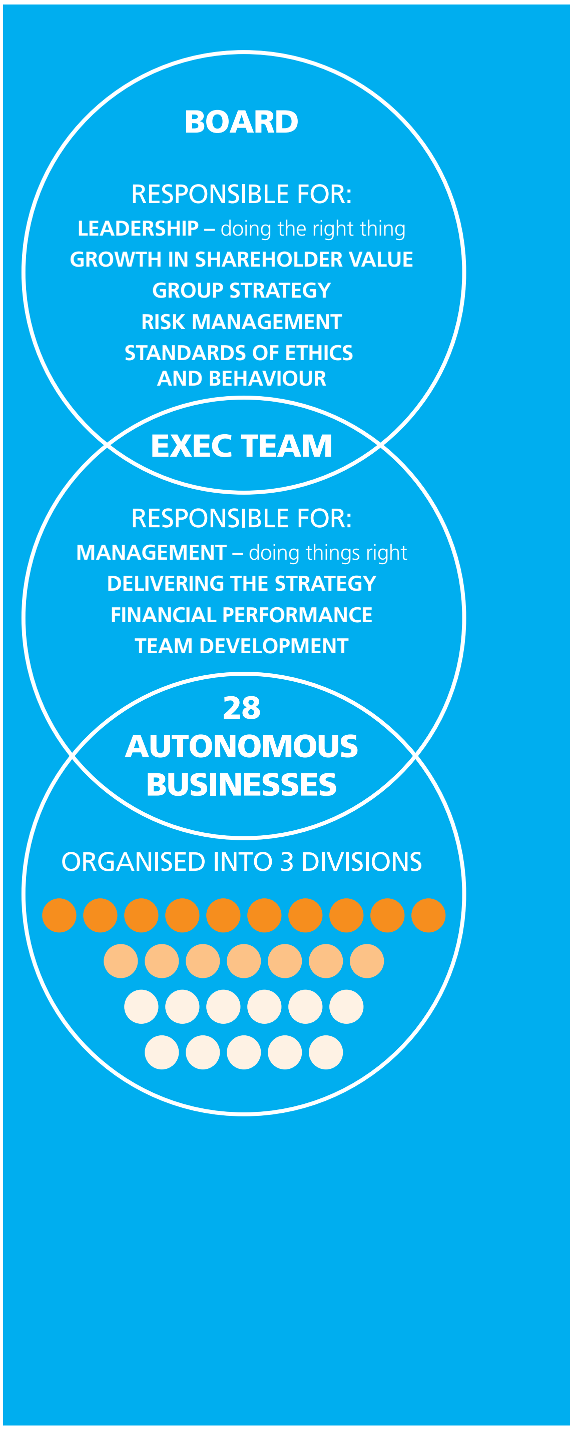
Across the Group, there are no more than seven levels of seniority from shop-floor operator or newly qualified engineer up to the Chief Executive. Flat management structures within the 28 businesses are encouraged to facilitate agile behaviour at all levels.

Ultra ensures that all of its businesses are well managed, profitable and cash generative. This allows the Group to self-fund acquisitions that 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 successfully integrated 48 acquisitions since 1993.

The Group pursues four parallel strategies for growth that are explained more fully on **pages 8 and 9**.

Ultra's business model and the four strategies for growth are underpinned by eight strategic tenets see **pages 18 and 19**. These strategic tenets provide guidance for the implementation of the strategy as well as forming the basis of Ultra's culture and behaviours, more details of which can be found on **pages 35 to 37**.

"With around 4,700 employees in its 28 businesses, the number of staff at Ultra's head office is fewer than 30. This gives a clear signal about how it wants the Group to run."



Objective	Delivered through…	Underpinned by…
To outperform the market in terms of annual increases in shareholder return	**Strategies for growth** (see page 08) + **Robust business model** (see page 12)	**Strategic tenets** (see page 18) + **Culture** (see page 36)

Balance
How we reduce risk

Focus on autonomy

As much authority and responsibility as possible is devolved to the Managing Directors and Presidents of Ultra's individual businesses and their management teams. Ultra wants these teams to maintain the agility and sharp focus externally on customer requirements that are typical of owner-managed businesses. Ultra's core management processes address four main areas. These are:

- **compliance**
  ensuring that the businesses comply fully with all laws and regulations of all the countries in which they operate and that they demonstrate the high standards of integrity and ethical behaviour

- **strategy**
  agreeing and then delivering five-year plans focused on positioning for growth in target markets through innovation that generates differentiated solutions to customer requirements for each of Ultra's specialist capability areas
  More on pages 8 and 9

- **financial performance**
  managing the main processes (for example, winning new business, execution of contracts, production and support) so that the businesses meet or exceed the agreed financial budgets. Across all Ultra businesses the focus is mainly on cash generation as an indicator of the high quality of earnings growth
  More on pages 24 to 34

- **developing people**
  for each business developing the team and its individuals so that they so that they grow with the business and do not become a constraint on the development of the Group. Ultra's right people are its most important asset and great focus is placed on ensuring that the right people are in the right roles
  More on pages 36 and 37

Ultra's strategy is constantly to broaden its portfolio of products and services that are positioned on a large number of international platforms and programmes in the **defence**, **security**, **transport** and **energy** markets.

The Group has an increasingly broad customer base worldwide with sales outside the UK now representing 70% of Group revenue. Ultra is constantly repositioning itself in high growth sectors within its main defence, security, transport and energy markets.

The Group remains committed to its strategy of continued investment in its portfolio of differentiated specialist capabilities to ensure that the business is well positioned to meet future market demand.

- Ultra has over **180** specialist niche capabilities
- Ultra is positioned on over **350** long-term, multi-year programme and platforms
- That with the exception of the Oman Airport IT programme, no one programme is more than **5%** of Ultra's revenue in any year

The above factors, combined with Ultra's market agility and organisational flexibility results in a stable and well balanced business that brings robustness and resilience to Ultra's financial profile and reduces the Group's risk.

More detail on Ultra's approach to risk management can be found on **pages 40 to 43**.

Strategic tenets

Ultra's enablers

Ultra's growth momentum has been sustained by successfully pursuing its strategies for growth see **pages 8 and 9**. Underpinning these strategies are eight core strategic tenets. They have been used consistently by the Group over many years. They help shape the culture, defined as values and behaviours that drive results, that is encouraged in Ultra.

Focus on defence, security, transport and energy

The Group's core competencies, domain knowledge and market positions give it particular credibility in these four sectors worldwide. Core competencies include: market positioning through an understanding of customer needs, enabling responses to complex invitations to tender or requests for proposals; managing complex development programmes where risks need careful identification and control; manufacturing and aftermarket support over long timescales and the discipline to meet our commitments. The strategy is to enhance the capability of the Group to allow adjacent market sectors that exhibit growth to be served.

Through-life product and services portfolio

The Group values any position within the supply chain that is held by any particular niche. Frequently, more attractive margins can be generated by providing components than by supplying entire systems. Where the Group has a number of complementary niches, it does combine these to offer sub-systems, systems and through-life management solutions to satisfy customer requirements. Generally, however, Ultra prefers to retain a leading niche position rather than constantly pursue the supply of systems with the hope of higher added value. The scope of Ultra's offering is determined after a rigorous strategic review.

Niche player

Within the Group's 28 businesses, more than 180 niches can be identified where the aim is to sustain competitive advantage. These niches enable Ultra to achieve world-leading positions and result in the potential for superior financial performance. This broad spread gives the Group low dependency on any single contract and provides resilience in the face of technological changes or funding cut-backs.

Organic and acquisition growth

Ultra businesses are expected to contribute to the organic growth of the Group as well as identifying well-matched acquisition targets. To ensure that an appropriate rate of organic growth is maintained, businesses produce annual five-year strategic plans that target specific opportunities. The focus on cash generation is a key driver to the affordability of suitable acquisitions to augment the Group's growth rate. The Group's acquisition strategy is summarised as being the pursuit of 'bolt-on' and 'bolt-in' acquisitions that enable Ultra to successfully pursue its four main strategies for growth. The normal size of acquisitions, as measured by annual revenue, is currently about £30m to £100m for 'bolt-ons' and up to £15m for 'bolt-ins'. Larger acquisitions will be considered where the case is compelling.

Efficiency and competence

Ultra seeks to maximise efficiency throughout its organisation. The levels of commitment and competency of business management teams is continuously assessed through strategic, budget, organisation, succession and regular business performance reviews. The Group places a high degree of trust in, and has high expectations of, its senior staff and supports their development and improvement activities. Ultra empowers management teams to run their respective businesses to deliver agreed strategies, meet budgets and continuously develop their people. Ultra constantly develops its people and structure through a rigorous annual organisation, succession and development planning process.

Teaming

Teaming, internally within the Group or externally with other companies, broadens offerings by combining niche products or linking domain knowledge. It attains competitive advantage by accessing off-the-shelf technology at lower cost, allowing timely delivery while avoiding expensive development costs and high project risk. Increasingly, Ultra teams with international, world-class partners to access 'best of breed' technology and undertakes specialist system and sub-system design and integration, ensuring customers sovereign operational independence where required.

Market Analysis

Ultra's analysis of the defence, security, transport and energy markets can be found on **pages 20 to 23**.

Teaming

Further details on Ultra's approach to partnering and teaming can be found on **page 15**.

Strategic supplier

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. Many of the Group's niche offerings involve the design and supply of complex products and services which are typically safety or performance-critical in their application. This creates a shared dependency from the customers' perspective and encourages a long-term strategic relationship where Ultra's businesses become part of the customers' extended enterprises, to mutual benefit.

Commitments

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 which 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.

Strategic Supplier

Further details on how Ultra drives long term relationships can be found on **pages 35 and 36**.

Commitments

More information on Ultra's commitment to developing sustainable and long-term business can be found on **pages 38 and 39**.

Market analysis

In demanding markets, Ultra provides a growing portfolio of highly differentiated, specialist capabilities and innovative technologies to meet particular customer need. Ultra's clear focus on areas of preferential spend, increasing market access and product diversity provides resilience in a period of budget adjustment in core markets. Working closely and effectively across the Group, and with partners, Ultra offers the comprehensive, tailored and proven solutions the customer is seeking.

"Military forces will be asked to do more with less."

Defence

Within Ultra's core markets, defence forces are readjusting to the end of long-running land campaigns in Iraq and Afghanistan, against the backdrop of significant and continuing government fiscal uncertainty. Defence budgets are under pressure, yet international tensions are undiminished and the demands for military presence and focused intervention remain high, driven by threats from terrorism, insurgency and regional competition. As a result, military forces will be asked to do more with less, leading to a greater dependency on unmanned systems, greater use of intelligence-led, Special Operations and quick-reaction forces, and improved situational awareness and networking for the lower number of troops on the ground. C4ISR*, defence IT and cyber will receive priorities while projecting fewer 'boots on the ground'. Increased mobility and flexibility will improve the utility of these smaller formations, relying upon high-capacity, secure data links and wideband, mobile communications delivering data down to the individual soldier for improved situational awareness. Each of these specialist capabilities plays to the established strengths of Ultra's portfolio.

US

In the US, Ultra's largest defence market, budget uncertainty will continue through 2013. Sequestration (under the 2012 Budget Control Act) has now been enacted and an extension of the current Continuing Resolution is judged more likely than not as US deficit pressures continue unaddressed. Sequestration would apply across all programmes, until negotiations on priority spend could be agreed by the Department of Defense. These cuts would add another $500bn to the existing $487bn defence funding reduction over the next 10 years, as already announced in the Fiscal Year 2013 (FY13) budget. A further downward correction to the US defence budget seems inevitable with some programmes being curtailed or cancelled. While the breadth of Ultra's portfolio and focus on areas of preferential and continuing spend provides a strong degree of resilience, this market remains difficult as budget uncertainty translates into an unwillingness to commit to normal contract volumes, while funding remains subject to additional scrutiny and vulnerable to further cuts. These effects are most evident in land warfare programmes as the strategic emphasis shifts back toward expeditionary warfare capabilities.

Recent US strategy will see the focus return to the Asia-Pacific region, with a 60-40 force split between East and West coast forces favouring the Pacific by 2020. The strategy has a strong focus on undersea dominance, with the new P-8 Anti-Submarine Warfare (ASW) patrol aircraft, new Littoral Combat Ship stationing and submarine force allocations prioritised to counter the growing Asia-Pacific submarine threat. Over 80 new submarines will be commissioned within the region in the next 10 years, largely to undertake area denial/anti-access roles amongst the contested waters that offer competed access to critical resources and command regional influence. Ultra's

*C4ISR is command, control, communication, computers, intelligence, surveillance and reconnaissance

“A further downward correction in the US defence market seems inevitable.”

“Portfolio strength and focus on preferential spend provides resilience.”

“New markets provide growth opportunities.”

long-standing expertise in all aspects of underwater capability leave it well positioned to exploit this resurgence of focus on ASW capability, with both the US and regional maritime forces.

UK

In the UK the defence equipment budget has been reset around a defined core programme, providing some welcome relief from the damage of overspend on major projects impacting across the programme as a whole. Further defence budget cuts appear likely in the next Comprehensive Spending Review as the UK Government struggles with its own deficit problem, but there are signs that the equipment acquisition budget will remain stable in the short-term. The UK Ministry of Defence continues to provide valuable opportunities in areas covered by Ultra's specialist capabilities, such as ISTAR, data links, force protection and crypto management. Ultra also benefits from a more stable commitment to the submarine refit and build programme.

Rest of the world

Elsewhere in Ultra's target markets a general upward trend of defence spending continues with a focus on the acquisition of established and proven, high end systems while protecting and building an indigenous defence industrial capability. In Turkey, Ultra has established a strong reputation for successful teaming with Turkish industry, including the secondment of several Turkish engineers under new visa arrangements to develop the next generation of ship torpedo defence. This engagement has secured Ultra's reputation and position as a leading provider of sonar systems to the Turkish Navy, while encouraging interest in the Group's wider portfolio of capabilities. Ultra is applying the lessons from Turkey to establish new relationships in India, now the largest defence importer in the world. India is investing heavily in defence and specifically in improving its 'blue water' naval capability, with a build programme of some five or six new ships a year for the next ten years. There is strong interest in Ultra's sonar capabilities and expertise in armoured fighting vehicle electronic architectures, on top of the Group's long-standing engagement in army radio systems. While Australia has implemented short-term defence cuts as a contribution to deficit reduction ahead of the next general election, the long-term programme provides further opportunities in Ultra's areas of strength. The Group also remains well positioned in the Middle East and has an emerging set of opportunities in Brazil; both regions of continuing high defence investment.

“US focus on Asia-Pacific plays to Ultra's long-standing expertise in all aspects of underwater and ASW capability.”

Market analysis
(continued)

"Solutions need to be comprehensive and fully integrated with mature, proven technologies that can be tailored to the customer's specific need."

Security & Cyber

The security & cyber market now represents 24% of Group revenue, targeting the preferential customer spend arising from terrorism, organised crime, drug trafficking and cyber-security threats. Governments are responding with demands for integrated solutions, which combine surveillance and protection capabilities with improved intelligence and effective C3 systems. Ultra has demonstrable expertise in all of these areas.

Border security and critical national infrastructure protection remain key opportunities in both core and emerging markets. Solutions need to be comprehensive and fully integrated, with mature, proven technologies that can be tailored to customers' specific needs. The ability to access 'best of breed' capabilities through close partnership is a further requirement. Ultra is well positioned to meet these demands in both the large US market and in other areas of high interest, such as the Middle East.

Within both government and private sectors, there is a growing understanding of the scale and potential threat from individual and state-sponsored cyber-attacks on critical national and commercial infrastructures. Ultra is seeing an increased demand for tailored solutions in the Group's core markets of the US and UK, as well as new opportunities in the Middle East and Australia. A well-established portfolio of specialist capabilities in the security and cyber areas, enhanced by recent acquisitions and teaming with leading providers in the field, allows Ultra to offer comprehensive solutions tailored to individual customer needs.

The Group now enjoys a comprehensive range of established crypto-capabilities that span from the highest levels of government security through to commercial and transaction-protection applications. These augment Ultra's unique key management and remote keying capabilities that remain in strong demand. The Group also has a wide range of lawful intercept and data analysis products to offer, together with the identification and access management, secure communications, networks and command & control systems to enable their effective employment.

“A growing emphasis on reactor plant life extension plays well to the Group’s safety system experience and specialist sensor provision.”

Transport and Energy

Population growth, shifts in global trade and the proliferation of low-cost airlines worldwide is driving demand for civil aircraft and infrastructure investment in mass passenger transport systems. In established economies, infrastructure investment is upgrading capabilities and driving economic recovery. In emerging economies, such investment is being used to secure growth, build national capacity and deliver prestigious projects.

Passenger traffic figures continue to exceed carrying capacity, with growth in commercial aircraft manufacturers’ revenues expected to reach record levels in 2013. Production levels will exceed 1,000 aircraft per year for the third consecutive year and backlogs continue to grow. This long-term, worldwide increase in air travel drives investment in infrastructure, including airport IT systems where Ultra has a strong capability. Ultra’s ability to secure and deliver as a master systems integrator, for the Muscat and Salalah airports in Oman, has clearly established the Group’s capability in this market, with further opportunities expected within the region in the following years.

The investment in ground transport systems and specifically rail infrastructure is predicted to exceed airport investment over the next decade; an opportunity which should benefit Ultra with its established and specialist trackside power capability.

Reports on the Fukushima disaster underwrote the need for high-integrity safety systems and remote monitoring in civil nuclear power. Some nations (Germany, Switzerland, Taiwan) have since turned away from nuclear power, while others have suspended or delayed construction plans as a result of safety concerns or economic stagnation; as a result nuclear power accounted for just 11% of worldwide electricity production in 2012. Nevertheless, the imperative to deliver low-carbon energy remains high. In the US, despite the focus on indigenous shale oil production, the government approved four new-build Westinghouse reactors, each of which uses Ultra’s specialist sensors. The Group’s involvement continues in China’s civil nuclear reactor build programme, by far the largest in the world. Elsewhere, there has been a growing emphasis on reactor plant life extension as new builds are delayed; this plays well to the Group’s safety system experience and specialist sensor provision.

Whilst investment decisions in some countries may be slowed by economic concerns, demand remains strong in the world’s high-growth economies. Ultra continues to win business in these transport and energy areas, which now represent 20% of Group revenue.

“Continuing growth in air traffic is driving new opportunities for airport systems.”

Performance

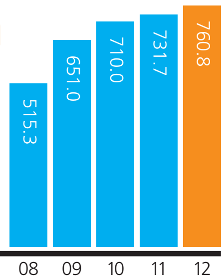
Financial performance overview

"After a record margin performance in 2011, Aircraft & Vehicle Systems and Information & Power Systems both improved again in 2012…"

Revenue

£760.8m

KPI



+4.0%
(2011: £731.7m)

Ultra's 2012 results

The order book at the end of 2012 was £905.0m compared with £950.3m (£934.4m at constant currencies) at the end of 2011. Within the order book total, opening firm order cover for 2013, compared to analysts' consensus revenue forecasts was 58% (2011: 54%) reflecting in part the significant orders for US sonobuoys received in the fourth quarter of 2012.

Revenue

Revenue grew by 4.0% to £760.8m, an increase of £29.1m. The positive effects of both foreign exchange on translation of overseas revenues and the incremental benefit of acquisitions outweighed a decline in underlying constant currency revenues of 4.2%.

With over 50% of revenues sold in US dollars, Ultra benefited from a slight decline in the US dollar rate to 1.59 (2011: 1.60) which increased revenues by 0.6%.

Acquisitions contributed a further 7.6%. Principally this arose due to the full-year effects of Sotech, Zu and AEP which were acquired in 2011 and, to a lesser extent, GigaSat, BeMac and RFI that were purchased in 2012.

Excluding acquisitions and the effect of currency movements, there was an organic decline of 4.2%. There were major shortfalls in two divisions, Aircraft & Vehicle Systems and Tactical & Sonar Systems. In contrast, Information & Power Systems reported a significant increase. The shortfall in Aircraft & Vehicle Systems arose primarily in the aircraft controls business due to lower sales in the noise and vibration segment because of the phasing of aircraft deliveries as well as lower reported sales at AMI in the gap between the cessation of funded development work and the beginning of full production. Tactical & Sonar Systems was a mixed picture. While sales into the UK crypto programme and to anti-submarine warfare in the US were robust, this was overshadowed by a significant reduction in sales of tactical radios, both to the export and particularly the US market.

In contrast, revenue from Information & Power Systems was particularly strong driven by the further ramping up of the Oman airport IT project and strong sales of TACPOD in the US.

Operating profit and margins

Underlying operating profit increased slightly to £122.2m (2011: £122.1m) and the margin fell a little to 16.1% (2011: 16.7%). The additional contribution from acquisitions and favourable foreign currency translation was offset by an adverse organic performance.

After a record margin performance in 2011, Aircraft & Vehicle Systems and Information & Power Systems both improved again in 2012. However, the overall Group position was held back by a decline at Tactical & Sonar Systems, where there was a sharp fall in the radio business; and the margin consequently fell significantly despite considerable restructuring cost reductions. It should be noted that Ultra continues to invest in research and development to support future opportunities; this investment increased by £7.8m to £49.2m (2011: £41.4m) and represents 6.5% of Group turnover.

Acquisitions contributed an additional £6.8m; largely through a full-year contribution from Sotech and Zu.

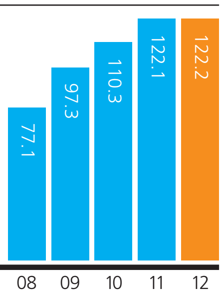
KPI = Key Performance Indicator, see **pages 10 and 11** for details

Paul Dean, Finance Director

Underlying operating profit

£122.2m

+0.1%
(2011: £122.1m)



Interest and profit before tax

Net financing charges, excluding the unwinding of discounted provisions and fair value movement on derivatives, was £6.7m (2011: £7.2m). The finance cost of the bank debt was £5.3m (2011: £5.2m), remaining steady as the closing net debt was little changed. The finance cost of the pension scheme reduced by £0.7m to £1.3m (2011: £2.0m) because of a reduced interest charge on scheme liabilities due to a lower discount rate. The interest on bank debt was covered 23 times (2011: 23 times) by underlying operating profit*, one of Ultra's KPI, see **pages 10 and 11** for more information.

Underlying profit before tax was £115.6m (2011: £114.9m); an increase of 0.6%.

IFRS Profit before tax

Ultra's IFRS profit before tax fell from £91.2m (2011) to £82.8m. The principal reason for the reduction was an increased charge for the amortisation of intangibles arising on acquisition; this reflects the acquisition activity of recent years (particularly Sotech, Zu and GigaSat).

The table below reconciles the underlying and the reported number.

	2012 £m	2011 £m
Underlying profit before tax	**115.6**	114.9
Amortisation of intangibles arising on acquisition	**(32.1)**	(23.1)
Profit/(loss) on fair value acquisition movements on derivatives	**1.4**	(0.8)
Adjustment to contingent consideration net of acquisition costs	**(1.5)**	0.2
Unwinding of discount on provisions	**(0.6)**	–
Reported profit before tax	**82.8**	91.2

Tax, EPS, and dividends

The underlying tax rate reduced to 25.3% (2011: 28.0%) due to a combination of lower UK rates and the release of provisions following the close of certain tax inquiries around the world.

Headline earnings per share were 124.5p (2011: 120.2p), an increase of 3.6%. A final dividend of 27.8p (2011: 26.8p) is proposed. If this is approved at the Annual General Meeting, it will give a full year dividend of 40.0p (2011: 38.5p) and will be covered 3.1 times.

3.6%

Headline earnings per share up **3.6%** (2011: 11.4%)

*see footnote on page 1

Aircraft & Vehicle Systems

Ultra's Engine Inlet Ice Protection System provides safety critical protection to the Joint Strike Fighter's engine whilst operating within the harsh environment of a military jet engine bay.

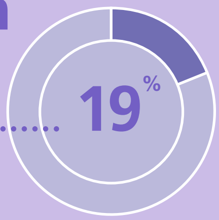
In 2012 Ultra's **Controls** business continued to support low-rate initial production of the F-35 Joint Strike Fighter through increased deliveries of its Engine Inlet Ice Protection System (EIPS). This system is supplied to Pratt & Whitney in support of its F-135 engine programme and provides control to the de-icing mats embedded within the guide vanes on the inlet. The overall value to Ultra has the potential to exceed £150m.

Pictured above, L to R: Jim Wardale, Systems Engineer; Ian Stothers, Technology Director; Simon Lockyer, Senior Software Engineer; Heather Rolls, Director of Programmes; Andy Daryle (front), Systems Engineering Manager; Bart De Boer, Systems Reliability Engineer; Alan Elford, Mechanical Engineering Manager; Jonathan Newton, Software Engineer; Martin Pankhurst, Engineering Specialist; David Ashworth, Software Systems Engineer.

Revenue £m

£147.0m

% of group

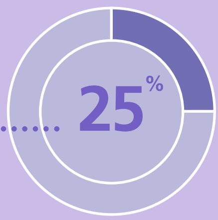


-11.5%
(2011: £166.1m)

Underlying operating profit*

£30.8m

% of group

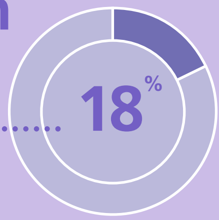


-1.0%
(2011: £31.1m)

Order book £m

£163.6m

% of group

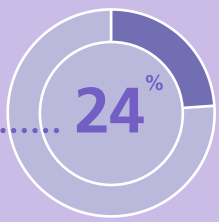


-7.8%
(2011: £177.4m)

Number of employees

1,098

% of group



+5.4%
(2011: 1,042)

Revenue in Aircraft & Vehicles reduced by 12% to £147.0m (2011: £166.1m) and underlying operating profit reduced by 1% to £30.8m (2011: £31.1m). The order book was reduced by 8% to £163.6m (2011: £177.4m).

The division's revenue reflected a slower than expected build up in sales of the Group's noise and vibration products on a number of programmes, while funding delays impacted sales from the UK Scout and Warrior Capability Sustainment armoured vehicle programmes. US budget constraints resulted in the delay of a UAV fuel cell order. There was some continuing impact from the previously announced cancellation relating to a European military aircraft. Underlying operating profit reflected lower sales, offset by cost reductions and reduced investment spend as this division moves out of a development phase and starts to ramp up into a long production phase for its aerospace products. This was reflected in the underlying operating margin which rose to 21.0% (2011: 18.7%).

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

- establishment of a five-year agreement with Kongsberg for the CROWS3 remote vehicle weapon station for the US Army
- positions on Boeing 787 and Gulfstream aircraft that will provide long-term returns as new build programmes ramp up to full-rate production
- award of a contract for a range of equipment for the Embraer's KC-390, reflecting growing business with the world's third largest aircraft manufacturer

Strategy in action

1. Increasing the Group's portfolio of specialist capability areas

Ultra's Precision Air & Land Systems business has developed a fuel tank inerting system for passenger aircraft which addresses a growing market need arising from the continual drive to improve flight safety. Development was internally funded through a Group-wide Audacity challenge. These systems deliver oxygen depleted air to partially empty fuel tanks to minimise the risk of explosion. PALS has used its considerable pneumatic systems capabilities, originally developed for military applications, to design a novel system architecture in partnership with leading industry suppliers. Ultra's solution meets regulatory safety requirements and at the same time addresses manufacturers and airlines needs for lighter, fuel efficient and cost effective aircraft subsystems.

For details on Ultra's strategic objectives see pages 8 and 9.

*see footnote on page 1

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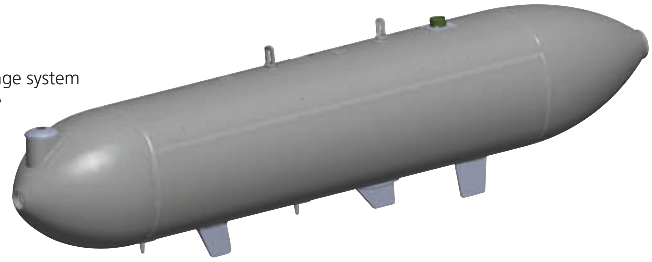
Performance

Information & Power Systems

TACPOD is a communication exchange system that can receive messages using one protocol and transmit them to another receiver using a different protocol, thereby allowing two dissimilar systems to communicate.



In March 2012, **Advanced Tactical Systems** was awarded a contract to design, develop and deliver 14 Tactical Communications C3I Pods (TACPOD) and associated ground support equipment for the US Air Force. TACPOD is a communications extension and interoperability system provided in an externally mounted aircraft pod. The TACPOD provides a robust, non-invasive tactical communications system that can be flown on manned or unmanned aircraft to provide connectivity between warfighters and their command and control elements. The current TACPOD contract exceeds £19m and is a demonstration of Ultra winning a major program in a new market area through Audacity and Entrepreneurship.

Pictured above, First row: George Bartlett, Director, Airborne IPT; Cathy Cox, Technical Writer; Julie Short, Financial Analyst; Serena Smyers, Systems Engineer; Heath Hannes, Systems Engineering Lead; Gary Newcomb, Software Engineering Lead. **Second row:** Johnny Pratt, Technician; Michael Jackson, Test Engineer; Randall Withrow, Systems Engineer. **Third row:** Damian White, Test Engineer; Joe Yoder, Technical Manager; Don Bergman, Deputy Program Manager; April Neigut, Mechanical Engineer; Nick Kraus, Test Engineer. **Fourth row:** John Leimon, Electrical Engineer; Geoff Guenther, Software Engineering Lead; Jason Sinnema, Mechanical Engineer; David Medina, Test Engineer; Bill Newcomb, Systems Engineer; Juan DelaPena, Test Engineer; Kevin Ford, Mechanical Engineering Lead; Doug Huyck, Systems Engineer; Brian Kimball, Software Engineer.

Revenue £m

£315.8m

% of group 42%

+22.9%
(2011: £257.0m)

Underlying operating profit*

£45.0m

% of group 37%

+47.5%
(2011: £30.5m)

Order book £m

£391.4

% of group 43%

-11.5%
(2011: £442.2m)

Number of employees

1,843

% of group 39%

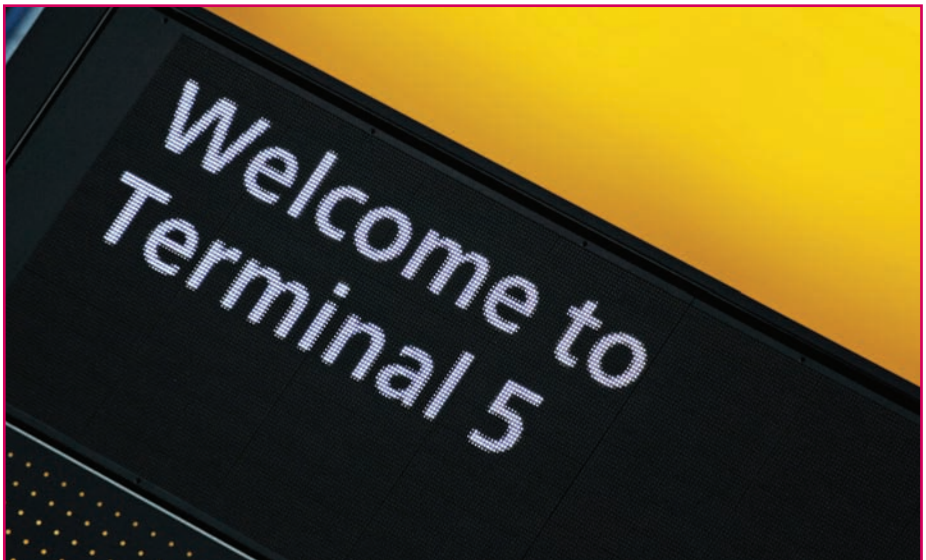
+7.5%
(2011: 1,714)

Revenue in Information & Power Systems grew by 23% to £315.8m (2011: £257.0m). Underlying operating profit increased by 48% to £45.0m (2011: £30.5m). The order book at the end of the period was reduced by 12% to £391.4m (2011: £442.2m), largely reflecting the trading of the Oman contract.

Revenue growth was achieved across the division, notably from the ramping up of Ultra's Oman airport IT project, and strong sales of TACPOD and power products. These offset a lull in sales activity from the Command & Control Systems business. SOTECH, a recent acquisition, also performed strongly. Underlying operating profit was boosted by full contributions from recent acquisitions and reflected increased confidence in the delivery of the Oman Airport IT project as engineering risks are mitigated. Underlying operating margin increased to 14.2% (2011: 11.9%) largely driven by the acquisition of SOTECH and Zu.

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

- signing of a 'preferred supplier' agreement with Areva that positions Ultra for new build UK nuclear plants as well as upgrades to legacy power plants globally
- success in winning additional contracts to develop and fit Ultra's TACPOD product onto US unmanned air vehicles
- development and provision of electrical power management equipment to current and future UK submarines (Astute, Vanguard and 'Successor')



Strategy in action

2. Positioning on long-term programmes

Following a competitive renewal process, Airport Systems has been awarded a five-year extension to its flagship UltraTrak Baggage Management System at London's Heathrow airport. Furthermore, the new contract will extend the system from Terminals 1-4 to include Terminal 5 for the first time. The renewal will extend Ultra's contract with the Heathrow airlines to 2018, meaning that Ultra will have provided baggage reconciliation, segregation, reporting and baggage management services to the Heathrow community continuously for 15 years. By the end of 2013, UltraTrak will reconcile all of Heathrow's 35 million bags each year, making the system the largest single-site baggage reconciliation system installation in the world. The system will have over 8,000 registered ground handler, airline and security staff using its 800+ wireless scanners and 200+ workstations.

For details on Ultra's strategic objectives see **pages 8 and 9**.

*see footnote on page 1

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Performance

Tactical & Sonar Systems

Ultra's common core high-grade cryptographic product offers increased security, flexibility and interoperability. The reprogrammable nature of the device means that it can be upgraded to meet future needs in UK and export markets.

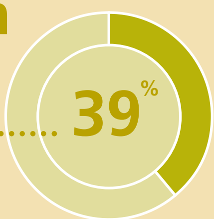
In 2012, the Information Assurance team within **Ultra's Communication & Integrated Systems** business further secured its position as a world-leading cryptography provider after capturing a number of additional development and study contracts that will lead to future production. This builds on a contract with the UK MoD to provide a wide range of high-grade cryptographic products. Ultra's offering is based on an innovative, compact, reprogrammable core cryptographic module. This reconfigurable common core crypto is fitted into specific adaptors to provide a 'form-fit-function' replacement to previous cryptographic devices, and has resulted in the UK MoD being able to save considerable costs through minimising platform integration activities.

Pictured above, front row from L to R: Finbarr O'Donoghue, Product Engineer; Aftab Haider, Mechanical Team leader; Laurence Dixon, Chief Engineer, IA Product Development; Andrea Lee, Project Manager; Andy Frew, Head of Programmes, Information Assurance; Alpesh Kavia, Principal Hardware Engineer; **Back row L to R:** Jonathan Blogh, Firmware Design Authority; Jim Haywood, ILS Manager; Colin Rowe, Principal Test System Engineer; Stewart Murray, Software & Firmware Team Leader; Mark Weston, ECU ITEA and I&I Team Leader.

Revenue £m

£298.0m

% of group

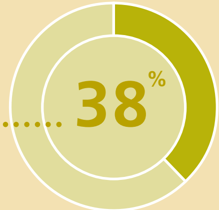


-3.4%
(2011: £308.6m)

Underlying operating profit*

£46.4m

% of group

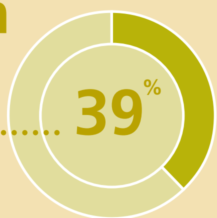


-23.3%
(2011: £60.5m)

Order book £m

£350.0m

% of group

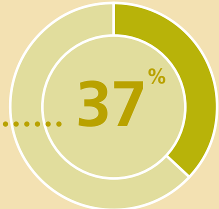


+5.8%
(2011: £330.7m)

Number of employees

1,739

% of group



+1.4%
(2011: 1,715)

Revenue in Tactical & Sonar Systems reduced by 3% to £298.0m (2011: £308.6m). The division's underlying operating profit reduced by 23% to £46.4m (2011: £60.5m). Order book was increased by 6% to £350.0m (2011: £330.7m).

US ground force reductions, budget constraints and planned phasing of a US Army tactical radio programme led to a 50% reduction in radio sales compared with 2011. Elsewhere, the division saw good revenue growth in the Group's crypto and sonobuoy businesses. US sonobuoy orders remained buoyant as the US shifts focus to the Asia-Pacific theatre. In secure communications the Group continues to enjoy an active interest and demand in its portfolio of encryption and key-management capabilities.

Ultra also achieved substantial sales in perimeter surveillance and power monitoring systems. Underlying operating profit was impacted by restructuring costs and maintenance of investment for future growth, reducing the division's underlying operating margin to 15.6% compared to 19.6% last year.

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

- an End Cryptographic Unit Replacement Programme (ECU-RP) contract was successfully negotiated following the volume adjustments to reflect the UK's defence review
- orders for additional Litening advanced targeting pods and associated support for the RAF's Typhoon aircraft, following excellent performance during operations in Libya, further strengthening Ultra's position for opportunities linked to Typhoon exports
- a further contract for a torpedo defence system to Turkey for its Landing Ship Tank programme, building on recent success for similar systems for the Turkish Navy's MILGEM corvettes

*see footnote on page 1

Strategy in action

4. Widening Ultra's geographic footprint

Ultra's Sonar business was successful in being selected to provide torpedo defence systems for the Turkish Navy's two new Landing Ship Tank (LST) platforms. The selection of Ultra to provide this capability was built upon the existing and proven industrial relationships with Turkish industry that were forged while delivering two systems under the MILGEM programme. For the MILGEM programme, Ultra teamed with Turkish industry to adapt a version of Ultra's Sea Sentor torpedo defence system to meet the Turkish Navy's specific needs. The success of this programme and of the relationships has allowed Ultra, working closely with local industry, to win the contract for the LST.

For details on Ultra's strategic objectives see **pages 8 and 9**.

Financial review

"The Group's performance in the year demonstrated the benefit of having a broad portfolio of niche activities."

Operating Cash flow
Underlying operating cash flow* was £89.6m and the ratio of cash to underlying operating profit was 73%. As anticipated, this was a reduction from the strong £133.7m (110% conversion) recorded in 2011, due predominantly to the phasing of working capital movements and increased level of capital expenditure in 2012. The cash to operating profit ratio over a rolling five year period is 98%.

After a low year in 2011, capital expenditure on property, plant and equipment rose by £8.4m to £20.5m (2011: £12.1m). The major expenditure related to the acquisition of new facilities for the Precision Air and Land Systems (PALS) business in Cheltenham; the refurbishment of the site at Greenford and the creation of an electric motor assembly facility at PMES at Rugeley. There were no major asset disposals in the year.

Capital expenditure on intangible assets (not acquired through acquisitions) was £4.7m (2011: £3.1m). The increase was predominantly due to the purchase of intellectual property rights to support radio development. Amortisation of the same asset class was £3.2m (2011: £6.3m), but it should be noted that the prior year comparative was distorted by the write-off of capitalised development costs associated with the cancellation of a contract for a European military aircraft that occurred due to changing aircraft requirements.

There was a net outflow of working capital of £13.8m compared to an inflow of £18.5m in 2011. There was an outflow of inventories of £2.7m (2011: £5.4m inflow) across a range of businesses, notably in PALS ahead of the site relocation. The outflow for both receivables of £6.0m (2011: £26.5m) and payables £2.0m (2011: £36.9m inflow) was also spread across a number of businesses. In comparison to the prior year, it should be noted that the receivables and payables in 2011 were 'grossed' up as a substantial advanced payment relating to the Oman project was invoiced in December 2011 and so was both a trade debtor in the receivables flow and an advanced payment in the payables flow.

Non-operating cash flow
From the underlying operating cash flow* of £89.6m (2011: £133.7m), the Group funded various non-operating items to arrive at a small reduction in net debt of £3.1m (2011: £64.0m increase in debt). The main non-operating items were:

- the cash cost of tax was £25.6m (2011: £29.1m). The reduction arose principally in the US due to R&D tax credits and a lower state tax charge
- acquisition spend was £37.0m (2011: £142.1m). Most of the spend (£33.3m) related to the three acquisitions completed in the year but there was a small balance relating to earn-outs on deals from prior years
- dividend payments of £26.9m (2011: £24.5m)

At the end of the year, there was net debt of £43.0m, compared to £46.1m at the end of 2011.

Treasury and balance sheet matters
Effect of acquisitions
The three acquisitions made in the year (GigaSat, BeMac and RFI) were made at a total purchase consideration of £52.5m of which an estimated £15.2m related to deferred consideration for GigaSat. The purchase consideration includes cash acquired of £5.4m.

Banking Facilities
Ultra's current banking facilities amount to £190m in total plus a £15m overdraft. They are provided by a small group of banks led by the Royal Bank of Scotland and comprise two tranches. The first tranche is a £90m revolving credit facility, which can be drawn down in any common currencies and is due to expire in January 2016. The second tranche provides a further £100m of revolving credit and was signed in December 2012 and is due to expire in December 2017. This second tranche is effectively the renewal of the £120m facility that was due to expire in September 2013 but was refinanced early to ensure continuity of funding. Both facilities have the same covenants.

The Group also has a 'shelf' facility with Prudential Investment Management Inc ('Pricoa'). This agreement effectively gave the Group access to the US private placement market on a bilateral basis. The facility is non-committed but is for up to $150m. At 31 December 2012, $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 and reduce its current liabilities.

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 was £29.2m (2011: £80.2m) giving headroom, based on current facilities, of £160.8m (2011: £129.8m) plus the £15m overdraft. £43.3m (2011: £6.5m) of Pricoa loan notes had been issued. The Group also held £30.8m of cash which was held for working capital purposes and to fund acquisitions.

*see footnote on page 1

98%

The operating cash conversion* over a rolling five year period is **98%** (2011: 103%)

7 years

Debt profile extended and interest fixed for a seven year period (2011: 7 years)

"Ultra offers company-funded retirement benefits to all employees in its major countries of operation."

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 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 2012, when the net scheme deficit calculated in accordance with IAS19 was £63.2m, compared to £60.8m in 2011. The present value of the liabilities rose by £14.9m in 2012, mainly because of the lower discount rate, driven by the lower yield on corporate bonds. The increase in the schemes liabilities was largely offset by an increase in the value of the scheme assets of £13.9m.

There was a full actuarial assessment carried out as of April 2010. The result of which was a funding deficit relating to past service of £63.6m before tax, assuming a split annual discount rate for future liabilities of 7.5% before retirement and 5.25% post retirement. Following the completion of the assessment, Ultra reached agreement with the pension scheme trustee board to eliminate the deficit by making annual payments of £7.2m per annum over a ten-year period commencing in 2011. It was also agreed that the company assets that were offered as security against the deficit at the last valuation of £10m could be released. A new valuation will take place as of April 2013.

The scheme has a statement of investment principles that 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 deficit of £0.7m at the end of the year (2011: deficit of £1.2m). 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. SOTECH, which had its own 401(k) plan in place when it became part of Ultra during 2011, consolidated its plan into the main Ultra scheme on 2 July 2012. Wells Fargo Bank N.A. provides third party administrative services and is also a directed trustee of the plan.

*see footnote on page 1

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Financial review
(continued)

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 that 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, at year-end, 99% of the expected exposure for 2013 was covered, reducing to 28% of the exposure for 2015. Exposure to other currencies is hedged as it arises on specific contracts.

99%

at year-end, **99%** of the expected exposure for 2013 was covered

"The majority of sales made by Ultra's businesses are made in local currency, thus avoiding any transaction risk."

Making a difference

The Board recognises that the long-term success of the Group will be enhanced through fair and positive relationships that make a difference to all its stakeholders including shareholders, customers, suppliers, employees, local communities and the environment. This reinforces Ultra's strategic tenets, described on pages 18 and 19, that define the values and behaviours of the Group's culture which is aligned with the achievement of Ultra's prime objective.

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 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. Ultra's strategy is constantly to increase its share of the markets in which it has positioned itself. The Group focuses on those specialist sectors within the markets where customers preferentially focus their expenditure.

to **suppliers**

Supplier management is critical to the continued success of the Group as it depends upon its suppliers to help to deliver the complex products and services which are typically safety or performance-critical in their application. Ultra is focused on delivering innovative and differentiated solutions that can only be generated through working in partnership with suppliers and customers. This is encapsulated in the *seventh strategic tenet* "gain competitive advantage by internal and external teaming". Poor performance or inappropriate behaviour by a supplier could affect Ultra's reputation or ability to meet its commitments.

in **the community**

The Group recognises that each of its businesses has an important role to play in the communities in which they operate. Many of Ultra's businesses have formed special relationships with schools in their surrounding communities, hosting company visits, helping with school science fairs and providing work experience opportunities. Each operating business has its own locally held charity budget, is able to support selected charities and is encouraged to maintain and grow links with its local communities. The Group encourages and supports its employees who undertake voluntary work in the local community or at national levels.

to **customers**

Ultra aims to be an excellent and strategic supplier to its customers, reflecting its *sixth strategic tenet*. This can only be achieved through developing long-term relationships that are based on performance excellence, meeting commitments and exhibiting the best behaviours. This enables the businesses to build long-term, mutually beneficial relationships with their customers, such that Ultra's businesses become part of the customers' extended enterprise.

to **employees**

The success Ultra achieves in innovating to meet customer needs is based on the broad range of skills and capabilities of its employees. The Board understands this and recognises that the Group's 'right' people are its most important asset. This is enshrined in the *fifth strategic tenet* which calls for an "efficient organisation with engaged and competent people". Ultra is committed to developing people and securing the talent pipeline to ensure the continuing growth and success of Ultra. More detail on this can be found in Developing Ultra's People on **pages 36 and 37**.

to **the environment**

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.

The Group has committed to substantial investments in manufacturing facilities that will, in addition to improving productivity, offer increased efficiencies and reduce energy consumption. One example of this is Ultra's facility (above) in Indiana US, where Ultra has the second largest natural heating and cooling system in the state.

Developing Ultra's people

The success Ultra achieves in innovating to meet customer needs is based on the broad range of skills and capabilities of the Group's employees. Ultra recognises this and is committed to having an efficient organisation with engaged and competent people.

Culture:
Ultra defines its culture as the values, role models, processes, procedures and behaviours of its employees that drive Ultra's success. Many individuals join the Ultra team each year, through organic growth, natural staff turnover and acquisitions. Ultra is committed to ensuring that its culture is not diluted as the Group grows. The Group's culture, values and behaviours are shaped by the strategic tenets, described on pages 18 and 19, with the fifth tenet calling for "an efficient organization with engaged and competent people". To achieve this, Ultra has identified four cultural behaviours of its people that are highly valued and encouraged. These are leadership, entrepreneurship, audacity and paranoia. Together, they are known within the Group as **LEAP**.

Leadership:
Good leadership is extremely important to Ultra and a number of models of leadership are incorporated in the development and training programmes that are delivered around the Group. These are designed to help develop leadership skills for employees already in leadership positions or about to move into such a role. Leadership applies at all levels of management for team leaders, supervisors, managers – in fact for anyone who is responsible for others. Ultra needs effective leaders who have the ability to utilise the appropriate mix of 'soft' and 'hard' power, depending on management circumstances, that is known as 'smart power'.

Entrepreneurship:
Being entrepreneurial is a behaviour that underpins the Group's strategy. All Ultra businesses seek to provide customers with solutions that are different from, and better than, those of the competitors. Ultra's entrepreneurial culture seeks to maximise the capability to generate excellent ideas and the business skills to bring them to market. Not all new ideas work first time and Ultra's 'no blame' culture ensures that positive lessons are learned from setbacks. Entrepreneurship is hard-wired into the Group's structure as each of the individual businesses is run autonomously, with the Managing Directors and Presidents encouraged to behave like owner-managers.

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 that are unconstrained by existing norms and make use of creative approaches to every aspect of the Group's business. Many of Ultra's businesses have conducted 'audacity workshops' which challenge the attendees to think of stretch targets for their business which have the potential to transform the business. In 2012 the Group ran an internal innovation challenge called the 'Audacity Fund'. Here, funds are made available to turn ideas from employees into reality. Any employee can submit a proposal for an idea that could improve one of Ultra's existing products or services, solve a customer's problem or result in a new business opportunity for the Group. The best are then awarded funding to turn them into research and development projects with the expectation that they will augment the Group's performance in the future.

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 that can go wrong internally – for example with development projects or with the Group's strategic relationships. Paranoia is a very healthy business behaviour and ensures that an appropriate consideration is given to the risks and threats faced by the Group that can then be pre-empted or their effects mitigated. 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 customers, teaming partners and suppliers.

What people mean to Ultra
The success Ultra achieves in innovating to meet customer needs is based on the broad range of skills and capabilities of its employees. All managers in Ultra work towards the aim of delivering an efficient organisation with engaged and committed people to meet the Group's business commitments. It is vital to the continuing growth and success of Ultra that the quality of the leadership teams is constantly improved. Many businesses state that their people are the company's most important asset. Ultra varies this slightly: the Group's 'right people' are its most important asset.

Growth through engagement
During 2012 an additional complementary set of behaviours called **LAUNCH** were introduced. These behaviours are designed specifically to support improved customer relationship building.

Listen
to the customer

Ask
the right questions

Understand
what their pain is clearly

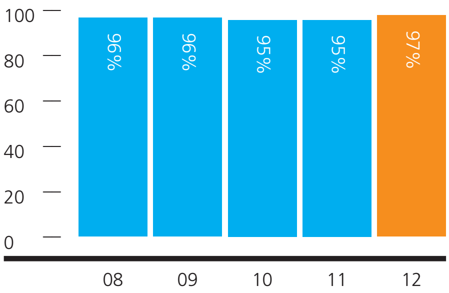
Need
identify the customer's needs; get their agreement

Create
a relationship, opportunity and solution

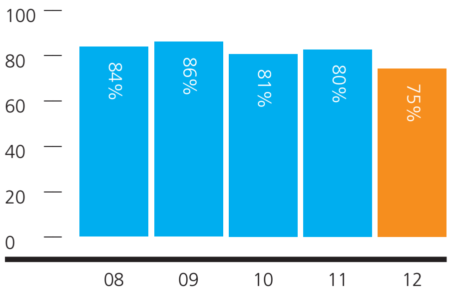
Holistic
examine the bigger picture; how can Ultra maximise the scope and value of the opportunity

LAUNCH is a way for Ultra's businesses to generate more opportunities, and ultimately to deliver increased growth through enhanced customer engagement.

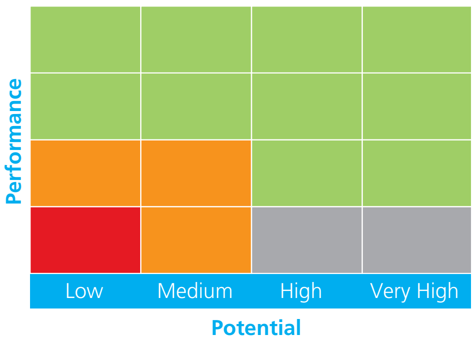
Retention of 'high-performers' in the green zone (see graphic in main text)



Internal appointments at Executive Team, Divisional and MD/President level



Succession planning and retention
To ensure that Ultra has the right people in the right place in the organisation, each of Ultra's businesses prepares an annual 'organisation, succession and development plan'. In this, individuals are assessed against their performance in their current role and their potential to perform a larger role. This assessment positions the individual on the 'performance versus potential' grid shown below. It recognises that any role in the business will become more challenging as the business grows. Equal attention is given to enhancing the performance of and retaining the individuals in the green zone of the grid and to addressing the challenges of the people in the amber and red zones. This does not always mean that those individuals in the red and amber areas must leave Ultra. Often they need to be placed in a role more suited to their talents and in which they can perform as required by the business. Ultra has achieved high retention rates of those individuals on the business senior management teams who are in the green zone.



By developing and retaining the high potential individuals in the green zone, the Group is creating its next generation of business leaders who will be able to take up the challenge of continuing the growth and expansion of Ultra.

The succession planning element of the process aims to ensure that there are suitable successors for all the management team roles across each business and other senior level roles. Ultra has, as a result, been able to appoint a high proportion of its leaders at Board, divisional and business levels through internal promotion. Businesses must also make sure that the talent pool is deep enough to cope with these internal appointments. Therefore, as well as the people listed as successors, each business also identifies people with high potential. The combined list represents Ultra's 'high-flyer' talent pool and is used regularly to find the right people to fill internal vacancies. In a typical year Ultra recruits over 600 new employees. Over and above this, acquisitions bring new people into the Ultra team.

Training and development
The Group actively supports and invests in training and development linked to business needs. Each business is responsible for identifying the training needs of its employees and managing its own training budget. This typically takes place through individual employee performance and development reviews, which are held at least annually. Ultra has its Learning Academy, an online portal, available to all of the Group's businesses, that enables the scheduling of training, hosts online courses and retains the training records of Ultra's employees. Specific training programmes are provided for individuals as necessary. In 2012, 20 different in-house training courses were run in the UK and in North America. 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 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.

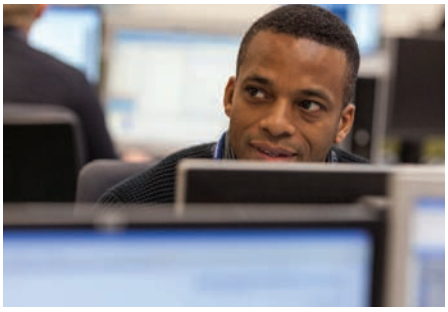
Securing the talent pipeline
Ultra has been committed to developing people ever since it was formed in 1993 and has a number of programmes that help the Group to attract the best people as well as encouraging students to develop careers in engineering or business. Examples of how Ultra businesses do this are:

- Ultra businesses have formed special relationships with schools in their surrounding communities, hosting company visits, helping with school science fairs and providing work experience opportunities.
- Ultra has sponsored students through their last two years at school. This provides students with support and mentoring during their studies and has led to students electing to undertake STEM* degree courses.
- Many Ultra businesses have well established, successful, apprenticeship programmes.
- Ultra businesses also provide opportunities for students to work on real projects through work placement, co-op programmes and internship schemes.
- Ultra has excellent links with universities around the world. It allows the Group access to leading research and to relationships with students who may ultimately join Ultra. The Group sees benefit in working with universities to collaborate on innovation and to recruit students who can make a difference.

*STEM (Science, Technology, Engineering & Maths)

Sustainability

Ultra believes that a successful and sustainable business is built on more than just financial results. Ultra has a long, consistent track record of development and growth and has built a reputation for meeting its commitments. This reputation is not only based on the businesses meeting their obligations, but importantly on the manner in which they do so.



Ultra is committed to maintaining the high standards of business ethics that underpin this reputation. The Ultra 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. The Board has determined that the Group's corporate responsibility initiatives are to be focused on the following key areas:

- **Diversity and inclusion**
- **Ethical business conduct**
- **Health and safety**
- **Environment**

Diversity and inclusion
Ultra is committed to maintaining a work environment that provides equal opportunities for all employees regardless of nationality, gender, ethnic background, sexual orientation, religious beliefs, marital status, disability or age. The Group complies with all applicable employment rights and legislation in the countries in which it operates.

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

Ethical business conduct
Ultra remains committed to achieving and sustaining a prominent role in ethical business conduct. To support these aims, the Group has focused its initiatives on three core areas:

- meeting and exceeding the legal and ethical standards
- providing guidance and support to employees
- an independent Ethics Overview Committee to offer advice and guidance

Meeting legal and ethical standards
Ultra requires that all employees, businesses and all third parties who act on Ultra's behalf must comply fully with the Group's standards of business ethics 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, the relevant national export control regulations and any competition and anti-trust laws.

Ultra has a corporate ethics policy which encompasses a gifts and hospitality policy. All the individual businesses are required to report on compliance every month. In addition, the Board reviews compliance twice a year. Although ultimate responsibility for the Group's ethics policy lies with the Board, Managing Directors and Presidents of the individual businesses have responsibility for the implementation and control of the policy.

Providing guidance and support to employees
The Group has continued to strengthen its policies and processes to ensure employees have the clear guidance they need in identifying and managing ethical matters, including: raising concerns, conflicts of interest, competitive intelligence and sponsorships and charitable donations. The Group has introduced additional and updated training to support employees more effectively.

To support its continuing commitment to business ethics, a Group-wide independent, confidential web- and telephone-based hotline was implemented in 2009 to allow employees to report concerns anonymously about possible improprieties and other compliance issues, see **page 56** of the Governance section of this report.

Reports made to the hotline are compiled by the independent operator and forwarded to the Chairman of the Audit Committee (or for US businesses, forwarded to the directors of the Special Security Arrangement Board or Proxy Board as appropriate) for action. Any employee found to be in breach of the ethics policy is subject to appropriate disciplinary action.

Fig 3a Reportable/recordable accidents per employee

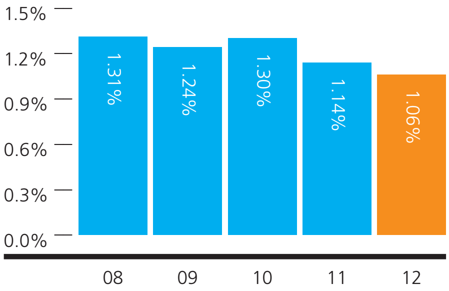


Fig 3b Lost time accidents per 200,000 hours

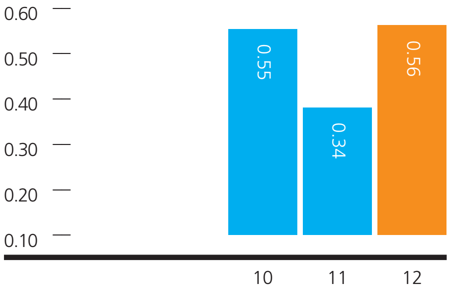
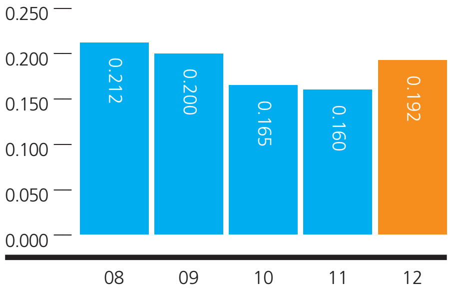


Fig 4 Packaging Waste (t/£m sales) in UK Businesses



Independent Ethics Overview Committee

To support the Group in achieving and sustaining its aim of being a leader in ethical business conduct, Ultra established an independent Ethics Overview Committee. The Ethics Overview Committee provides independent guidance, advice and scrutiny of Ultra's business activity. The Committee provides assurance that Ultra's business is being conducted in line with the Group's policies, processes and in accordance with the appropriate legislation. Members of the Committee undertake visit to Ultra businesses to assess their compliance with the Group's standard of business ethics.

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. The appointment of the Chairman is also exclusively within the remit of the independent members.

Health and safety

Ultra's commitment to the safety and well-being of the Group's employees, visitors and the local communities is a key priority. A healthy, committed workforce working in a safe environment is necessary to achieve superior business results. Therefore, Ultra places great emphasis on maintaining high standards of health and safety, not just for employees, visitors and the local communities, but also for the people using Ultra's products and services.

Across the Group, the businesses manage a wide range of safety risks. This ranges from office employees, manufacturing employees and employees providing services at customer sites, including military bases and platforms.

The safety of the products and services provided to users and customers is also of key importance to Ultra. The individual operating businesses ensure that the appropriate legal and ethical levels of safety are met across a product's lifecycle, with particular emphasis on the manufacturing, in-service and disposal phases.

The Chief Executive is the Board member with overall health and safety responsibility. All Ultra operating businesses are required to have a written heath and safety. Each Managing Director or President is responsible for the management of health and safety within their business, and for providing adequate resource to satisfy the Board's requirements. Compliance is assessed through independent external audits which occur bi-annually.

Each operating business is required to submit a separate annual report on health and safety performance which, along with the result of the audits, is reviewed by the Board. The reportable/recordable accident rate has been maintained over recent years and is shown in figure 3a. Lost time accident data per 200,000 hours has been recorded for the whole Group since 2010 and is shown in figure 3b.

The reportable/recordable accident rate per employee for 2012 fell from 1.14% to 1.06%.

Ultra's continuous safety improvement activities are focused on ensuring that the Group's facilities, infrastructure, processes, products and services are as safe as reasonably practical for Ultra's employees, visitors, local communities, customers and users.

Environment

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. These measures include both the operational business environment and the products and services that the Group provide.

Products

The processes and practises in the individual operating businesses ensure that environmental considerations are taken into account throughout the product's lifecycle, from concept through to disposal. The individual operating 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 Chief Executive is the main Board member with overall environmental responsibility. The Managing Directors and Presidents of the operating businesses are responsible for implementation of the policy. Where appropriate, individual businesses have ISO14001 accreditation.

Ultra has a formal environmental policy that 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 2011.

Compliance to environmental requirements is planned and managed by site 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 2012, continuing the excellent track record of the previous four years.

In the UK, Ultra measures and reports on its packaging waste annually and is shown in figure 4. Businesses are encouraged and incentivised to reduce the net amount of waste they produce.

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

Ultra in the UK is registered with the Environment Agency as part of the Carbon Reduction Commitment programme. The Group's compliance emissions fell from 7,332 tonnes (2011/12) to 6,511 tonnes (2011/12) of CO_2, a reduction of 11%.

Ultra's position in the 2011/12 CRC Performance League Table (PLT) is available on the Environment Agency's website.

Risk management

Risk is assessed and managed at the most appropriate level of the business as part of the annual strategic planning round. Resulting strategic risks are elevated for formal Board scrutiny, ensuring that appropriate mitigations are in place.

Ultra encourages its businesses to challenge the market through innovation and to exhibit audacity. Profitable growth is not achieved without considered risk so the management of that risk has become an integral part of Ultra's processes. Risks are understood and managed as business decisions are made, so that the Group's collective exposure is well understood.

This table illustrates the business activities that 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)	Acquisition watch list; available financing	●	●	●			
Acquisitions	Specialist capabilities; customers and programmes; synergies; financial performance; financial projections	●	●	●	●		
Bids	Plan to win and positioning with customer; 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, compliance with export regulations, compliance with security requirements	●	●	●	●		●

● 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 assessed at the Divisional level. Risks that are corporate in nature or that span Ultra businesses are elevated to the Executive Team for management. Resulting strategic risks (shown below and over the page) are assessed at Board level.

Risk 1. Cyber attack

Description

There is now substantial evidence that active efforts are being made to penetrate Ultra's secure 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

- Ultra has comprehensively reviewed policy, governance and accountability for the management of the cyber attack risk
- This has resulted in a new Group Information Security Policy and a significant further investment in the hardening of all Ultra's IT systems
- Development of the Group's ability to monitor systems and detect intrusion attempts will continue through 2013

Trend

Increasing

Risk 2. Changing market environment

Description

Ultra's core markets are changing as government budgets come under fiscal pressures, placing significant pressure on sales and orders. Contract awards are more heavily scrutinised and are more dependent on 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 markets

Mitigation

- Continue to target areas of preferential customer spend
- Operate a wide-ranging portfolio of specialist capabilities, complemented by a structure and culture that promotes agility, innovation and speed of response
- Develop and strengthen the marketing teams within each business
- Introduce **LAUNCH** behaviours, see page 36, to improve understanding of customer need
- Collaborate across the full Ultra portfolio and/or partner to present comprehensive solutions that match customer needs

Trend

Increasing

Risk 3. Sustaining product differentiation

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

Trend

Unchanged

Risk management
(continued)

Risk 4. Market access

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 that the members of its JVs and boards bring to the Group
- Ensure that the relationship continues to be mutually beneficial

Trend

Decreasing

Risk 5. Pensions

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

- The Board will remain focussed on this key issue and holds 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

Trend

Unchanged

Risk 6: Execution of contracts

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

Mitigation

- The Group Operating Manual has been updated to enhance the rigour and oversight of major bids and independent scrutiny of bids at Executive Team level has been initiated
- Ultra has conducted rigorous 'lessons learned' processes across recent large programmes
- Where the complexity of the programme demands Ultra will recruit or team to bring in the specialist skills required to manage large projects

Trend

Unchanged

Risk 7: Ultra culture

Description

As the Group grows it fails to manage the organisation in such a manner as to preserve the Ultra culture of innovation, agility and accountability.

Potential impact

- Ultra generates a level of hierarchy and bureaucracy that constrains innovation and entrepreneurship
- Ultra loses the key staff that are important to sustaining the portfolio of specialist capabilities and so loses business

Mitigation

- Sustain a lean head office structure and empower individual businesses that are of a size to remain agile, while encouraging collaboration where appropriate
- Reinforce the **LEAP** behaviours that embody the Group's culture
- Introduce the **LAUNCH** behaviours to improve customer understanding
- Manage acquisitions in order to embed Ultra culture and practices over existing behaviours

Trend

Decreasing

Risk 8. New markets

Description

Entry into new markets is necessary to maintain growth but they often have very different, unfamiliar procurement processes and constraints. These are also more likely to require mature products, delivered as packaged capabilities rather than individual products.

Potential impact

- Ultra fails fully to understand the commercial practices and market dynamics with the new regions it is entering, so loses business opportunities while expending resource on presence

Mitigation

- Outside its core markets, Ultra will focus its regional marketing attention on the Middle East, Australia, Turkey, India and Brazil
- Engage closely with UKTI and Embassies to improve local knowledge
- Access institutional consultants and research to better understand target regions
- Introduce Regional Marketing Managers in target regions to identify and calibrate opportunities across the full breadth of the Group's portfolio of capabilities, and maintain an 'in region' presence
- Develop sound regional partnerships in developing markets to meet offset needs while maintaining product differentiation and profitability

Trend

Decreasing

Risk 9. Staff retention

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.

For more information on Ultra's human resources initiatives, see **pages 36 and 37**.

Potential impact

- Ultra could lose key staff or capabilities so that the Group cannot fulfill its contractual obligations or is forced to outsource work, and 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
- Maintain Ultra's consistently high levels of retention for key staff
- Fast track high potential candidates, and exploit opportunities for secondments and inter-business transfers
- Ensure all key staff have a nominated successor so the impact, if someone does leave the business, is reduced
- Ensure poor performance is addressed

Trend

Unchanged

Risk 10: Industry restructuring – vertical integration

Description

Major primes in Ultra's sectors could integrate vertically (organically or by acquisition), so undermining the Group's market position.

Potential impact

- A sudden removal of key market segments resulting in a loss of business
- Greater competition for suitable acquisitions

Mitigation

- Continue to operate in specific market niches which play to Ultra's strengths
- Continue to innovate and differentiate the offering
- Ensure the Group executes contracts well and constantly meets its commitments, thereby reducing the incentive for customers to attempt to emulate the Group's specialist expertise and capabilities
- Maintain close relationships with all potential primes
- Champion the benefits of competition with end customers

Trend

Increasing

Governance

Board of Directors

For the year ended 31 December 2012

Douglas Caster CBE BSc MIET

Chairman
Time with Ultra:
19 years 2 months
Time in position:
1 year 8 months

Douglas Caster 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 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 that 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.

Rakesh Sharma BSc MBA MInstP CPhys

Chief Executive
Time with Ultra:
19 years 2 months
Time in position:
1 year 8 months

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

Christopher Bailey* FCA MCT

Non-Executive Director

Time in position:
7 years 11 months

Chris Bailey is a highly experienced, large plc Finance Director who brings valuable specialist and general management expertise to Ultra's Board. He has a 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.

Martin Broadhurst* OBE MA C.Dir FIoD FRAeS

Non-Executive Director

Time in position:
5 months

Martin Broadhurst 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 OBE 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.

Paul Dean MA FCMA

Finance Director
Time with Ultra:
4 years
Time in position:
4 years

Paul Dean is a broadly experienced plc Finance Director whose background, including participation in the buyout from Burmah Castrol and subsequent flotation.

Paul Dean joined Ultra in January 2009 having been Finance Director of Foseco from 2001 until its acquisition by Cookson plc in April 2008. He was a key part of the team that led the 2001 management buy-out from Burmah Castrol of five specialty chemicals businesses to form Foseco (Jersey) Ltd which was floated as Foseco plc in May 2005. From 1989 to 2001, Paul held a number of senior finance roles in Burmah Castrol plc, including Finance Director of Castrol UK Limited, Chief Financial Officer of the Fosroc Division, Group Financial Controller and then Corporate Treasurer for Burmah Castrol plc. He was appointed to the Board in April 2009. Paul has been approached to take a Finance Director role outside of the defence and aerospace sector and will leave Ultra on 31 March 2013.

Mark Anderson CB BSc

Group Marketing Director
Time with Ultra:
1 year 7 months
Time in position:
8 months

Mark Anderson 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 succeed Andy Hamment and joined the Board in April 2012.

Sir Robert Walmsley* KCB, FREng

Non-Executive Director

Time in position:
3 years 11 months

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

Sir Robert Walmsley 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 Chairman of the Board of the Major Projects Association, a Non-Executive Director of Cohort plc and of the General Dynamics Corporation. He is also a senior advisor at Morgan Stanley International plc. He was appointed to the Board in January 2009.

Sharon Harris LLB

Company Secretary & General Counsel
Time with Ultra:
1 year 1 month
Time in position:
8 months

Sharon Harris 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 was previously Group Legal Director at EMAP Ltd and Head of Legal & Estates/Deputy Company Secretary at Britvic plc. She has a law degree from Kings College, London and completed her Law Society exams at Chester College of Law. She joined Ultra in November 2011 and was appointed Company Secretary in April 2012.

*Audit, Remuneration and Nominations Committee member
NOTE: All details correct as at 31 December 2012

■ Executive Director
■ Non-Executive Director
■ Company Secretary & General Counsel

Governance

Executives and advisors

Executive Team members

Rakesh Sharma
Chief Executive

Paul Dean
Group Finance Director

Mark Anderson
Group Marketing Director

Carlos Santiago
President
Tactical Systems

Mike Clayton
Managing Director
Information & Intelligence Systems

Phil Evans
Managing Director
Aircraft & Vehicle Systems

Carlos Santiago
President
Sonar & Undersea Systems

Graeme Stacey
Managing Director
Airport & Power Systems

Keith Thomson
Group Human Resources Director

Sharon Harris
Company Secretary & General Counsel

Business MDs and Presidents

Olugbenga Erinle
President
3eTI

John McAlonan
President
Advanced Tactical Systems

Mark Darvill
Managing Director
AEP Networks

Paul Owen
Managing Director
Airport Systems

Mark Doyle
Chief Executive Officer
Al Shaheen (49%)

Aaron Crumm
President
AMI

Doug Burd
Managing Director
Avalon Systems
& Ultra Electronics, Australia

Andy Matko
Director & General Manager
Card Systems

Mike Clayton
Managing Director
Command & Control Systems

Mike Baptist
Managing Director
Communication & Integrated Systems

Andy Wycherley
Director & General Manager
CEMS

Rob McDonald
Managing Director
Controls

Pete Crawford
President
EMS

Paul Fardellone
President
Flightline Systems

Chris Lay
Managing Director
GigaSat

Grant Levy
Project Director
Ithra (70%)

Ken Walker
President
Maritime Systems

Ken Tasch
President
Measurement Systems Inc.

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

Paul Maguire
President
ProLogic

Kim Wrighton
Managing Director
Sonar Systems

Michael Phipps
President
SOTECH

Iwan Jemczyk
President
Tactical Communication Systems

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

Corporate governance
Chairman's introduction

Douglas Caster CBE, Chairman

Ultra is committed to fostering a strong culture of good governance. High standards of integrity and ethical behaviour are expected from everyone in the Group. Ultra's distinctive corporate culture promotes high standards of corporate governance. Each operating business, overseen by a divisional management structure, is responsible for its own success and is accountable for its actions.

In support of the commitment to good governance, during the past financial year the Board has:

- welcomed Martin Broadhurst to the Board as an Independent Non-Executive Director. He brings to us a wealth of experience in the aerospace and defence sectors;
- enhanced the risk management processes to reinforce 'bottom up' and 'top down' review of risks;
- held a number of unscheduled Board meetings to review major new bids and investments;
- considered the impact of DEFRA's draft regulations on carbon footprint reporting;
- engaged with shareholders on changes to Executive Directors' remuneration;
- discussed board diversity both in terms of gender and relevant experience to support the Group's international operations;
- reviewed and updated the terms of reference of the Board's Committees; and
- continued to develop our externally-facilitated Board evaluation, building on areas where the Board can add further value to our business.

Further detail about what the Board is doing on these fronts is on the following pages.

In terms of Board changes, Andy Hamment retired as Marketing Director on 30 March 2012 and was replaced by Mark Anderson. Martin Broadhurst replaced Ian Griffiths as Non-Executive Director on 2 July 2012. As previously announced in the RNS on 24 January 2013, Paul Dean, the Group Finance Director will stand down from the Board on 31 March 2013 and will be succeeded by Mary Waldner who joins Ultra on 1 July 2013. In the interim, Mark Nelson, the Finance Director for Ultra's Sonar & Undersea Systems Division, will fulfill the function of Group Finance Director reporting to Rakesh Sharma. The Directors join me in thanking Andy, Ian and Paul for their valuable service to Ultra.

Douglas Caster CBE, *Chairman*
1 March 2013

Corporate governance report

Compliance statement

The principal governance rules applying to the Company are contained in the UK Corporate Governance Code (the "Code"), issued by the Financial Reporting Council. The Board considers that the Company complied with the main principles of the Code during the year under review.

Where appropriate, the Board has adopted aspects of the revised Code. The Board will report fully under the revised Code in its 2013 Annual Report.

The Board notes the requirement of the Code to explain the basis on which the Group generates or preserves value over the longer term (the business model) and the strategy for delivering the objectives of the Group. The Group's strategy and the business model are specifically addressed on pages 8 to 17 of this Annual Report. Further explanations of how the main principles of the Code have been applied to the business are set out below, in the Directors' remuneration report and the Audit Committee report.

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 Rakesh Sharma and his Executive Team, to run the operations of the Group. The members of the Executive Team are listed on page 46.

The Board is responsible for major investment decisions such as acquisitions of companies 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 five 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 to be reserved to the Board' which is available from the Investors section of the Group website.

Board matters

At every Board meeting standing agenda items include:

- Chief Executive's Report
  covers the Group's operational performance, particular performance issues in each Division, the overall outlook for the Group and health and safety performance
- Finance Director's Report
  financial forecasts for the half and full year, review of cash performance to date and future forecasts, review of banking covenants, review of analysts' views of the Group, major shareholdings and major share buyers and sellers
- Major projects report
- Marketing Director's report
- Human Resources report
- Review of current acquisition activity and approval of any offers for proposed acquisitions
- Business presentation by a Managing Director

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
- Review and approval of major capital investment projects and bids
- A special full day Board meeting is held to review the five-year strategic plan, with presentations given by the Executive Team and discussions held on significant matters identified in the proposed plan
- Six-monthly review of Compliance Reports prepared by Divisional Managing Directors 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
- Post acquisition reviews
- Board evaluation
- Corporate governance updates

Other significant matters addressed by the Board in 2012 included:

- Approval of a new revolving credit facility
- Consideration of the Group's tax position
- Structure, policies and procedures to address internal cyber-security and potential new cyber-security offerings
- Appointment of Moelis & Company as joint financial adviser with J.P. Morgan Cazenove
- Corporate Social Responsibility, in particular Ultra's approach to the proposed mandatory carbon reporting legislation
- Corporate pension strategy

Board meetings

The key source of information for the Board remains the comprehensive set of papers that are prepared and circulated to the Directors in advance of each Board meeting. Both routine and exceptional agenda items are supported by advance briefing papers to enable an informed debate to take place at Board meetings.

In addition to these briefing documents it is now normal practice for acquisition opportunities to be 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 scheduled Board meetings are rotated around the sites of the operating businesses. During 2012, the Board visited six operating businesses in the UK. In addition, the Board held one meeting at a North American business, following a tour by the Non-Executive Directors of some of the North American operations and one meeting in Abu Dhabi, during a review of the Company's operations in Oman and the United Arab Emirates.

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 businesses. Product demonstrations and site tours also take place. This gives all of the Directors a good practical insight into operating businesses and is particularly useful for the Non-Executive Directors. The Non-Executive Directors will also conduct separate visits to businesses. The Directors meet frequently with individual Executive Team members who make presentations to the Board on any significant investment proposals, including proposed acquisitions and to give progress reports on any particular strategic initiatives which the Board may have requested. 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.

Meeting attendance 2012

The Company Secretary & General Counsel or the Assistant Company Secretary attended all Board meetings and Committee meetings. 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 they were unable to attend due to 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		Nominations Committee	
	Actual (inclusive of unscheduled Board meetings)	Maximum possible	Actual	Maximum possible	Actual	Maximum possible	Actual	Maximum possible
Chairman								
Douglas Caster[1]	**14**	15	**4***	4*	**5***	5*	**2***	2*
Chief Executive								
Rakesh Sharma	**15**	15	**4***	4*	**5***	5*	**2***	2*
Executive Directors								
Mark Anderson[2]	**11**	11	**2***	2*	**-**	-	**-**	-
Paul Dean	**15**	15	**4***	4*	**-**	-	**-**	-
Andy Hamment[3]	**4**	4	**2***	2*	**-**	-	**-**	-
Non-Executive Directors								
Chris Bailey[5]	**14**	15	**4**	4	**5**	5	**2**	2
Martin Broadhurst[4]	**8**	8	**2**	2	**3**	3	**1**	1
Ian Griffiths[6]	**5**	7	**2**	2	**2**	2	**0**	1
Sir Robert Walmsley	**15**	15	**4**	4	**5**	5	**2**	2

[1] Douglas Caster was unable to attend the unscheduled Board meeting in March due to short notice and a prior commitment.
[2] Mark Anderson was appointed on 1 April 2012.
[3] Andy Hamment retired on 30 March 2012.
[4] Martin Broadhurst was appointed on 2 July 2012.
[5] Chris Bailey was unable to attend the Board meeting in October due to a long standing private commitment.
[6] Ian Griffiths retired on 2 July 2012. He was unable to attend the Board and Nominations Committee meetings held in the US in May or the unscheduled Board meeting in June due to short notice and a prior commitment.

*By invitation

Board composition

Current Board of Directors

Chairman: 1
Executive Directors: 3
Non-Executive Directors: 3

Chairman;
Executive Directors;
Non-Executive Directors.

In 2012, the following changes to the Board took place:

- After serving 9 years on the Board, Ian Griffiths was replaced by Martin Broadhurst as Non-Executive Director; and
- Andy Hamment (Marketing Director) retired and was replaced by Mark Anderson.

Throughout 2012, the Board structure was in line with the Code.

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 other disciplines including procurement, accountancy, financial management and growing international businesses. There is knowledge of best practice in other companies and other industries, and the Board seeks to adopt new methodologies when these are seen to be in the best interests of the Group. 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 44 and 45 and are summarised opposite.

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 roles

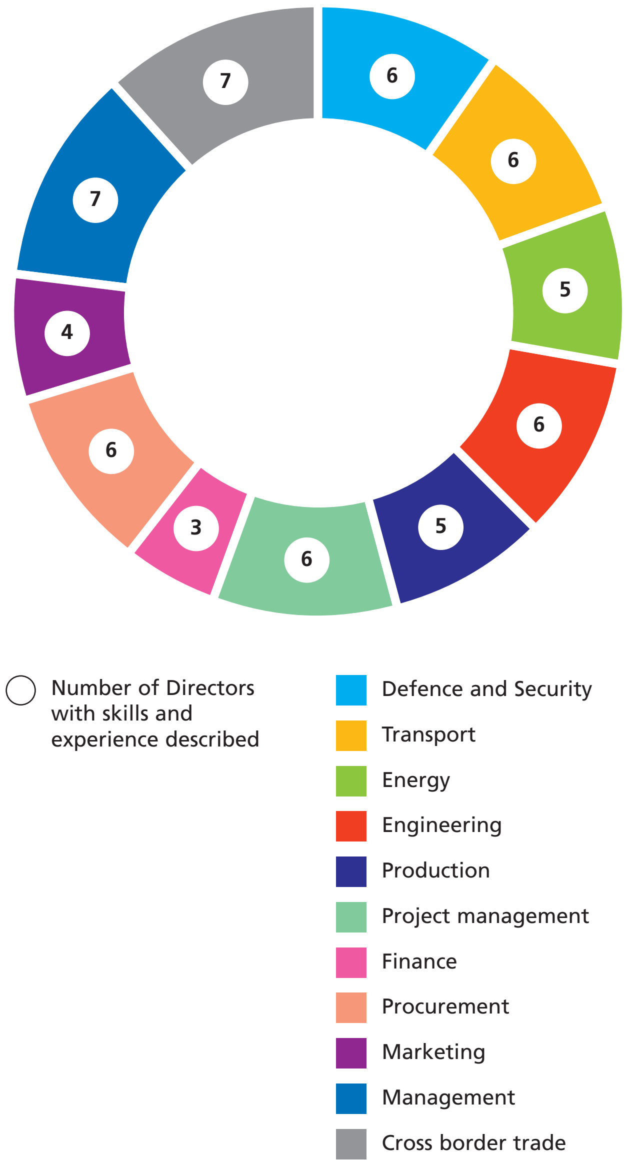
Chairman

The role of the Chairman, Douglas Caster, is to manage the Board, while the role of the Chief Executive is to run the operations of the Group. The Chairman aims to facilitate free and open debate on the topics which appear on the Board agenda and to promote a culture where the Non-Executive Directors can provide the appropriate level of challenge and questioning of the reports and plans put forward by the Chief Executive and his fellow Executive Directors. All Directors are able to add items to Board agendas.

Terms of reference set out the Chairman's activities. These include a summary of his board and corporate duties, an outline of his visits to company businesses, his relations with shareholders and the media, and those key areas of relations with external bodies that he seeks to promote. Throughout

Board – tenure and independence

	Tenure years	Independent	Experience on other plc Boards
Chairman			
Douglas Caster	**19**	**No**	**No**
Non-Executive Directors			
Chris Bailey	**8**	**Yes**	**Yes**
Martin Broadhurst	**<1**	**Yes**	**No**
Sir Robert Walmsley	**4**	**Yes**	**Yes**
Executive Directors			
Rakesh Sharma	**2**	**No**	**No**
Paul Dean	**3**	**No**	**Yes**
Mark Anderson	**<1**	**No**	**No**



Board roles (continued)

Chairman (continued)

the year, the Chairman held a series of private meetings to discuss aspects of the business at which only the Non-Executive Directors were present.

Chief Executive

The role of the Chief Executive, Rakesh Sharma, is to manage and run the Group's businesses. He accomplishes this task through an Executive Team comprising the Group Finance, Marketing and Human Resources Directors, the Divisional Managing Directors and Presidents, the Company Secretary & General Counsel and the Chief Executive as Chairman. Management of individual businesses is devolved to the Divisional Managing Directors and Presidents, assisted by dedicated Divisional Finance Directors and Divisional Strategy Directors. The Chief Executive also utilises the independent Ethics Overview Committee to provide independent oversight of specific ethical issues. See page 39 for a description of the role of this Committee.

Senior Independent Director

Chris Bailey is the Senior Independent Director. In common with the other Non-Executive Directors he acts as a sounding board for the Chairman. While Ultra enjoys an open board culture, Chris Bailey provides an independent voice and is available as a point of contact for colleagues on the Board should they have concerns that they feel unable to raise with the Chairman. He performs a similar function for shareholders, employees or any other external stakeholders of the Group. He is able to receive 'whistleblowing reports' submitted by employees anonymously via an externally hosted Employee Hotline. He ensures that such reports are fully investigated, that corrective action is taken where necessary and no retribution is taken against the whistleblower.

Non-Executive Directors

Chris Bailey, Sir Robert Walmsley and Martin Broadhurst are the Group's independent Non-Executive Directors. The Board considers them 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 Board believes that any shareholdings of the Chairman and Non-Executive Directors serve to align their interests with those of all shareholders. The Non-Executive Directors have wide experience of working in a variety of different government and industry roles with exposure to international business.

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 have met without the Chairman or Executive Directors being present on several occasions during the year to discuss aspects relating to the Board and the Company and appropriate feedback is 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 appointing Martin Broadhurst and Mary Waldner, the Board, through the Nominations Committee, has been 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 Nominations Committee in appointing Directors is described on page 56. 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. This was the case with the appointments of Martin Broadhurst and Mary Waldner.

Directors' induction and training

All new appointments to the Board receive a comprehensive induction to the Group covering the corporate structure, the products and services of the Group's businesses, the key markets in which the businesses operate and the key risks which the Group faces, together with the actions and plans which are in place to mitigate against these. On appointment, each Director receives a full induction pack explaining Ultra's governance framework, policies and procedures and a briefing from the Company Secretary & General Counsel on the legal, governance and control framework.

Programmes of visits to Group businesses are arranged. It is important for these to encompass as many businesses as possible, since no two Ultra businesses are alike. New Directors are encouraged to meet business and divisional management teams to gain a feel for the Group's style and culture.

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 2012, Mr Jack Telfer facilitated a review of the Board and its Committees. 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 (continued)

The Board completed a detailed questionnaire covering: Board structure and effectiveness, functionality, Board meetings, administration, interaction with senior management, corporate governance, Committee structure and effectiveness and progress on Board effectiveness since the last evaluation in 2010. Mr Telfer reported back on his findings to the Chairman and made a presentation at a Board meeting, at which observations were discussed.

The review concluded that the Board as a whole was effective and the procedures and effectiveness of the Board and its Committees had improved since the 2010 evaluation. The Directors concluded that the Board was proactive, spent sufficient time on key issues and that appropriate debate and challenge was welcomed during Board discussions. The Board identified the following areas of focus going forward and actions to address these:

Focus	Actions
Given the Company's operations in the US, it was concluded that a North American representative on the Board would contribute to the Board's insight and experience of the US market	The Board agreed that when appointing a new Non-Executive Director this requirement would be taken into account
The level of Board interaction with the Divisional Managing Directors/Presidents would be increased	In addition to presenting the Strategic Plan annually, the Divisional Managing Directors/Presidents would meet with the Board part way through the year to give an update on actions arising from the Strategic Plan. The Non-Executive Directors would aim to meet with the Divisional Managing Directors/ Presidents three times a year.
Risk Management reporting would continue to be developed	It was agreed that: • The strategic risks as set out on pages 41 to 43 would be reviewed by the Board twice annually • An enhanced unified reporting format for major project risks would be implemented • An issue tracking tool would be used to record control issues identified by internal audit along with agreed actions and timeframes for their remediation

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.

Engineering is a sector of relatively low female participation, especially in senior management positions. This poses a challenge for the Group in terms of achieving gender diversity with the appropriate knowledge and understanding of the risks associated with the Group's technologies and offerings. Nevertheless, the Company has been successful in recruiting its first female Director from the finance sector, and will continue in its diversity aware 'best person for the role' approach to recruiting.

Annual re-election of Directors

All the Directors, with the exception of Paul Dean who stands down from the Board on 31 March 2013, will stand for re-election at the Annual General Meeting on 26 April 2013.

Conflicts of interest

Each Director has a responsibility to bring situational or transactional conflicts of interest to the attention of the Board as soon as they arise. No conflicts were identified during 2012.

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 is paid to the security of the Group's IT systems and more latterly on improving cyber security.

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 below.

Control environment

Ultra's control systems are well defined and are considered by the Directors to be appropriate to the Group's size and structure. The control environment is managed by the Chief Executive and the Executive Team. Individual businesses report to a specific Divisional Managing Director or President, who is responsible for ensuring that the Managing Director or President of each operating business has implemented the controls as defined in the Group Operating Manual. Individual operating businesses are required to maintain their own detailed operating procedures which are consistent with the Group Operating Manual.

Control environment (continued)

The Board maintains an internal audit process to review financial and information systems control procedures throughout the Group. In 2012, this was performed by Ernst & Young LLP. 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 free-standing businesses are audited within a year of their acquisition date.

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

In 2012, a tender of the internal audit process was performed. The Audit Committee concluded that the current internal auditors, Ernst & Young, should be replaced by PricewaterhouseCoopers LLP effective from 1 January 2013.

Half-yearly Divisional control reviews are held between each Divisional Finance Director and the Group Finance Director at which internal control processes and issues for each business in the Division are discussed. The results from these reviews are included in the Internal Controls Improvement Status Report which is presented to the Audit Committee twice a year.

Ultra has a robust anti-bribery and corruption policy in place. In accordance with this policy, 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 one 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, which is accessible by all employees, contains a statement from the Chief Executive regarding compliance with Ultra's anti-bribery and corruption policy. Ultra businesses submit monthly business performance reports confirming compliance with the code and reporting any breaches.

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.

In their monthly business performance reports, individual operating businesses identify key opportunities and risks, their possible financial impacts and any mitigating actions. These are reviewed by and discussed with the Divisional Managing Directors and Presidents at monthly review meetings and appropriate actions are agreed. The Divisional Managing Directors and Presidents present monthly reports to the Chief Executive and the Group Finance Director. These include an assessment of the risks inherent in each business's financial forecasts and any other key risks. Based on these reports, the Executive Team compiles a register of the major risks facing the Group which are reported to and monitored by the Board. Please refer to pages 40 to 43 for details of these major risks and the approach taken to mitigate these. In addition, all businesses maintain risk registers for major projects. The financial impact of identified risks are evaluated together with the probability of the risks occurring. Mitigating actions are subsequently agreed and implemented.

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.

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. With the assistance of the Audit Committee all significant aspects of internal control for 2012 have been reviewed and internal procedures amended where necessary.

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. Scheduled Board meetings are held monthly with the exceptions of June and August. 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

The Group is committed to ensuring effective communication with its shareholders and encourages an open dialogue with shareholders to promote a mutual understanding of objectives and expectations. Throughout the year, Ultra initiates tailored events and responds to meeting requests with current and prospective investors and financial analysts.

Specifically, 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 Chief Executive, Chairman, Group Finance Director and Marketing Director regularly meet institutional shareholders or potential shareholders either individually or as part of group meetings.

The Board is regularly updated by the Company's stock broker on analyst's and major shareholders' views on the Company. The Chairman and Non-Executive Directors are always available to meet with shareholders should they have any concerns or questions that they wish to raise.

Each year, 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

Shareholder communication (continued)

introductory briefings on the Group as a whole to presentations on specific areas of capability. Visits and presentations in the year included an in depth review of Ultra's capability in Anti-Submarine Warfare and their applicability to growing tensions in the Asia-Pacific region. Ultra invites investors and members of the financial community to exhibitions, such as the Farnborough Airshow. Members of the Executive Team also take part in investor briefings organised by third parties.

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. Some of the members of the buyout team which originally formed Ultra still have significant holdings in the Company, as does the Chairman, Chief Executive and other members of Ultra's Executive Team. Many of whom have retained shares awarded via share option or long term incentive schemes.

Shareholder analysis by category of shareholder as at 31 December 2012

Fund	Holding	%
Unit trusts	34,361,956	49.51
Pension funds	10,352,331	14.92
Insurance companies	5,665,223	8.16
Other managed funds	5,484,354	7.90
Sovereign wealth	3,752,810	5.41
Private Investor	2,993,535	4.31
Custodians	1,261,540	1.82
Investment trust	839,000	1.21
Trading position	394,748	0.57
Exchange-traded fund	352,497	0.51
Charity	294,939	0.42
Employee share scheme trustees	235,247	0.34
Unclassified	229,895	0.33
Mutual fund	135,241	0.19
University	102,694	0.15
Other	2,947,649	4.25
Total issued share capital	**69,403,659**	**100.0**

Shareholder analysis by size of holding as at 31 December 2012

Size of shareholding	Total number of holdings	% of holders	Total number of shares	% issued capital
1-50	113	6.74	2,466	0.01
51-100	87	5.19	7,253	0.01
101-250	349	20.84	65,157	0.09
251-500	272	16.24	100,454	0.14
501-1,000	262	15.64	187,104	0.27
1,001-5,000	283	16.90	596,153	0.86
5,001-10,000	50	2.98	357,913	0.52
10,001-25,000	71	4.24	1,129,715	1.63
25,001-50,000	49	2.93	1,770,862	2.55
Over 50,000	139	8.30	65,186,582	93.92
Totals	**1,675**	**100.00**	**69,403,659**	**100.00**

Financial calendar

26 March 2013	Annual Report and Accounts published
10 April 2013	Ex-dividend date
12 April 2013	Record date
26 April 2013	Annual General Meeting
3 May 2013	Final dividend payment date
5 August 2013	Interim results announced
27 September 2013	Interim dividend payment date

Board Committees

Ultra has established three Committees of the Board, the Audit, Remuneration and Nominations 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 each Committee comprises the three independent Non-Executive Directors – Chris Bailey, Sir Robert Walmsley and Martin Broadhurst. Chris Bailey, Senior Independent Director, is Chairman of each Committee. Summaries of the key activities of each Committee are given below.

Audit Committee

Composition

The membership of the Audit Committee has been outlined above. Chris Bailey, Chairman of the Committee, has recent and relevant experience in a senior financial role in another public limited company, including having been Group Finance Director of Aggregate Industries plc until 2004. He is a fellow of the Institute of Chartered Accountants of England & Wales and is also a member of the Association of Corporate Treasurers.

In addition to the Committee members, the Group Chairman, Chief Executive and Group Finance Director are invited to attend Audit Committee meetings. The Company Secretary & General Counsel acts as Secretary to the Committee. The Marketing Director normally attends Audit Committee meetings as an observer. Deloitte LLP are the Group's external auditor. The Deloitte Audit Partner attends all Audit Committee meetings, whilst the lead partner from Ernst & Young attended those meetings at which summary Internal Audit Reports were reviewed by the Committee.

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

The Committee Chairman met with Ernst & Young and Deloitte in the absence of Executive Directors and other Committee members had the opportunity to do so. During 2012, the Committee met with Deloitte, without Executive Directors present, at which Deloitte reported on their views of the Group's performance and on the performance of the Executive Directors in running the Group.

Role

The Board takes overall responsibility for the review of the effectiveness of the internal controls. The Audit Committee assists the Board in this by monitoring the internal control procedures. It does this through:

- Its receipt and review of internal audit reports
- Reports from the Group Finance Director of his actions to ensure that the Group's operating businesses address any control weaknesses
- Its review of the accounts and supporting reports presented by the Group's external auditor
- Other detailed reviews and investigations that it may require

The key functions of the Committee are:

- Scrutiny of the Group's annual and interim financial statements and accounts
- Receipt of reports from the Group's external auditor
- Review of internal audit reports from Ernst & Young who carried out a programme of internal audit visits to the operating businesses
- Receipt and review of plans to improve any internal controls which are identified in the internal audit reports
- To carry out regulatory and statutory compliance checks on the Group's financial affairs

The Audit Committee is required to report its findings to the Board, identifying any matters on which it considers that action or improvement is needed and make recommendations on the steps to be taken. Matters considered by the Committee during 2012 were:

Topic	What was considered
Financial results	Full and half year financial statements and related results announcements Reports and reviews from the Group's external auditor Matters that required the exercise of significant management judgement
Internal controls	Review of Ultra's system of internal controls and their effectiveness Re-tender of internal audit provisions
Fraud	Review of representation on fraud statement
Audit plans	Setting and review of internal and external audit plans for the year
Cyber and IT security	An assessment of cyber and IT security within the Group
Whistleblowing	Review reports of calls to the Group's external Employee Hotline and how they have been investigated and dealt with
External auditor	Review and approval of external auditor's engagement policy Review and approval of audit and non-audit fees for the external auditor
Governance	Review of new guidance from the Financial Reporting Council and changes to the UK Corporate Governance Code Review of changes to IFRS and financial reporting Review of the Committee's terms of reference Benchmarking Ultra's Annual Report & Accounts against peer group and approval of the 2011 Corporate Governance Report

Audit Committee (continued)

An external 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 the external Employee Hotline and can remain anonymous if they wish. Employee concerns are forwarded directly 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, whichever is relevant. During 2012 two reports were submitted (three in 2011). These were fully investigated and appropriate action was taken.

It is the policy of the Group that non-audit services provided by Deloitte, Ultra's external auditor, 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. The Audit Committee has decided that any individual assignments with an estimated fee in excess of £50,000 will be referred in advance to the Chairman of the Audit Committee for his approval. In connection with acquisition due diligence work and certain tax consultancy work, it is the Board's view that the auditor's familiarity with Ultra's accounting practices and the techniques that are involved in Ultra's long-term contracting activities serves them well in carrying out such work.

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.

The Committee has reviewed and monitored the external auditor's independence and objectivity and the effectiveness of the external audit process. In order to do this it has addressed the questions contained in a questionnaire issued by the Institute of Chartered Accountants of Scotland in October 2007.

The Committee confirmed that Deloitte had been sufficiently transparent and incisive. The Committee was satisfied that previous audits had been effective. The result of the process was that 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 fees paid to Deloitte in respect of non-audit services are shown in note 6 to the Financial Statements.

Nominations Committee

Role

The function of the Nominations Committee is to review and recommend all main Board and Committee appointments. The Committee's terms of reference includes all matters indicated by the Code. The terms of reference are available on the Company's website (www.ultra-electronics.com).

During 2012 the Committee met twice. The first meeting was to agree the process for appointing a new Non-Executive Director and the second meeting was to agree the process for appointing the new Group Finance Director. The process followed was:

- A role and experience profile for both positions was discussed and agreed
- An independent external search consultancy was engaged to identify candidates who met the role profile
- A short list was created through discussions with the Senior Independent Director
- Non-Executive Directors met the short listed candidates, the results of which were discussed by the Nominations Committee and recommendations were made
- A meeting with the recommended candidate was undertaken with the Chief Executive

The recruitment process for the appointment of Mark Anderson as Marketing Director was set out in the 2011 Annual Report.

Ultra operates a well-established succession planning process. This is described in detail on page 37.

Remuneration Committee

Role

The Committee met five times during the year. It is responsible for evaluating the performance of the Executive Directors, including the Chief Executive, and for setting their levels of remuneration. It also meets without the Chairman being present to agree his remuneration. Full details of the activities of the Remuneration Committee during 2012 are given in the Directors' remuneration report on page 58, together with details of the Directors' pension entitlements, long-term incentive share awards and shareholdings. It will be presented for approval by the shareholders at the Annual General Meeting.

Statement of going concern

Ultra's banking facilities amount to £190m in total, plus a £15m overdraft. They were established in two tranches.

The first tranche comprises £90m of revolving credit, denominated in Sterling, US dollars, Canadian dollars, Australian dollars or Euros. This facility was signed in January 2011 and expires in January 2016. The facility is provided by a group of six banks.

The second tranche provides a further £100m of revolving credit in the same currencies. This was signed in December 2012 with five banks and expires in December 2017. Both facilities have the same covenants.

The Group also has a "shelf" facility in place with Prudential Investment Management Inc. This agreement effectively gave the Group access to the US private placement market on a bilateral basis. The facility is non-committed but is for up to $150m. At the year-end, $70m of loan notes had been issued, with maturity dates in 2018 and 2019.

As well as being used to fund acquisitions, the borrowing facilities are also used for other balance sheet and operational needs, including the funding of day-to-day

Statement of going concern (continued)

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 during the past year with a comfortable margin. The approved Group budget for 2013 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 provides 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.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- we consider the annual report and accounts to be fair, balanced and understandable and to provide the information necessary for shareholders to assess the Company's performance, business model and strategy; and
- the management report, which is incorporated into the Directors' 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 taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board,
R. Sharma, *Chief Executive*
P. Dean, *Group Finance Director*
1 March 2013

Remuneration report

Chris Bailey, Chairman, Remuneration Committee

Chairman's Introduction

On behalf of the Remuneration Committee (the "Committee"), I am pleased to present the Directors' remuneration report for 2012 which sets out the remuneration policy operated in the year and the policy for 2013.

The Committee reviews the detailed operation of the remuneration policy each year to ensure that it remains suitable for Ultra's current and future strategic objectives, is structured in line with the latest best practice and to consider how it compares to practice elsewhere in the market.

Following a review of the policy towards the end of 2012, the Committee has determined that it is appropriate to make some minor changes to the long-term incentive policy for 2013; namely increasing the long-term incentive award level for the Chief Executive from 100% to 125% of salary p.a.; updating the relative Total Shareholder Return ("TSR") comparator group; and recalibrating the Earnings Per Share ("EPS") hurdle.

These changes, and the rationale for making them, are explained in detail in the remuneration report. The increase to the Chief Executive's award will necessitate an amendment to the rules of the Long Term Incentive Plan ("LTIP"). In line with the Company's commitment to clear and open communication with shareholders, in January 2013, I wrote to the Company's major shareholders advising them of the changes. No material issues were raised.

The Committee determined that the Company's remuneration policy continues to be appropriately stretching (the EPS underpin on long-term incentive awards remains amongst the toughest in the FTSE 250) and well aligned to Ultra's Key Performance Indicators and shareholder interests. The changes will ensure that strong financial performance remains a key focus whilst ensuring executives are incentivised to drive sustainable growth, which is in the long-term interests of the Company and its shareholders. No further changes are planned.

The Committee is considering the impact of the forthcoming UK Government legislation on its remuneration policies and disclosures. The Committee will report under the Department for Business, Innovation & Skills ("BIS") proposals in its 2013 Directors' remuneration report (when the final legislation is published). However, it does not anticipate any radical changes to policy as a result of the new legislation.

I trust that having read the remuneration report you will support the Committee's approach. I am always available to shareholders to discuss any aspect of the Company's remuneration policy.

Chris Bailey, *Chairman, Remuneration Committee*

UNAUDITED INFORMATION

This report has been prepared in accordance with the Companies Act 2006 (the "Act") and Schedule 8 of the Large and Medium Sized Companies and Groups (Accounts & Reports) Regulations 2008. This report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the principles relating to directors' remuneration in the UK Corporate Governance Code (the "Code"). As required by the Act, a resolution to approve this report will be proposed at the Annual General Meeting of the Company at which the financial statements will be submitted for approval.

The Act requires the auditor to report to the Group's shareholders on certain parts of this report and to state whether in their opinion those parts of this report have been properly prepared in accordance with the relevant legislation. This report has therefore been divided into separate sections for audited and unaudited information.

Role and composition of the 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
- Ensure that the Executive Directors are fairly rewarded for their individual contributions to the Company's overall performance, with due regard to the interests of shareholders and to the financial and commercial health of the Company
- Ensure that contractual arrangements, including the termination of Executive Directors, are fair both to the individuals concerned and to the Company

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

Composition

Chris Bailey continued as Chairman of the Remuneration Committee during 2012. Sir Robert Walmsley and Martin Broadhurst (Martin Broadhurst replaced Ian Griffiths upon his retirement on 2 July 2012), both independent Non-Executive Directors, were the other Committee members. Sharon Harris, the Company Secretary & General Counsel, acted as secretary to the Committee. The Chairman and the Chief Executive, although not Committee members, normally attend Committee meetings by invitation, except where matters directly relating to their own remuneration are discussed.

Role and composition of the Committee (continued)

Advice to the Remuneration Committee

Wholly independent advice on executive remuneration and share schemes is received from New Bridge Street, a subsidiary of Aon plc. New Bridge Street is appointed by the Committee and, during the year, provided the Company with advice on the operation of the Company's LTIP and other share schemes, remuneration benchmarking services and an annual update on market and best practice. During 2012, insurance broking services were also provided to the Group by other subsidiaries of Aon plc which the Committee believes in no way prejudices New Bridge Street's position as the Committee's independent advisers. Pension advisory services were provided to the Committee and the Group by Towers Watson.

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.

Key activities during 2012

During 2012 the Remuneration Committee met five times. The key activities were:

Governance and forward planning	Pay	Incentive plans
Reviewed and approved 2011 Directors' remuneration report in light of feedback from institutional shareholders	Reviewed and approved Executive Directors' and Executive Team's remuneration taking account of performance, salary surveys, market trends, regulatory developments and investor guidelines	Reviewed and approved the 2011 Executive Directors' and Executive Team's bonus awards and setting of 2012 bonus targets
Communicated with major shareholders about changes to the LTIP and Executive Directors' salary	Approved the Chairman's remuneration and contract for 2013	Approved the 0% vesting for the 2009 LTIP awards
Introduced a bonus clawback provision in the LTIP and Executive Share Option Scheme		Granted the 2012 LTIP awards
Amended pension arrangements following statutory changes to annual and lifetime allowances		Approved executive share option awards for 2012
Extended share ownership guidelines to the Executive Team		Determined the treatment of Mr Hamment's LTIP awards
Reviewed the Committee's terms of reference		Reviewed the operation and performance conditions of the LTIP
Reviewed and considered the implications of the BIS proposals		

Linkage between remuneration, corporate objectives and shareholder interests

Element of remuneration	Objective	Timescale	Performance metric
Base salary	Aims to attract and retain key executives Reflects the individual's role within the Group and their experience	Continuous	Delivery against key personal objectives Reflect individual role and responsibilities
Annual bonus	Provides focus on delivering/exceeding annual budget Rewards and helps retain key executives and is aligned to the Group's risk profile	12 months	Based on annual targets for two of the Group's KPIs: operating cash flow and operating profit
Long Term Incentive Plan	Rewards longer-term value creation. Incentivises the delivery of above market Total Shareholder Returns Provides a focus on delivery of the Group's strategic plan Helps to reward and retain key executives	Three years	Relative Total Shareholder Return is based on a comparator group of representative UK listed companies (see page 62) with an EPS underpin*

* For the 2013 LTIP, Relative Total Shareholder Return will be based on the FTSE 250 (excluding investment trusts).

Linkage between remuneration, corporate objectives and shareholder interests (continued)

The Group's remuneration policy is to reward senior management competitively, enabling Ultra to recruit, motivate and retain executives of high caliber, 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 the three elements of the Executive Directors' remuneration packages with the Group's objectives and the interests of shareholders are outlined on page 59.

Salaries

Base salary levels of Executive Directors are set by reference to:

- the salaries paid in companies of a similar turnover and market capitalisation. However, the Company's policy is to set salaries of new Executive Directors by reference to their skills and experience on appointment, rather than by reference to the rate paid to their predecessor or the wider market. The policy is then to progress salaries towards market rates over the next one to two years, subject to continued performance and development in the role;
- the individual Director's performance and responsibilities; and
- remuneration practices across the Group as a whole in order to ensure that a coherent structure applies. Input is sought from the Chief Executive and the Group Human Resources Director to assist in this process. Salary increases for Executive Directors are reflective of the levels of salary increases awarded to high performing Group employees.

The Executive Directors' salaries are reviewed annually by the Committee and take effect from 1 January. New Bridge Street prepared data on the total remuneration packages for Executive Directors with similar roles in two comparator groups of companies:

(1) A 'specific' group comprising 13 companies of a broadly similar size drawn from the LTIP TSR comparator group; and

(2) A 'general' group comprising 38 companies from across all sectors (excluding Financial Services) with a similar market capitalisation and turnover to the Company.

In addition to the analysis presented by New Bridge Street, the Committee used a number of other published salary surveys.

The Executive Directors' salaries have been reviewed by the Committee which has determined that the following levels should be implemented with effect from 1st January 2013:

	2013 Salary	2012 Salary	% Increase
	£'000	£'000	%
Chief Executive[1]	**460**	420	9.5
Finance Director[2]	**305**	305	-
Marketing Director[3]	**205**	180	13.9

[1] The Chief Executive was appointed in 2011 on a salary of £400,000 per annum (compared with his predecessor's salary of £466,000 per annum). This was in line with the Company's policy of setting the salaries of new Executive Directors by reference to their skills and experience on appointment, rather than by reference to the rate paid to their predecessor or the wider market. The increase in salary reflects a progression towards market rates based on performance and development in the role.

[2] Mr Dean's salary reflects the fact that he will be employed by the Company for a short period in 2013 and his salary is in line with salary benchmark data.

[3] The salary shown is for the incumbent Marketing Director, Mark Anderson, who succeeded Andy Hamment in this role on 1 April 2012. In line with the Company's policy of setting the salaries of new Executive Directors by reference to their skills and experience on appointment, rather than by reference to the rate paid to their predecessor or the wider market, Mr Anderson's salary is below that of his predecessor (which was £255,000 per annum). The Committee anticipates that Mr Anderson's salary will continue to progress towards market rates subject to his continued performance and development in the role.

Annual bonus scheme

The basic mechanism of the Executive Directors' bonus scheme is the same as that utilised for the Executive Team, although the quantum of the bonus varies between these groups of employees.

Bonus payments in 2012 were based upon the achievement of sliding scale profit before tax and cash flow targets. These targets are derived from the annual budgets approved by the Board but adjusted where appropriate to provide an appropriate degree of "stretch" challenge and an incentive to outperform. Profit and cash are two of the Key Performance Indicators by which the Group is measured. Please refer to pages 10 and 11 for details. The maximum bonus for Executive Directors in 2012 was 100% of base salary. The bonus targets set by the Committee were a maximum of 25% of salary subject to the achievement of a £134.6m profit before tax and loss on fair value movements on derivatives and amortisation of intangibles arising on acquisition, and a maximum of 75% of salary subject to achieving an operating cash flow of £168.0m after capitalised development costs, capital expenditure, purchase of long-term incentive plan shares and taking account of movements in working capital. The actual results for the year fell short of the agreed targets and consequently no bonuses were paid.

The 100% of salary maximum will continue to be operated for 2013 and structure of the bonus schemes will follow the same logic as for 2012 with a maximum of 25% of salary being payable for the achievement of an agreed profit target, and a maximum of 75% being payable for achievement of an agreed operating cash flow target. The relevant targets are determined by the Remuneration Committee.

A bonus clawback provision was adopted in 2012. The clawback applies to the bonus scheme, LTIP and Executive Share Option Scheme. The circumstances in which a clawback may be triggered are (i) fraud/willful misconduct resulting in overpayment of bonus to employees; or (ii) a material error resulting from fraud/willful misconduct in the manner in which the achievement of the bonus targets have been calculated, which results in overpayments to employees. In practice, the Committee's view is, because the majority of the target is linked to operating cash flow, the likelihood of such an event occurring is remote.

Directors' Long-Term Incentive Plan and Employee Share Option Plans

The Company operates the following three "live" discretionary share incentive plans which were all approved in 2007:

- the 2007 Long-Term Incentive Plan ("2007 LTIP");
- the 2007 Company Share Option Plan ("2007 CSOP"); and
- the 2007 Executive Share Option Scheme ("2007 ESOS").

2007 LTIP

The sole form of equity-based long-term incentive for Executive Directors is the 2007 LTIP. They do not receive awards under the 2007 CSOP or 2007 ESOS schemes, which provide incentives for less senior employees. Under the 2007 LTIP, conditional awards of shares are made annually to Executive Directors and selected other senior executives. These awards normally vest three years after grant, subject to continued employment and the extent to which a performance condition has been met. It is the opinion of the Committee that the LTIP scheme has helped to motivate senior executives to drive sustained above-market long-term growth in the Company's profits and to generate excellent returns for shareholders as a result.

It is the Committee's normal policy to grant annual LTIP awards to Executive Directors in the form of shares worth 100% of salary. However, in certain exceptional circumstances the Committee may make awards of up to 150% of salary. This policy has remained unchanged since 2002, when the Company was a member of the FTSE Small Cap and significantly smaller and less complex relative to its current market positioning. Whilst the Committee actively avoids making changes to remuneration levels simply to reflect market rates, it is conscious of the need to ensure that senior executives are paid fairly relative to the wider market. This is to ensure that the Company is able to retain and recruit executives of an appropriate calibre to continue to drive the Company's key objective of achieving above market returns to shareholders over a sustained period. In this regard, the Committee has agreed, subject to shareholder approval at the forthcoming Annual General Meeting, to amend the LTIP rules to increase the level of award to the Chief Executive from 100% of salary p.a. to 125% of salary p.a. The other Executive Directors will continue to receive awards of 100% of salary p.a.

TSR applies to all awards granted under the 2007 LTIP. The Committee contends that the use of relative TSR has a number of advantages. These include:

- aligning the performance objectives of the Executive Directors more closely with the interests of the shareholders;
- being an entirely objective measure of relative performance;
- reflecting the practice most commonly used by other quoted companies; and
- reducing the complexity and cost of calculating the vesting result.

TSR is one of the Key Performance Indicators by which the Group is measured. Please refer to pages 10 and 11 for details.

Detailed structure of TSR performance condition

Under the TSR performance condition, TSR is based upon a comparison of the Company's average share price (plus reinvested dividends) during the quarter immediately prior to the start of the measurement period and its average share price (plus reinvested dividends) during the last quarter of the three year measurement period. The resulting TSR is compared with that achieved by a representative comparator group of companies. The comparator group for measuring relative TSR for the awards made in 2012 was as follows:

ARM Holdings	**Halma**	**QinetiQ**	**Spectris**
Babcock International	**Hampson Industries**	**Renishaw**	**Spirax-Sarco Engineering**
BAE Systems	**Laird Group**	**Rolls-Royce**	**Spirent Communications**
Chemring Group	**Logica**	**Rotork**	**TT Electronics**
Cobham	**Meggitt**	**Senior**	**UMECO**
Dialight	**Oxford Instruments**	**Serco Group**	**Vitec Group**
Domino Printing Sciences	**Psion**	**Smiths Group**	**WS Atkins**

The Committee carries out a review of the constituents annually with a view to ensuring that it contains appropriate peer companies and is of a suitable size (noting that a small group can lead to volatility issues). During 2012, four of the companies in the comparator group delisted. This year, the Committee concluded that it is difficult to compile a sufficiently robust set of peers given Ultra's wide portfolio of specialisms and that it would be preferable to change the TSR comparator group for future awards to the FTSE 250 (excluding investment trusts). This change will reduce the level of subjectivity in requiring the comparator group to be reviewed each year, and mitigate issues of volatility which can arise when using a smaller chosen group.

The vesting rules under the 2007 LTIP are as follows:

Ultra's rank within the comparator group	Percentage of award that vests
Below median	0%
Median	20%
Upper quartile	100%
Between median and upper quartile	Pro-rata between 20% and 100%

In addition to the main TSR condition, an EPS growth "underpin" applies to these awards. The purpose of the EPS underpin is to ensure that, as well as achieving above market returns to shareholders via the primary TSR performance condition, an appropriate level of profit growth is maintained by the Group. Growth in EPS is one of the Key Performance Indicators by which the Group is measured. Please refer to pages 10 and 11 for details.

The current underpin is EPS growth of 7% p.a. over the relevant performance period. Whilst the Board continues to pursue a strong and progressive growth strategy, the Committee considered that current market conditions, inflation and economic expectations had changed. Consequently it decided to reduce the level of the EPS underpin for future awards to 5% p.a. growth. The Committee believes that this will ensure that strong financial performance remains a key focus whilst incentivising executives to drive sustainable growth which is in the long-term interests of the Company and its shareholders.

In the event that the underpin is not met over a specific three-year LTIP measurement period, the level of vesting will automatically fall to zero. Headline EPS will be defined as earnings per share after adjustments to exclude gains or losses on financial instruments and the amortisation of intangibles arising on acquisition. The extent to which awards vest will be verified independently by a third party.

The 2007 LTIP contains clawback provisions for the overpayment of bonuses as described on page 61.

All-Employee Share Plans

The Executive Directors are also 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.

Under the AESOP, employees in the UK are offered the opportunity to buy shares up to the value of £1,500 per annum from pre-tax salary. Shares are then held in trust on behalf of employees until the maturity date or until they leave the Company.

Under the Savings Related Share Option Scheme, employees are entitled to save up to £1,200 per annum from net pay towards the purchase of options to buy Ultra shares after a period of either three or five years, depending upon the employee's choice.

Senior Executive share ownership guidelines

To support the alignment of interests between senior executives and shareholders, Executive Directors and the Executive Team are encouraged, through share ownership guidelines, to retain shares. All Executive Directors are to retain at least 50% of the post-tax shares they acquire on the vesting of LTIP awards until a holding equivalent to 100% of base salary is achieved. Each member of the Executive Team is to retain at least 50% of the post-tax shares they receive on the vesting of LTIP awards until a holding of 50% of base salary is achieved. Pre-existing shareholdings will be taken into account.

The shares and options held by the Executive Directors are shown below:

Executive Directors' shareholdings and options as at 1 March 2013

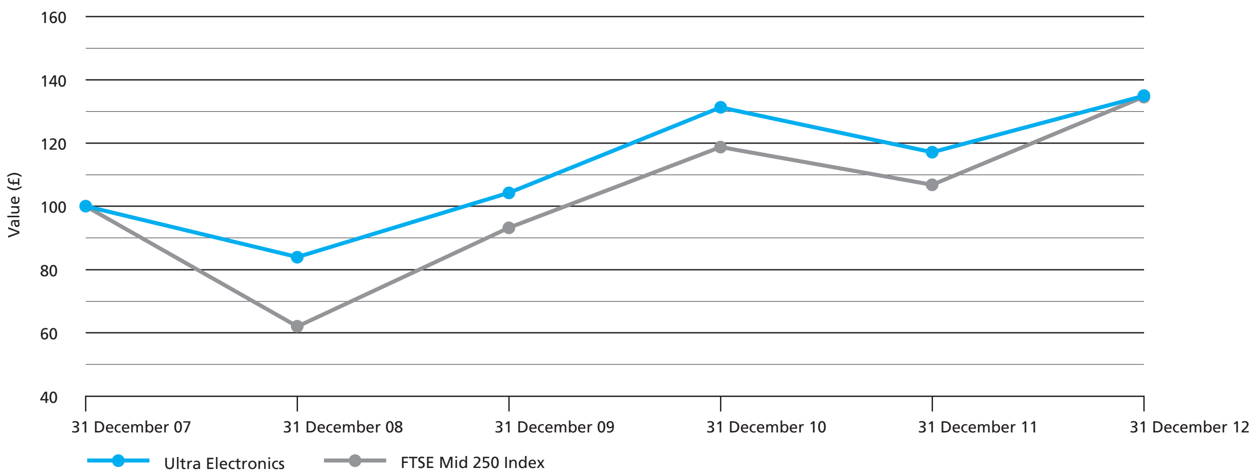
Name of Director	Direct and indirect shareholdings	LTIPs granted but not yet vested	SAYE options	Total shares plus options
M. Anderson	-	7,273	270	**7,543**
P. Dean	754	52,606	-	**53,360**
R. Sharma	41,072	55,805	433	**97,310**

Total shareholder return performance graph

The graph below shows the TSR performance of the Company in comparison with the FTSE 250 Index over the past five years. The graph shows the value at the end of 2012 of £100 invested at the start of the evaluation period, in the Company and in the Index. The Committee considers the FTSE 250 a relevant index for the TSR comparison as the Company 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: Datastream



Directors' service contracts

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 Company and each Executive Director.

In the event of early termination, it is the Committee's policy that the amount of compensation paid to Executive Directors will be considered in the light of all the relevant circumstances, subject to the overriding conditions that:

- the Committee's aim will be to avoid rewarding poor performance;
- the duty of the relevant Executive Director to mitigate his loss will be taken into account; and
- no compensation payment can normally exceed one year's salary and benefits.

The following table provides more information on each Director's service contract:

Name	Date of contract	Notice period
M. Anderson	1 April 2012	12 months
P. Dean	1 January 2009	12 months
A. Hamment[1]	1 July 2000	12 months
R. Sharma	21 April 2011	12 months

[1] Andy Hamment retired on 30 March 2012

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

Non-Executive Directors' remuneration

The Chairman's remuneration is set by the Committee which meets without him for this purpose and to review his performance. The remaining Non-Executive Directors' fees are set by a committee comprising the Executive Directors. In all cases, the fee levels are based upon published salary surveys, taking account of individual responsibilities and the time commitments demanded by the roles. Chris Bailey was Chairman of the Audit, Remuneration and Nominations Committees during 2012 and received additional fees as a result.

Non-Executive Directors' fees have been reviewed for 2013 with reference to data regarding fee levels currently earned by the directors of similar companies, selected on the basis of size. It has been determined that the Non-Executive Directors' fees for 2013 will be:

	2013 Fees £'000	2012 Fees £'000
Base fee		
Chairman	**187.5**	182.0
Non-Executive Directors	**46.4**	45.0
Supplements		
Chairman of the Audit Committee	**5.7**	5.5
Chairman of the Remuneration Committee	**5.7**	5.5

Service contracts

Details of service contracts for Non-Executive Directors are as follows:

Name	**Date of contract**	**Notice period**
C. Bailey	31 January 2013	Nil
M. Broadhurst[1]	2 July 2012	Nil
D. Caster	21 April 2012	Nil
I. Griffiths[1]	1 May 2011	Nil
Sir Robert Walmsley	31 January 2013	Nil

[1] Martin Broadhurst replaced Ian Griffiths on the 2 July 2012

- The Non-Executive Directors have fixed twelve-month contracts with no notice period.
- There are no provisions in their contracts for compensation on early termination.

Directors' pension entitlements

The Group operates a defined benefit pension scheme for Rakesh Sharma. Mark Anderson and Paul Dean joined Ultra after the defined benefit scheme was closed to new entrants. They are eligible to participate in a defined contribution scheme.

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. In the event of early retirement, the pension is reduced following an actuarial adjustment. 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.

Life Assurance Scheme

All Executive Directors are eligible to participate in the life assurance scheme. Directors can elect for death-in-service cover in a range from one to six times annual earnings.

AUDITED INFORMATION

Directors' pension benefits earned

The table below sets out the pension benefits earned by Executive Directors for the year ended 31 December 2012:

	Age at year-end	Accrued benefit at beginning of year	Increase in period (net of indexation)	Transfer value of increase in year	Accrued benefit at end of year	Transfer value at beginning of year	Transfer value at end of year	Movement in transfer value during year*
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
A. Hamment**	58	130	3	84	133	2,349	2,975	621
R. Sharma	51	56	6	86	65	799	965	130

*Less Directors' contributions.

**Retired in March 2012.

Paul Dean and Mark Anderson participate in the Group Personal Pension Plan, a defined contribution scheme. Employer contributions for the year for Mark Anderson were £13,905 (2011: nil) and for Paul Dean were: £12,962 (2011: £52,200). An additional amount of £44,222 was paid to Paul Dean in the form of a cash supplement.

Directors' remuneration

Directors' emoluments are detailed below:

	Basic salary	Other cash emoluments	Fees	Annual performance bonus	Benefits	2012 Total	2011 Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
M. Anderson[1]	135	8	-	-	2	145	-
C. Bailey	-	-	56	-	-	56	53
M. Broadhurst[2]	-	-	23	-	-	23	-
D. Caster	-	-	182	-	11	193	258
P. Dean[3]	305	44	-	-	22	371	534
I. Griffiths[4]	-	-	23	-	-	23	43
A. Hamment[5]	64	3	-	-	1	68	444
R. Sharma	420	40	-	-	21	481	664
Sir Robert Walmsley	-	-	45	-	-	45	43
	924	95	329	-	57	1,405	2,039

[1] The 2012 total reflects the period from 1 April 2012 (date of appointment) to 31 December 2012.

[2] The 2012 total reflects the period from 2 July 2012 (date of appointment) to 31 December 2012.

[3] In addition, in 2012 Paul Dean received fees of £12,500 for his service as a Non-Executive Director of Porvair plc.

[4] The 2012 total reflects the period from 1 January 2012 to 2 July 2012 (date of resignation).

[5] The 2012 total reflects the period from 1 January 2012 to 30 March 2012 (date of retirement). There were no special termination arrangements. In addition, in 2012 Andy Hamment received fees of £39,250 for his service as a Non-Executive Director of Senior plc.

Pension contributions to Directors of £120,231 (2011: £161,521) were paid by the Company, including £81,060 (2011: £62,584) in respect of the highest paid Director. Other benefits of Executive Directors comprise a car (or allowance), provision of fuel and insurances for life, personal accident and family medical cover. Non-Executive Directors are not eligible for pension scheme membership and do not participate in any of the Group's bonus or other incentive plans.

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	D. Caster	A. Hamment[1]	P. Dean	R. Sharma	Market price of shares granted	Crystallising dates of outstanding awards
2009 award	-	33,522	15,276	21,217	12,284	£11.78	March 2012
2010 award	-	22,816	15,556	18,322	14,658	£14.46	March 2013
2011 award	-	15,923	13,859	16,395	16,513	£16.96	March 2014
Interests at 1 January 2012	-	72,261	44,691	55,934	43,455		
2009 award lapsed during the year	-	(33,522)	(15,276)	(21,217)	(12,284)		
2012 award	7,273	-	-	17,889	24,634	£17.05	March 2015
Interests at 31 December 2012	**7,273**	**38,739**	**29,415**	**52,606**	**55,805**		

[1] Andy Hamment's LTIP awards will vest at the normal time and subject to the defined performance conditions. Andy Hamment did not receive an LTIP award for 2012.

All of the outstanding awards are subject to comparative TSR-based performance conditions materially identical to those described earlier. During the year, the Group purchased no shares relating to the 2012 award (2011: 24,700 shares). Consequently, no Ultra shares were purchased for the Directors (2011: £261,598).

The 2009 award crystallised during the year as detailed above. The actual date of the award was 16 March 2009. The market price of the shares when granted was £11.78. The market price of the shares on vesting was £17.69. The aggregate gain made by the Directors under the LTIP during the year was £nil (2011: £751,196). Ultra's share price on 31 December 2012 was £16.64. The range during 2012 was £14.41 to £17.71.

Directors' interests under the All-Employee Share Ownership Plan

As previously described, the Company operates an All-Employee Share Ownership Plan ("AESOP") in which the Executive Directors are eligible to participate. Details of the Executive Directors' interests in this arrangement are given below:

Name of Director	Interests as at 1 January 2012	Shares acquired during year	Interests as at 31 December 2012	Partnership shares acquired from 1 January 2013 to 1 March 2013	Interests as at 1 March 2013
P. Dean	313	**102**	**415**	**23**	**438**
A. Hamment[1]	2,312	**31**	**2,343**	**-**	**2,343**
R. Sharma	2,312	**149**	**2,461**	**23**	**2,484**

[1] The interests as at 31 December 2012 and interests as at 1 March 2013 reflect the period from 1 January 2012 to 30 March 2012 (date of retirement).

Mark Anderson was not a participant in the AESOP during 2012.

During the year, the Share Ownership Plan Trust, established and operated in connection with the AESOP, purchased 31,215 (2011: 34,267) Ultra Electronics Holdings plc. shares, with a nominal value of £1,560 (2011: £1,713) for £507,304 (2011: £556,850).

Directors' interests

Details of Directors' shareholdings are given below:

	At start of year		**At end of year**		**At 1 March 2013**
	Direct ownership	Indirect ownership	**Direct ownership**	**Indirect ownership**	**Direct ownership**
M. Anderson	-	-	**-**	**-**	**-**
C. Bailey	-	2,500	**-**	**2,500**	**-**
M. Broadhurst	-	-	**-**	**-**	**-**
D. Caster	117,666	633,522	**117,666**	**633,522**	**117,666**
P. Dean	313	-	**415**	**-**	**754**
R. Sharma	5,252	35,002	**5,401**	**35,648**	**5,424**
Sir R. Walmsley	1,600	-	**1,600**	**-**	**1,600**

There were no changes in indirect ownership between 1 January 2013 and 1 March 2013.

This report was approved by the Board of Directors on 1 March 2013 and signed on its behalf by:

Chris Bailey, *Chairman of the Remuneration Committee*

Directors' report

For the year ended 31 December 2012

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 2012. Details in relation to health and safety, the environment, business ethics and employment practices are included in the Making a difference section on page 35 and the Sustainability section on pages 38 and 39. The Corporate Governance statement on pages 47 to 57 forms part of this report.

Principal activity

Ultra Electronics Holdings plc is the Group holding company and the Company is incorporated in the United Kingdom under the Companies Act 2006. The principal activities of its subsidiary undertakings are the design, development, manufacture and support of electronic systems for the international defence, security, transport and energy markets.

Business review

The Company is required to set out in this report a fair review of the business of the Group during the financial year ended 31 December 2012 and of the position of the Group at the end of that financial year, together with a description of the principal risks and uncertainties facing the Group. The information that satisfies these requirements can be found in the following sections: Ultra's performance in 2012 on pages 24 to 34; and management of risks and uncertainties and corporate responsibility on pages 40 to 43.

Results and dividends

Group results and dividends are as follows:

		2012 £'000
Balance on retained earnings, beginning of year		**220,149**
Total comprehensive income for the year		**57,127**
Dividends:	2011 final paid of 26.8p per share	**(18,466)**
	2012 interim paid of 12.2p per share	**(8,411)**
	Equity-settled employee share schemes	**2,346**
Balance on retained earnings, end of year		**252,745**

The final 2012 dividend of 27.8p per share is proposed to be paid on 3 May 2013 to shareholders on the register at 12 April 2013. The interim dividend was paid on 21 September 2012, making a total of 40.0p (2011: 38.5p) 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 report on pages 6 to 23.

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 £147.1 million (2011: £127.2 million) was spent on engineering development of which £97.9 million (2011: £85.8 million) was funded by customers and £49.2 million (2011: £41.4 million) by the Group.

Purchase of own shares

During the year the Company purchased no (2011: 24,700) ordinary shares and no (2011: 48,193) ordinary shares were distributed following vesting of awards under the Ultra Electronics Long-Term Incentive Plan. At 31 December 2012, 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 2012).

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 which 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 the Company at 1 March 2013 are listed on pages 65 and 66.

Directors' indemnities

The Company 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.

Substantial shareholdings

As at 1 March 2013, the Company had been notified, in accordance with Chapter 5 of the Disclosure and Transparency rules, of the following voting rights as shareholders of the company:

	Nature of holding	Percentage of ordinary share capital	Number of 5p ordinary shares	Date of announcement
Schroders plc	Indirect	6.5	4,501,053	22 January 2007
Ameriprise Financial Inc	Direct & indirect	5.2	3,583,955	4 May 2010
Artemis Investment Management LLP	Direct	4.99	3,460,241	28 January 2013
BlackRock Inc	Indirect	4.2	2,910,296	15 April 2010
Norges Bank	Direct	4.05	2,802,233	10 August 2012

Charitable and political contributions

The Group contributed £40,000 (2011: £58,000) to charities and made no contributions for political purposes in the year.

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 2012 were 50 days (2011: 63 days) based on the ratio of Group trade payables at the end of the year to the amounts invoiced during the year by suppliers. At the year end the Company had trade payables of £108,000 (2011: nil).

Contractual arrangements

The Group contracts with a large number of customers in order to sell its wide portfolio of specialist offerings 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 the dual sourcing of specialist components.

Capital structure

Details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 27. The Company 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 the Company.

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 Company's share capital and all issued shares are fully paid.

With regard to the appointment and replacement of Directors, the Company 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 the Company will be held on 26 April 2013 at 417 Bridport Road, Greenford, Middlesex UB6 8UA at 10.00am. A separate circular providing details of the Annual General Meeting has been sent to shareholders with this annual report.

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 the Company's auditor is unaware; and

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

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

By order of the Board,
Sharon Harris, *Company Secretary & General Counsel*
1 March 2013
Registered Office: 417 Bridport Road, Greenford, Middlesex UB6 8UA Registered Number: 02830397

Independent auditor's report – Group

To the members of Ultra Electronics Holdings plc

We have audited the Group financial statements of Ultra Electronics Holdings plc for the year ended 31 December 2012 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity and the related notes 1 to 35, and the Statement of Accounting Policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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.

Respective responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the Group 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 Group 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 (APB's) Ethical Standards for Auditors.

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 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. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement contained within the Corporate Governance statement in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Other matter

We have reported separately on the Parent Company financial statements of Ultra Electronics Holdings plc for the year ended 31 December 2012 and on the information in the Directors' Remuneration Report that is described as having been audited.

Kerr Mitchell

Kerr Mitchell, *Senior Statutory Auditor*
for and on behalf of **Deloitte LLP**
Chartered Accountants and Statutory Auditor
Reading, United Kingdom
1 March 2013

Notes: An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the Directors but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

Group highlights

For the year ended 31 December 2012

	2012 £'000	2011 £'000	Change %
Revenue	**760,826**	731,733	4.0
Underlying operating profit*	**122,244**	122,116	0.1
Operating profit	**88,671**	99,215	(10.6)
Underlying profit before tax*	**115,566**	114,901	0.6
Profit before tax	**82,806**	91,179	(9.2)

	2012 pence	2011 pence	Change %
Underlying earnings per share*	**124.5**	120.2	3.6
Basic earnings per share	**91.5**	96.2	(4.9)
Dividend per share	**40.0**	38.5	3.9

* Ultra uses underlying figures as key performance indicators. Underlying figures are stated before amortisation charges relating to acquired intangibles, adjustments to deferred consideration net of acquisition costs, 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 from profit before tax and underlying profit before tax is shown in note 2 to the accounts. A reconciliation for basic earnings per share and underlying earnings per share is shown in note 12.

Consolidated income statement

For the year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Continuing operations			
Revenue	3	**760,826**	731,733
Cost of sales		**(534,622)**	(514,944)
Gross profit		**226,204**	216,789
Other operating income	4	**2,008**	2,037
Distribution costs		**(1,264)**	(1,141)
Administrative expenses		**(140,109)**	(116,653)
Share of profit from associate	16	**3,487**	2,793
Other operating expenses	5	**(1,655)**	(4,610)
Operating profit	6	**88,671**	99,215
Investment revenue	8	**1,583**	296
Finance costs	9	**(7,448)**	(8,332)
Profit before tax		**82,806**	91,179
Tax	10	**(19,240)**	(25,015)
Profit for the year from continuing operations		**63,566**	66,164
Attributable to:			
Owners of the Company		**63,257**	65,884
Non-controlling interests		**309**	280
Earnings per ordinary share (pence)			
From continuing operations			
Basic	12	**91.5**	96.2
Diluted	12	**91.2**	95.8

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

Consolidated statement of comprehensive income

For the year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Profit for the year		**63,566**	66,164
Exchange differences on translation of foreign operations		**(12,803)**	2,719
Gain on net investment hedges		**4,044**	289
Actuarial loss on defined benefit pension schemes		**(6,097)**	(8,312)
Loss on cash flow hedges		**-**	(84)
Transfer from profit and loss on cash flow hedges		**-**	1,702
Tax relating to components of other comprehensive income	10	**(33)**	98
Other comprehensive income for the year		**(14,889)**	(3,588)
Total comprehensive income for the year	28	**48,677**	62,576
Attributable to:			
Owners of the Company		**48,368**	62,296
Non-controlling interests		**309**	280

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

Consolidated balance sheet

31 December 2012

	Note	2012 £'000	2011 £'000
Non-current assets			
Goodwill	*13*	**291,824**	278,125
Other intangible assets	*14*	**139,160**	140,333
Property, plant and equipment	*15*	**57,756**	48,587
Interest in associate	*16*	**8,989**	6,610
Deferred tax assets	*25*	**1,138**	11,911
Derivative financial instruments	*23*	**3,152**	1,948
Trade and other receivables	*19*	**4,133**	-
		506,152	487,514
Current assets			
Inventories	*17*	**52,185**	47,672
Trade and other receivables	*19*	**201,039**	197,071
Cash and cash equivalents		**30,840**	41,051
Derivative financial instruments	*23*	**2,454**	2,746
		286,518	288,540
Total assets		**792,670**	776,054
Current liabilities			
Trade and other payables	*20*	**(242,858)**	(235,709)
Tax liabilities		**(13,428)**	(19,721)
Derivative financial instruments	*23*	**(490)**	(263)
Obligations under finance leases	*21*	**(37)**	(63)
Borrowings	*22*	**(27,544)**	(78,912)
Short-term provisions	*26*	**(22,474)**	(14,457)
		(306,831)	(349,125)
Non-current liabilities			
Retirement benefit obligations	*31*	**(83,096)**	(82,871)
Other payables	*20*	**(20,987)**	(27,861)
Deferred tax liabilities	*25*	**(7,079)**	(11,942)
Derivative financial instruments	*23*	**(99)**	(804)
Obligations under finance leases	*21*	**(50)**	(76)
Borrowings	*22*	**(46,209)**	(8,148)
Long-term provisions	*26*	**(14,094)**	(10,059)
		(171,614)	(141,761)
Total liabilities		**(478,445)**	(490,886)
Net assets		**314,225**	285,168
Equity			
Share capital	*27*	**3,470**	3,449
Share premium account	*28*	**48,752**	43,862
Own shares	*28*	**(2,581)**	(2,581)
Hedging reserve	*28*	**(9,979)**	(14,023)
Translation reserve	*28*	**21,119**	33,898
Retained earnings	*28*	**252,745**	220,149
Total equity attributable to equity holders of the company		**313,526**	284,754
Non-controlling interest		**699**	414
Total equity		**314,225**	285,168

The financial statements of Ultra Electronics Holdings plc, registered number 02830397, were approved by the Board of Directors and authorised for issue on 1 March 2013.

On behalf of the Board
R. Sharma, *Chief Executive*
P. Dean, *Finance Director*

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

Consolidated cash flow statement

For the year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Net cash flow from operating activities	*29*	**83,737**	115,413
Investing activities			
Interest received		**193**	296
Dividends received from equity accounted investments		**765**	-
Purchase of property, plant and equipment		**(20,470)**	(12,099)
Proceeds from disposal of property, plant and equipment		**67**	-
Expenditure on product development and other intangibles		**(4,659)**	(3,055)
Acquisition of subsidiary undertakings (including acquisition costs)	*32*	**(42,398)**	(146,180)
Net cash acquired with subsidiary undertakings	*32*	**5,445**	4,033
Net cash used in investing activities		**(61,057)**	(157,005)
Financing activities			
Issue of share capital		**4,911**	2,741
Purchase of Long-Term Incentive Plan shares		**-**	(422)
Dividends paid		**(26,877)**	(24,469)
Funding from government loans		**1,298**	1,621
Loan syndication costs		**(722)**	(771)
(Decrease)/increase in borrowings		**(10,145)**	35,776
Decrease in loan to associate		**577**	1,948
Minority investment		**-**	134
Repayment of obligations under finance leases		**(52)**	(173)
Net cash generated (used in)/from financing activities		**(31,010)**	16,385
Net decrease in cash and cash equivalents		**(8,330)**	(25,207)
Cash and cash equivalents at beginning of year		**41,051**	68,129
Effect of foreign exchange rate changes		**(1,881)**	(1,871)
Cash and cash equivalents at end of year		**30,840**	41,051

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 2012

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 2012	**3,449**	**43,862**	**(2,581)**	**(14,023)**	**33,898**	**220,149**	**414**	**285,168**
Profit for the year	-	-	-	-	-	63,257	309	63,566
Other comprehensive income for the year	-	-	-	4,044	(12,779)	(6,130)	(24)	(14,889)
Total comprehensive income for the year	**-**	**-**	**-**	**4,044**	**(12,779)**	**57,127**	**285**	**48,677**
Own shares acquired	-	-	-	-	-	-	-	-
Disposal of own shares	-	-	-	-	-	-	-	-
Equity-settled employee share schemes	21	4,890	-	-	-	1,974	-	6,885
Dividend to shareholders	-	-	-	-	-	(26,877)	-	(26,877)
Tax on share-based payment transactions	-	-	-	-	-	372	-	372
Balance at 31 December 2012	**3,470**	**48,752**	**(2,581)**	**(9,979)**	**21,119**	**252,745**	**699**	**314,225**
Balance at 1 January 2011	**3,436**	**41,134**	**(2,653)**	**(15,930)**	**31,179**	**185,969**	**-**	**243,135**
Profit for the year	-	-	-	-	-	65,884	280	66,164
Other comprehensive income for the year	-	-	-	1,907	2,719	(8,214)	-	(3,588)
Total comprehensive income for the year	**-**	**-**	**-**	**1,907**	**2,719**	**57,670**	**280**	**62,576**
Own shares acquired	-	-	(422)	-	-	-	-	(422)
Disposal of own shares	-	-	494	-	-	(494)	-	-
Equity-settled employee share schemes	13	2,728	-	-	-	1,974	-	4,715
Non-controlling interest's investment made in subsidiary	-	-	-	-	-	-	134	134
Dividend to shareholders	-	-	-	-	-	(24,469)	-	(24,469)
Tax on share-based payment transactions	-	-	-	-	-	(501)	-	(501)
Balance at 31 December 2011	**3,449**	**43,862**	**(2,581)**	**(14,023)**	**33,898**	**220,149**	**414**	**285,168**

Notes to accounts – Group

31 December 2012

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 Officer. Each segment includes businesses with similar operating and market characteristics.

			2012			2011
	External revenue £'000	**Inter segment £'000**	**Total £'000**	External revenue £'000	Inter segment £'000	Total £'000
Revenue						
Aircraft & Vehicle Systems	**147,017**	**18,440**	**165,457**	166,061	21,201	187,262
Information & Power Systems	**315,835**	**13,815**	**329,650**	257,012	18,388	275,400
Tactical & Sonar Systems	**297,974**	**20,261**	**318,235**	308,660	19,703	328,363
Eliminations	**-**	**(52,516)**	**(52,516)**	-	(59,292)	(59,292)
Consolidated revenue	**760,826**	**-**	**760,826**	731,733	-	731,733

All inter-segment trading is at arms' length.

				2012
	Aircraft & Vehicle Systems £'000	**Information & Power Systems £'000**	**Tactical & Sonar Systems £'000**	**Total £'000**
Underlying operating profit	**30,798**	**45,048**	**46,398**	**122,244**
Amortisation of intangibles arising on acquisition	**(3,571)**	**(14,005)**	**(14,503)**	**(32,079)**
Adjustments to deferred consideration net of acquisition costs	**(315)**	**(518)**	**(661)**	**(1,494)**
Operating profit	**26,912**	**30,525**	**31,234**	**88,671**
Investment revenue				**1,583**
Finance costs				**(7,448)**
Profit before tax				**82,806**
Tax				**(19,240)**
Profit after tax				**63,566**

				2011
	Aircraft & Vehicle Systems £'000	Information & Power Systems £'000	Tactical & Sonar Systems £'000	Total £'000
Underlying operating profit	31,140	30,517	60,459	122,116
Amortisation of intangibles arising on acquisition	(4,168)	(8,270)	(10,695)	(23,133)
Adjustments to deferred consideration net of acquisition costs	1,559	(371)	(956)	232
Operating profit	28,531	21,876	48,808	99,215
Investment revenue				296
Finance costs				(8,332)
Profit before tax				91,179
Tax				(25,015)
Profit after tax				66,164

1 Segment information (continued)

Capital expenditure, additions to intangibles, depreciation and amortisation

	Capital expenditure and additions to intangibles (excluding goodwill)		Depreciation and amortisation	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000
Aircraft & Vehicle Systems	**7,511**	2,991	**6,784**	10,673
Information & Power Systems	**7,088**	4,739	**18,770**	12,278
Tactical & Sonar Systems	**10,530**	7,424	**20,570**	15,620
Total	**25,129**	15,154	**46,124**	38,571

The 2012 depreciation and amortisation expense includes £35,242,000 of amortisation charges (2011: £29,431,000) and £10,882,000 of property, plant and equipment depreciation charges (2011: £9,140,000).

Total assets by segment

	2012 £'000	2011 £'000
Aircraft & Vehicle Systems	**146,872**	137,340
Information & Power Systems	**296,411**	311,576
Tactical & Sonar Systems	**311,803**	269,482
	755,086	718,398
Unallocated	**37,584**	57,656
Consolidated total assets	**792,670**	776,054

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

Total liabilities by segment

	2012 £'000	2011 £'000
Aircraft & Vehicle Systems	**42,594**	49,572
Information & Power Systems	**121,273**	113,620
Tactical & Sonar Systems	**139,547**	126,713
	303,414	289,905
Unallocated	**175,031**	200,981
Consolidated total liabilities	**478,445**	490,886

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.

	2012 £'000	2011 £'000
United Kingdom	**225,671**	215,227
Continental Europe	**55,769**	67,882
Canada	**19,038**	22,123
USA	**349,145**	333,266
Rest of World	**111,203**	93,235
	760,826	731,733

During the year there was one direct customer (2011: one), that individually accounted for greater than 10% of the Group's total turnover. Sales to this customer in 2012 were £189.3m (2011: £178m) across all segments.

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1 Segment information (continued)

Other information (by geographic location)

	Non current assets		Total assets		Additions to Property, Plant & Equipment and intangible assets (excluding acquisitions)	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000	**2012 £'000**	2011 £'000
United Kingdom	**200,453**	134,649	**339,855**	252,530	**16,404**	7,791
USA	**216,746**	273,768	**292,022**	345,790	**4,227**	5,429
Canada	**55,831**	40,081	**71,191**	56,613	**2,795**	1,321
Rest of World	**28,831**	25,157	**69,477**	63,465	**1,703**	613
	501,861	473,655	**772,545**	718,398	**25,129**	15,154
Unallocated	**4,291**	13,859	**20,125**	57,656	**-**	-
	506,152	487,514	**792,670**	776,054	**25,129**	15,154

2 Additional performance measures

To present the underlying profitability of the Group on a consistent basis year-on-year, additional performance indicators have been used. These are calculated as follows:

	2012 £'000	2011 £'000
Operating profit	**88,671**	99,215
Amortisation of intangibles arising on acquisition	**32,079**	23,133
Adjustments to contingent consideration net of acquisition costs	**1,494**	(232)
Underlying operating profit	**122,244**	122,116
Profit before tax	**82,806**	91,179
Amortisation of intangibles arising on acquisition	**32,079**	23,133
Adjustments to contingent consideration net of acquisition costs	**1,494**	(232)
Unwinding of discount on provisions *(see note 26)*	**577**	-
(Profit)/loss on fair value movements on derivatives	**(1,390)**	821
Underlying profit before tax	**115,566**	114,901
Cash generated by operations *(see note 29)*	**113,881**	149,318
Purchase of property, plant and equipment	**(20,470)**	(12,099)
Proceeds on disposal of property, plant and equipment	**67**	-
Expenditure on product development and other intangibles	**(4,659)**	(3,055)
Dividend from equity accounted investment	**765**	-
Purchase of Long-Term Incentive Plan shares	**-**	(422)
Operating cash flow	**89,584**	133,742

Underlying operating profit has been shown before acquisition related costs and the amortisation of intangible assets arising on acquisitions. To maintain a consistent presentation of financial performance over the longer term, these charges have been excluded from underlying operating profit. Underlying profit before tax and underlying earnings per share *(see note 12)* are also presented before these adjustments.

2 Additional performance measures (continued)

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. The liability relates to acquisition deferred consideration, therefore, to maintain a consistent presentation of financial performance over the longer term underlying profit before tax and underlying earnings per share *(see note 12)* are stated before the unwinding of discount on the provision.

IAS 39 requires the Group to 'fair value' the derivative instruments used to manage Ultra's foreign exchange exposures. This creates volatility in the valuation of the outstanding instruments as exchange rates move over time. This will have minimal impact on profit over the full term of the instruments, but can cause significant volatility on particular balance sheet dates. Headline profit before tax and headline earnings per share *(see note 12)* are stated before changes in the valuation of foreign currency derivative instruments.

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, Ultra 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. The Group believes that using cash generated by operations, with the exclusion of net expenditure on property, plant and equipment and outflows for capitalised product development and other intangibles, would result in an under-reporting of the true cash cost of sustaining a growing business.

3 Revenue

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

	2012 £'000	2011 £'000
Sales of goods	**343,981**	355,102
Revenue from long term contracts	**416,845**	376,631
	760,826	731,733

4 Other operating income

Amounts included in other operating income were as follows:

	2012 £'000	2011 £'000
Foreign exchange gains	**2,008**	2,037
	2,008	2,037

5 Other operating expenses

Amounts included in other operating expenses were as follows:

	2012 £'000	2011 £'000
Amortisation of development costs	**830**	4,572
Foreign exchange losses	**825**	38
	1,655	4,610

6 Operating profit

Operating profit is stated after charging/(crediting):

	2012 £'000	2011 £'000
Raw materials and other bought in inventories expensed in the year	**233,279**	268,914
Inventories written down and recognised as an expense in the year	**3,516**	3,954
Reversals of write-downs of inventory	**(196)**	(68)
Staff costs *(see note 7)*	**226,995**	212,292
Depreciation and amounts written off property, plant and equipment	**10,882**	9,140
Amortisation of internally generated intangible assets	**830**	4,572
Amortisation of acquired intangible assets (including other intangibles)	**34,412**	24,859
Government grant income *(see note 24)*	**(2,628)**	(4,872)
Net foreign exchange loss/(gain)	**1,905**	(627)
Loss on disposal of property, plant and equipment	**137**	61
Operating lease rentals		
– plant and machinery	**1,398**	1,283
– other	**9,481**	7,900
Research and development costs	**48,597**	40,549
Auditor's remuneration for statutory audit work (including expenses)	**685**	592

The Company only audit fee included in the Group audit fee shown above was £20,000 (2011: £20,000).

Analysis of auditor's remuneration

	2012 £'000	2011 £'000
Fees payable for the audit of the annual accounts	**166**	157
Fees payable for the audit of subsidiaries	**519**	435
Total for statutory Group audit services	**685**	592
Analysis of non-audit services:		
Audit related services	**-**	10
Tax compliance	**5**	3
Other tax advisory services	**14**	49
Corporate finance services	**50**	192
Other services	**125**	24
Total for non-audit services	**194**	278

7 Staff costs

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

	2012 £'000	2011 £'000
Wages and salaries	**197,098**	183,294
Social security costs	**18,573**	17,741
Pension costs	**11,324**	11,257
	226,995	212,292

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

	2012 Number	2011 Number
Production	**1,616**	1,553
Engineering	**1,781**	1,764
Selling	**308**	267
Support services	**725**	622
	4,430	4,206

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 Services Authority form part of these accounts.

8 Investment revenue

	2012 £'000	2011 £'000
Bank interest	**193**	296
Fair value movement on derivatives	**1,390**	-
	1,583	296

9 Finance costs

	2012 £'000	2011 £'000
Amortisation of finance costs of debt	**591**	670
Interest payable on bank loans, overdrafts and other loans	**4,943**	3,137
Interest payable on finance leases	**1**	1
Transfers to equity on cash flow hedges	**-**	1,702
Total borrowing costs	**5,535**	5,510
Retirement benefit scheme finance cost	**1,336**	2,001
Unwinding of discount on provisions	**577**	-
Fair value movement on derivatives	**-**	821
	7,448	8,332

10 Tax

	2012 £'000	2011 £'000
UK taxes		
Corporation tax	**12,854**	14,216
Adjustment in respect of prior years	**169**	(492)
	13,023	13,724
Overseas taxes		
Current taxation	**10,043**	16,878
Adjustment in respect of prior years	**(138)**	(288)
	9,905	16,590
Total current tax	**22,928**	30,314
Deferred tax		
Origination and reversal of temporary differences		
UK deferred tax	**679**	(1,469)
Overseas deferred tax	**(4,367)**	(3,830)
Total deferred tax credit	**(3,688)**	(5,299)
Total tax charge	**19,240**	25,015

Corporation tax in the UK is calculated at 24.5% (2011: 26.5%) of the estimated assessable profit for the year.

Taxation for the 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:

	2012 £'000	2011 £'000
Current tax		
Net investment hedges	**77**	(329)
Deferred tax		
Arising on income and expenses recognised in other comprehensive income:		
Actuarial loss on defined benefit pension schemes	**(110)**	832
Revaluation of interest rate swaps	**-**	(405)
Total income tax (charge)/credit recognised directly in other comprehensive income	**(33)**	98

10 Tax (continued)

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:

	2012 £'000	2011 £'000
Current tax		
Excess tax deductions related to share based payments on exercised options	**263**	296
Deferred tax		
Change in estimated excess tax deductions related to share-based payments	**109**	(797)
Total income tax recognised directly in equity	**372**	(501)

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:

	2012 £'000	2011 £'000
Group profit before tax	**82,806**	91,179
Tax on Group profit at standard UK corporation tax rate of 24.5% (2011: 26.5%)	**20,287**	24,162
Tax effects of:		
Income/expenses that are not taxable/allowable in determining taxable profits	**(1,451)**	(1,157)
Tax effect of utilisation of tax losses not previously recognised	**(248)**	(169)
Different tax rates of subsidiaries operating in other jurisdictions	**877**	1,526
Adjustments in respect of prior years	**(225)**	653
Tax expense for the year	**19,240**	25,015

11 Dividends

Amounts recognised as distributions to equity holders in the year:

	2012 £'000	2011 £'000
Final dividend for the year ended 31 December 2011 of 26.8p (2010: 24.0p) per share	**18,466**	16,446
Interim dividend for the year ended 31 December 2012 of 12.2p (2011: 11.7p) per share	**8,411**	8,023
	26,877	24,469
Proposed final dividend for the year ended 31 December 2012 of 27.8p (2011: 26.8p) per share	**19,230**	18,424

The 2012 proposed final dividend of 27.8p per share is proposed to be paid on 3 May 2013 to shareholders on the register at 12 April 2013. It was approved by the Board after 31 December 2012 and has not been included as a liability as at 31 December 2012.

Under UK tax law, no withholding tax is required to be deducted from dividends paid by Ultra Electronics Holdings plc. Subject to certain exceptions for traders in securities and insurance companies, a corporate shareholder resident in the United Kingdom for tax purposes will generally not be subject to corporation tax on dividends received from Ultra. Individual shareholders resident in the UK for tax purposes are generally liable to income tax on the aggregate amount of any dividend received from Ultra and a tax credit equal to 10% of the gross dividend (or one ninth of the cash dividend received). The tax credit can be set against the individual shareholder's total liability to income tax on the cash dividend. Non-UK resident shareholders may be subject to tax on dividends received from Ultra under any law to which they are subject outside the UK.

12 Earnings per share

	2012 pence	2011 pence
Basic underlying *(see below)*	**124.5**	120.2
Diluted underlying *(see below)*	**124.1**	119.8
Basic	**91.5**	96.2
Diluted	**91.2**	95.8

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

	2012 £'000	2011 £'000
Earnings		
Earnings for the purposes of basic earnings per share being profit for the year from continuing operations	**63,257**	66,164
Underlying earnings		
Profit for the year from continuing operations	**63,257**	66,164
(Profit)/loss on fair value movements on derivatives (net of tax)	**(1,155)**	524
Amortisation of intangibles arising on acquisition (net of tax)	**22,266**	15,896
Unwinding of discount on provisions (net of tax)	**436**	-
Acquisition-related costs net of contingent consideration (net of tax)	**1,273**	129
Earnings for the purposes of underlying earnings per share	**86,077**	82,713

The adjustments to profit are explained in note 2.

	2012 Number of shares	2011 Number of shares
The weighted average number of shares is given below:		
Number of shares used for basic earnings per share	**69,165,099**	68,809,084
Effect of dilutive potential ordinary shares – share options	**215,138**	261,857
Number of shares used for fully diluted earnings per share	**69,380,237**	69,070,941

	2012 £'000	2011 £'000
Underlying profit before tax	**115,566**	114,901
Tax rate applied for the purposes of underlying earnings per share	**25.25%**	28.0%

13 Goodwill

	2012 £'000	2011 £'000
Cost		
At 1 January	**278,125**	221,761
Exchange differences	**(6,416)**	1,744
Recognised on acquisition of subsidiaries	**19,478**	57,485
Reclassifications	**372**	-
Other changes	**265**	(2,865)
At 31 December	**291,824**	278,125
Accumulated impairment losses		
At 1 January and 31 December	**-**	-
Carrying amount at 31 December	**291,824**	**278,125**

Other changes and reclassifications in 2012 relate to adjustments made relating to the re-assessment of initial fair values. Other changes in 2011 relate to purchase price adjustments and changes relating to the re-assessment of initial fair values.

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13 Goodwill (continued)

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:

	2012 £'000	2011 £'000
Blue Sky Group	**7,496**	7,839
Precision Air & Land Systems	**10,317**	10,317
Adaptive Materials Inc	**6,375**	6,666
Other	**13,074**	13,074
Aircraft & Vehicle Systems	**37,262**	37,896
Airport Systems	**27,996**	28,077
Command & Control Systems	**14,015**	14,015
NSPI	**10,752**	11,996
ProLogic	**47,176**	49,258
RFI	**2,355**	-
SOTECH	**8,844**	8,372
Other	**11,458**	11,458
Information & Power Systems	**122,596**	123,176
3eTI	**11,366**	11,887
AEP†	**24,640**	17,135
GigaSat	**9,544**	-
Maritime Systems	**9,331**	10,067
Tactical Communication Systems	**36,435**	37,214
UnderSea Sensor Systems Inc	**18,342**	18,533
Criticom	**7,870**	8,230
Other	**14,438**	13,987
Tactical & Sonar Systems	**131,966**	117,053
Total – Ultra Electronics	**291,824**	278,125

†Increase is due to the BeMac acquisition during 2012.

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 2012 varied between 12.3% and 16.0% (2011: 12.3% to 13.3%). Future revenues are based on orders already received, opportunities that are known and expected at the time of setting the budget and strategic plans and future growth rates. Budget and strategic plan growth rates are based on a combination of historic experience, available government spending data and management and industry expectations of the growth rates that are expected to apply in the major markets in which each CGU operates. Longer-term growth rates, applied for the ten year period after the end of the strategic planning period, are set at 2.5%. Ultra considers the long-term growth rate to be appropriate for the sectors in which it operates. Forecast gross margins reflect past experience, factor in expected efficiencies to counter inflationary pressures, and also reflect likely margins achievable in the shorter-term period of greater defence spending uncertainty.

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

Sensitivity analysis has been performed on the value-in-use calculations to:
(i) reduce the post-2017 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 as noted above.

13 Goodwill (continued)

Certain of these sensitivity scenarios give rise to potential impairments at ProLogic, Adaptive Materials Inc and Criticom. Headroom for these businesses, which represents the value derived from the key growth assumptions in the value-in-use calculations, is as follows: ProLogic £10.9m, Adaptive Materials Inc £39.0m and Criticom £1.0m. Sensitivity assumptions (i) and (ii) would result in a headroom shortfall at Criticom only of £0.3m and £0.4m respectively. Sensitivity (iii) is particularly relevant for ProLogic and Adaptive Materials Inc and accordingly if assumption (ii) was extended further, a 12% reduction to forecast operating profits in each year of the modelled cash inflows for ProLogic, and a 71% reduction for Adaptive Materials Inc, representing a key programme, would indicate an impairment.

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

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 2011	87,972	38,786	19,363	784	15,868	13,775	176,548
Foreign exchange differences	1,393	822	210	39	90	102	2,656
Acquired on acquistion of subsidiary undertakings	49,993	26,375	2,938	323	-	503	80,132
Additions	-	-	-	-	868	2,187	3,055
At 1 January 2012	**139,358**	**65,983**	**22,511**	**1,146**	**16,826**	**16,567**	**262,391**
Foreign exchange differences	(4,956)	(1,824)	(835)	(145)	(284)	(405)	(8,449)
Acquired on acquistion of subsidiary undertakings	22,884	9,061	860	694	-	148	33,647
Additions	-	-	-	-	597	4,062	4,659
Reclassifications	-	-	-	-	-	(372)	(372)
Disposals	-	-	-	-	-	(525)	(525)
At 31 December 2012	**157,286**	**73,220**	**22,536**	**1,695**	**17,139**	**19,475**	**291,351**
Accumulated amortisation							
At 1 January 2011	(41,085)	(14,719)	(18,517)	(37)	(8,409)	(8,482)	(91,249)
Foreign exchange differences	(754)	(306)	(176)	(13)	(74)	(55)	(1,378)
Charge	(15,211)	(5,429)	(2,072)	(421)	(4,572)	(1,726)	(29,431)
At 1 January 2012	**(57,050)**	**(20,454)**	**(20,765)**	**(471)**	**(13,055)**	**(10,263)**	**(122,058)**
Foreign exchange differences	2,344	848	795	118	250	241	4,596
Disposals	-	-	-	-	-	513	513
Charge	(20,690)	(8,664)	(2,432)	(293)	(830)	(2,333)	(35,242)
At 31 December 2012	**(75,396)**	**(28,270)**	**(22,402)**	**(646)**	**(13,635)**	**(11,842)**	**(152,191)**
Carrying amount							
At 31 December 2012	**81,890**	**44,950**	**134**	**1,049**	**3,504**	**7,633**	**139,160**
At 31 December 2011	82,308	45,529	1,746	675	3,771	6,304	140,333

Other represents software, 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:

Intellectual property	5 to 10 years
Customer relationships	5 to 16 years
Development costs	2 to 10 years
Software	3 to 5 years
Patents and trademarks	10 to 20 years
Profit in acquired order book	1 to 3 years

1. Introduction
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15 Property, plant and equipment

	Land and Buildings			
	Freehold £'000	Short leasehold £'000	Plant and machinery £'000	Total £'000
Cost				
At 1 January 2011	19,733	12,818	83,935	116,486
Foreign exchange differences	1	208	297	506
Acquisitions	-	234	515	749
Additions	652	1,619	9,828	12,099
Disposals	-	(180)	(3,426)	(3,606)
At 1 January 2012	**20,386**	**14,699**	**91,149**	**126,234**
Foreign exchange differences	(361)	(352)	(1,867)	(2,580)
Acquisitions	-	180	1,060	1,240
Additions	7,920	6,395	6,155	20,470
Disposals	-	(1,128)	(7,335)	(8,463)
At 31 December 2012	**27,945**	**19,794**	**89,162**	**136,901**
Accumulated Depreciation				
At 1 January 2011	(3,269)	(6,233)	(61,630)	(71,132)
Foreign exchange differences	21	(52)	(411)	(442)
Charge	(585)	(1,086)	(7,469)	(9,140)
Disposals	-	136	2,931	3,067
At 1 January 2012	**(3,833)**	**(7,235)**	**(66,579)**	**(77,647)**
Foreign exchange differences	77	147	1,012	1,236
Charge	(874)	(2,145)	(7,863)	(10,882)
Disposals	-	1,115	7,033	8,148
At 31 December 2012	**(4,630)**	**(8,118)**	**(66,397)**	**(79,145)**
Carrying amount				
At 31 December 2012	**23,315**	**11,676**	**22,765**	**57,756**
At 31 December 2011	16,553	7,464	24,570	48,587

Freehold land amounting to £3,502,000 (2011: £2,452,000) has not been depreciated. The net book value of plant and machinery held under finance leases was £107,000 (2011: £158,000). Depreciation charged in the year on assets held under finance leases was £52,000 (2011: £46,000). Included within Land and Buildings is £5,137,000 (2011: £nil) of assets in the course of construction which will start to be depreciated during 2013.

16 Interest in associate

	2012 £'000	2011 £'000
The value of the Group's investment is made up as follows:		
Total assets	**14,069**	59,340
Total liabilities	**(5,080)**	(52,730)
Interest in associate	**8,989**	6,610

	2012 £'000	2011 £'000
Total revenue of associate	**38,859**	56,334
Group's share of profit recognised	**3,487**	2,793

The Group's interest in associate is represented by its 49% shareholding in Al Shaheen Adventure LLC, a Company incorporated in the UAE. The 2012 assets and liabilities of the associate are presented with a netting of appropriate contract related balances. For 2011 these were presented on a gross basis.

17 Inventories

	2012 £'000	2011 £'000
Raw materials and consumables	**32,850**	30,045
Work in progress	**11,621**	10,053
Finished goods and goods for resale	**7,714**	7,574
	52,185	47,672

18 Long-term contract balances

	2012 £'000	2011 £'000
Contracts in progress at the balance sheet date:		
Amounts due from contract customers included in trade and other receivables	**87,727**	53,027
Amounts due to contract customers included in trade and other payables	**(107,953)**	(102,070)
	(20,226)	(49,043)
Contract costs incurred plus recognised profits less recognised losses to date	**1,270,263**	1,133,641

Advances received from customers for contract work amounted to £76,519,000 (2011: £77,103,000).

19 Trade and other receivables

Non-current	2012 £'000	2011 £'000
Trade receivables	**4,133**	-
	4,133	-

Current	2012 £'000	2011 £'000
Trade receivables	**96,355**	124,654
Provisions against receivables	**(1,445)**	(1,743)
Net trade receivables	**94,910**	122,911
Amounts due from contract customers *(note 18)*	**87,727**	53,027
Other receivables	**11,402**	14,609
Prepayments and accrued income	**7,000**	6,524
	201,039	197,071

Trade receivables do not carry interest. The average credit period on sale of goods is 34 days (2011: 42 days).

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

19 Trade and other receivables (continued)

The ageing profile of unprovided overdue debtors was as follows:

	2012 £'000	Related provision £'000	Total £'000	2011 £'000	Related provision £'000	Total £'000
1 to 3 months	**18,510**	**(451)**	**18,059**	15,090	(850)	14,240
4 to 6 months	**2,886**	**(306)**	**2,580**	3,388	(585)	2,803
7 to 9 months	**670**	**(405)**	**265**	294	(174)	120
Over 9 months	**907**	**(283)**	**624**	134	(134)	-
Total overdue	**22,973**	**(1,445)**	**21,528**	18,906	(1,743)	17,163

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:

	2012 £'000	2011 £'000
Balance at beginning of year	**1,743**	961
Foreign exchange differences	**(12)**	1
Increase in provision for trade receivables regarded as potentially uncollectable	**412**	1,278
Decrease in provision for trade receivables recovered during the year	**(698)**	(497)
Balance at end of year	**1,445**	1,743

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 largecounter 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. 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

	2012 £'000	2011 £'000
Amounts included in current liabilities:		
Trade payables	**75,773**	76,565
Amounts due to contract customers *(note 18)*	**96,620**	82,656
Other payables	**22,943**	31,160
Accruals and deferred income	**47,522**	45,328
	242,858	235,709
Amounts included in non current liabilities:		
Amounts due to contract customers *(note 18)*	**11,333**	19,414
Other payables	**5,578**	5,986
Accruals and deferred income	**4,076**	2,461
	20,987	27,861

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

21 Finance leases

Minimum lease payments

	2012 £'000	2011 £'000
Amounts payable under finance leases:		
Within one year	**41**	63
Between one and five years	**57**	77
	98	140
Less: future finance charges	**(11)**	(1)
Present value of finance lease liabilities	**87**	139
Present value of finance lease liabilities – payments due:		
Within one year	**37**	63
Between one and five years	**50**	76
	87	139

22 Borrowings

	2012 £'000	2011 £'000
Bank loans are payable as follows:		
Less than one year	**29,186**	80,202
	29,186	80,202
Less: unamortised finance costs of debt	**(1,642)**	(1,290)
	27,544	78,912
Amounts due after more than one year:		
Unsecured loan notes	**43,295**	6,468
Loans from government	**2,914**	1,680
	46,209	8,148
Total borrowings:		
Amount due for settlement within 12 months	**27,544**	78,912
Amount due for settlement after 12 months	**46,209**	8,148
	73,753	87,060

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	**2012 Total £'000**
Financial assets at fair value		
Foreign exchange derivative financial instruments (through profit and loss)	**5,606**	**5,606**
Financial liabilities at fair value		
Foreign exchange derivative financial instruments (through profit and loss)	**589**	**589**

	Level 2 £'000	2011 Total £'000
Financial assets at fair value		
Foreign exchange derivative financial instruments (through profit and loss)	4,694	4,694
Financial liabilities at fair value		
Foreign exchange derivative financial instruments (through profit and loss)	1,067	1,067

	Current assets/(liability)		**Non-current assets/(liability)**	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000
Financial assets/(liabilities) carried at fair value through profit or loss				
Foreign exchange currency liabilities	**(490)**	(263)	**(99)**	(804)
Foreign exchange currency assets	**2,454**	2,746	**3,152**	1,948

Financial assets

The financial assets of the Group were as follows:

	2012 £'000	2011 £'000
Cash and cash equivalents	**30,840**	41,051
Currency derivatives used for hedging	**5,606**	4,694
Amounts due from contract customers	**87,727**	53,027
Other receivables	**11,402**	14,609
Receivables	**99,043**	122,911

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

23 Financial instruments and financial risk management (continued)

Financial liabilities

The financial liabilities of the Group were as follows:

	2012 £'000	2011 £'000
Currency derivatives used for hedging	**589**	1,067
Other financial liabilities:		
Bank loans and overdrafts	**27,544**	78,912
Loan notes	**43,295**	6,468
Finance leases	**87**	139
Government loans	**2,914**	1,680
Trade payables	**75,773**	76,565
Amounts due to contract customers	**107,953**	102,070
Deferred consideration	**24,911**	12,178
Accruals	**31,380**	28,838

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

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, which was replaced in 2011, provides £90 million of revolving credit and expires in January 2016 and a second which was put in place in 2010, providing a further £120 million of revolving credit which expires in September 2013. 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.

On 13 January 2013 the £120 million facility was replaced by a £100 million facility which expires in December 2017.

All bank loans are unsecured. Interest was predominantly charged at 1.50% (2011: 1.50%) over base or contracted rate.

At 31 December 2012, the Group had available £180,815,000 (2011: £129,798,000) 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 allows the Group to issue loan notes up to a value of $150 million. Loan notes can be issued up until 3 January 2014 and with a maturity date of up to 10 years. $10 million of loan notes were issued in 2011 with a maturity date of July 2018, a further $60 million of loan notes were issued in January 2012 with a maturity date of January 2019. Consequently as at 31 December 2012 $80 million remained available under the shelf agreement.

23 Financial instruments and financial risk management (continued)

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**
2012					
Bank loans and overdrafts	**29,752**	**-**	**-**	**-**	**29,752**
Loan notes	**1,559**	**1,559**	**4,678**	**44,822**	**52,618**
Government loans	**-**	**-**	**-**	**2,914**	**2,914**
Finance leases	**41**	**34**	**23**	**-**	**98**
Trade payables	**75,773**	**-**	**-**	**-**	**75,773**
Currency derivatives used for hedging	**490**	**96**	**3**	**-**	**589**
Deferred consideration	**13,721**	**11,190**	**-**	**-**	**24,911**
Accruals	**27,304**	**2,197**	**1,508**	**371**	**31,380**
2011					
Bank loans and overdrafts	81,636	-	-	-	81,636
Loan notes	265	265	794	6,872	8,196
Government loans	-	-	-	1,680	1,680
Finance leases	63	43	34	-	140
Trade payables	76,565	-	-	-	76,565
Currency derivatives used for hedging	263	804	-	-	1,067
Deferred consideration	6,509	5,217	452	-	12,178
Accruals	26,377	865	1,043	553	28,838

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 2012, the net fair value of the Group's currency derivatives is estimated to be an asset of approximately £5,017,000 (2011: £3,627,000), comprising £5,606,000 assets (2011: £4,694,000) and £589,000 liabilities (2011: £1,067,000). The gain on derivative financial instruments included in the Group's consolidated income statement for the period was £1,390,000 (2011: loss of £821,000).

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**
2012				
US dollars/Sterling	**49,749**	**52,995**	**-**	**102,744**
US dollars/Canadian dollars	**20,620**	**-**	**-**	**20,620**
Canadian dollars/Sterling	**5,693**	**1,582**	**-**	**7,275**
Euro/other currencies	**3,834**	**3,684**	**5,175**	**12,693**
Total	**79,896**	**58,261**	**5,175**	**143,332**
2011				
US dollars/Sterling	39,046	71,102	-	110,148
US dollars/Canadian dollars	21,829	-	-	21,829
Canadian dollars/Sterling	2,095	3,148	-	5,243
Euro/other currencies	8,263	7,876	5,176	21,315
Total	71,233	82,126	5,176	158,535

23 Financial instruments and financial risk management (continued)

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 $70 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. During the prior year the Group used interest rate swaps to manage its exposure to interest rate movements on its borrowings. The swaps matured in December 2011 and had fixed swap rates, including the bank margin, ranging from 4.40% to 4.78%. The interest rate swaps were designated effective cash flow hedges and the change in fair value was charged to equity. The amount recycled from the income statement during the year was £nil. £1,702,000 was charged to interest cost in the prior year.

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
2012						
Cash and cash equivalents	**0.36%**	**30,840**	**30,840**	**-**	**-**	**-**
Loan notes	**3.60%**	**43,295**	**-**	**-**	**-**	**43,295**
Unsecured bank loans	**1.94%**	**27,544**	**27,544**	**-**	**-**	**-**
Government loans	**4.43%**	**2,914**	**-**	**-**	**-**	**2,914**
Finance lease liabilities	**4.89%**	**87**	**37**	**30**	**20**	**-**
2011						
Cash and cash equivalents	0.10%	41,051	41,051	-	-	-
Loan notes	4.09%	6,468	-	-	-	6,468
Unsecured bank loans:						
US dollar loan	1.79%	78,912	78,912	-	-	-
Government loans	4.43%	1,680	-	-	-	1,680
Finance lease liabilities	4.89%	139	63	42	34	-

Market risk sensitivity analysis

Currency risks

The Group has estimated the change to 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
2012								
Transaction	**6,343**	**6,343**	**(6,343)**	**(6,343)**	**15,858**	**15,858**	**(15,858)**	**(15,858)**
P&L translation	**1,866**	**1,857**	**(1,866)**	**(1,857)**	**4,665**	**4,643**	**(4,665)**	**(4,643)**
Foreign exchange derivatives	**(8,125)**	**(8,125)**	**8,953**	**8,953**	**(22,261)**	**(22,261)**	**17,723**	**17,723**
Total foreign exchange	**84**	**75**	**744**	**753**	**(1,738)**	**(1,760)**	**(2,800)**	**(2,778)**
2011								
Transaction	7,511	7,511	(7,511)	(7,511)	18,777	18,777	(18,777)	(18,777)
P&L translation	1,866	3,419	(1,866)	(3,419)	4,664	8,546	(4,664)	(8,546)
Foreign exchange derivatives	(8,480)	(8,480)	7,302	7,302	(23,837)	(23,837)	16,548	16,548
Total foreign exchange	897	2,450	(2,075)	(3,628)	(396)	3,486	(6,893)	(10,775)

23 Financial instruments and financial risk management (continued)

Interest rate risk

During 2012 the Group's borrowings were predominantly at fixed interest rates, consequently the income statement is not particularly sensitive to a small change in interest rates. The Group has estimated the change to the income statement of a 1% increase in market interest rates, from the average rates applicable during 2012. There is no significant difference between the amount recharged to the income statement and equity in the year.

	1% change Profit before tax £'000
2012	
Interest rate sensitivity	**(386)**
2011	
Interest rate sensitivity	117

24 Government grants and loans

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.

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 and reimbursed at favourable rates of interest over the period 2016 - 2030. 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 loan and has been credited to profit in the year. The fair value of the loan has been calculated using a market interest rate for a similar instrument applicable at the time the agreement was 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 - 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:

	2012 £'000	2011 £'000
Fair value of SADI loan brought forward	**1,680**	-
Contributions	**970**	1,593
Interest charged to finance costs	**327**	87
Foreign exchange differences	**(63)**	-
Fair value of SADI loan carried forward	**2,914**	1,680

Government grants credited to profit in the year

	2012 £'000	2011 £'000
SADI	**1,841**	3,432
IQ	**787**	1,440
	2,628	4,872

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 2011	(11,622)	1,889	(806)	21,247	(7,947)	1,525	4,286
Credit/(charge) to income	4,728	(494)	253	(1,016)	(1,465)	3,179	5,185
Reclassification	(856)	-	-	-	856	-	-
Credit/(charge) to other comprehensive income	-	-	(405)	2,191	-	-	1,786
Charge direct to equity	-	(776)	-	-	-	-	(776)
Exchange differences	97	-	-	-	(15)	52	134
Effect of change in tax rate							
– income statement	286	(21)	43	(190)	2	(5)	115
– other comprehensive income	-	-	-	(1,359)	-	-	(1,359)
– equity	-	(21)	-	-	-	-	(21)
Arising on acquisition	(10,245)	-	-	-	-	864	(9,381)
At 1 January 2012	**(17,612)**	**577**	**(915)**	**20,873**	**(8,569)**	**5,615**	**(31)**
Credit/(charge) to income	5,405	(41)	(306)	(1,414)	(398)	(68)	3,178
Reclassification from tax liabilities	-	-	-	-	-	(2,583)	(2,583)
Credit/(charge) to other comprehensive income	-	-	-	1,388	-	-	1,388
Charge direct to equity	-	113	-	-	-	-	113
Exchange differences	309	-	-	-	119	(189)	239
Effect of change in tax rate							
– income statement	663	(21)	71	(122)	8	(89)	510
– other comprehensive income	-	-	-	(1,498)	-	-	(1,498)
– equity	-	(4)	-	-	-	-	(4)
Arising on acquisition	(7,417)	-	-	-	-	164	(7,253)
At 31 December 2012	**(18,652)**	**624**	**(1,150)**	**19,227**	**(8,840)**	**2,850**	**(5,941)**

	2012 £'000	2011 £'000
Non current assets	**1,138**	11,911
Non current liabilities	**(7,079)**	(11,942)
	(5,941)	(31)

*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 £3.40 million (2011: £2.99 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 25% to 23% from 1 April 2013. The lower rate of 23% has been used to calculate the deferred tax balances at 31 December 2012 as this rate reduction was enacted before the balance sheet date.

The UK government has also announced its intention to reduce the main rate of corporation tax by 2% per annum to 21% by 1 April 2014. This further proposed rate reduction has not been enacted or substantively enacted at the balance sheet date and are therefore not included in the financial statements.

The main estimated impact on the balance sheet of the 2% annual reduction will be to reduce the deferred tax asset in respect of retirement benefit obligations by approximately £1.6m.

26 Provisions

	Warranties £'000	Contract related provisions £'000	Total £'000
At 1 January 2012	8,650	15,866	24,516
Created	1,934	21,087	23,021
Reversed	(493)	(5,205)	(5,698)
Utilised	(1,330)	(4,270)	(5,600)
Unwinding of discount	-	577	577
Exchange differences	(80)	(168)	(248)
At 31 December 2012	**8,681**	**27,887**	**36,568**
Included in current liabilities	5,393	17,081	22,474
Included in non-current liabilities	3,288	10,806	14,094
	8,681	**27,887**	**36,568**

Warranty and contract-related provisions will be utilised over the period as stated in the contract to which each specific provision relates. Other provisions such as for dilapidations will be payable at the end of the contracted life which is up to fifteen years. Provisions for warranty costs are based on an assessment of future claims with reference to past experience. Such costs are generally incurred within two years after delivery.

27 Share capital and share options

	2012		2011	
	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	**69,403,659**	**3,470**	68,976,915	3,449

426,744 ordinary shares having a nominal value of £21,337 were allotted during the year under the terms of the Group's various Share Option Schemes. The aggregate consideration received was £4,911,265.

Share options

During the year to 31 December 2012, 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 Abu Dhabi employees and provides for a purchase price equal to the daily average market price on the day 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 2012, share options outstanding under the Savings Related Share Option Schemes were as follows:

	Number of shares		Option	Exercise
Options granted	**2012**	2011	**price (£)**	**dates**
2012 – US scheme	**36,729**	-	13.79	September 2014 - December 2014
2011 – US scheme	**89,035**	93,081	12.72	September 2013 - December 2013
2010 – US scheme	**-**	26,564	14.62	September 2012 - December 2012

27 Share capital and share options (continued)

1. Savings Related Share Option Schemes (continued)

Options granted	Number of shares 2012	2011	Option price (£)	Exercise dates
2012 – Canadian scheme	**38,357**	-	13.79	September 2015 - March 2016
2011 – Canadian scheme	**3,798**	4,530	12.72	September 2014 - March 2015
2010 – Canadian scheme	**5,781**	6,955	14.62	September 2013 - March 2014
2009 – Canadian scheme	**38,749**	50,049	11.27	September 2012 - March 2013
2009 – Abu Dhabi scheme	**909**	909	11.48	December 2012 - June 2013
2007 – UK 5 year scheme	**16,472**	106,326	10.39	December 2012 - June 2013
2008 – UK 3 year scheme	**-**	2,834	12.00	December 2011 - June 2012
2008 – UK 5 year scheme	**11,774**	13,197	12.00	December 2013 - June 2014
2009 – UK 3 year scheme	**1,791**	11,490	11.48	December 2012 - June 2013
2009 – UK 5 year scheme	**9,191**	9,623	11.48	December 2014 - June 2015
2010 – UK 3 year scheme	**13,646**	15,507	15.54	December 2013 - June 2014
2010 – UK 5 year scheme	**11,133**	13,693	15.54	December 2015 - June 2016
2011 – UK 3 year scheme	**21,263**	23,630	13.33	December 2014 - June 2015
2011 – UK 5 year scheme	**20,654**	22,706	13.33	December 2016 - June 2017
2012 – UK 3 year scheme	**29,292**	-	13.85	December 2015 - June 2016
2012 – UK 5 year scheme	**34,053**	-	13.85	December 2017 - June 2018

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 2012, share options outstanding under the Company Share Option Plan were as follows:

Options granted	Number of shares 2012	2011	Option price (£)	Exercise dates
2003	**-**	1,301	4.53	March 2006 - March 2013
2005	**4,395**	6,044	7.28	March 2008 - March 2015
2006	**4,018**	5,502	10.32	February 2009 - February 2016
2007	**13,039**	19,769	12.07	May 2010 - May 2017
2008	**8,449**	18,007	12.00	March 2011 - March 2018
2009	**11,828**	45,369	11.90	March 2012 - March 2019
2010	**22,671**	24,693	14.83	March 2013 - March 2020
2011	**27,903**	32,832	16.97	March 2014 - March 2021
2012	**31,191**	-	17.10	March 2015 - March 2022

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 2012, share options outstanding under the Executive Share Option Scheme were as follows:

Options granted	Number of shares 2012	2011	Option price (£)	Exercise dates
2005	**-**	10,038	7.28	March 2008 - March 2012
2006	**8,857**	65,060	10.32	February 2009 - February 2013
2007	**47,652**	68,554	12.07	May 2010 - May 2014
2008	**77,030**	116,248	12.00	March 2011 - March 2015
2009	**120,345**	207,341	11.90	March 2012 - March 2016
2010	**161,401**	185,682	14.83	March 2013 - March 2017
2011	**140,013**	152,136	16.97	March 2014 - March 2018
2011	**8,183**	8,183	15.70	August 2014 - August 2018
2012	**187,990**	-	17.10	March 2015 - March 2019

4. Long-Term Incentive Plan

Details in relation to the LTIP are included in the Directors' Remuneration report on pages 58 to 66.

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

27 Share capital and share options (continued)

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 (£)	**Number of options**	Weighted average exercise price (£)	Number of options
	2012	**2012**	2011	2011
Beginning of year	**10.49**	**1,700,786**	9.88	1,657,897
Granted during the year	**12.31**	**472,027**	11.74	446,363
Forfeited during the year	**14.47**	**(50,366)**	13.03	(67,461)
Expired during the year	**3.61**	**(161,856)**	7.11	(29,371)
Exercised during the year	**11.38**	**(384,633)**	8.80	(306,642)
Outstanding at the end of the year	**11.40**	**1,575,958**	10.49	1,700,786
Exercisable at the end of the year	**11.70**	**353,534**	11.37	313,357

The Group recognised total expenses of £1,974,000 (2011: £1,974,000) in relation to equity-settled, share-based payment transactions. Expected volatility was determined by calculating the historic 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 £16.15. The fair value of options granted during the year was £1,912,376 (2011: £1,814,728).

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*
				2012
Weighted average share price (£)	14.31	16.43	16.29	n/a
Weighted average exercise price (£)	12.40	16.39	16.25	n/a
Expected volatility %	24.4	25.3	26.2	n/a
Expected option life (years)	3.9	6.0	5.0	n/a
Risk-free interest rate %	2.1	3.0	2.1	n/a
Expected dividends %	2.1	2.1	2.1	n/a

	Share save*	CSOP*	ESOS*	LTIP*
				2011
Weighted average share price (£)	14.10	14.06	14.02	n/a
Weighted average exercise price (£)	12.22	14.19	14.14	n/a
Expected volatility %	24.4	24.3	25.5	n/a
Expected option life (years)	3.8	6.0	5.0	n/a
Risk-free interest rate %	2.3	2.7	2.5	n/a
Expected dividends %	2.0	2.1	2.1	n/a

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

For the 2010, 2011 and 2012 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:

	2012	2011
Exercise price (£)	**n/a**	n/a
Share price at grant (£)	**16.24**	13.16
Expected option life (years)	**3.0**	3.0
Expected volatility %	**25.9**	28.0
Expected dividend yield %	**0.0**	0.0
Risk-free interest rate %	**1.6**	2.1

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

The weighted average fair value of options granted during the year was £4.45 (2011: £4.53).

The weighted average remaining contractual life of share options was 3.4 years (2011: 3.4 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 2011	3,436	41,134	(2,653)	(15,930)	31,179	185,969	-	243,135
Total comprehensive income for the year	-	-	-	1,907	2,719	57,670	280	62,576
Own shares acquired	-	-	(422)	-	-	-	-	(422)
Disposal of own shares	-	-	494	-	-	(494)	-	-
Equity-settled employee share scheme	13	2,728	-	-	-	1,473	-	4,214
Non-controlling interest's investment made in subsidiary	-	-	-	-	-	-	134	134
Dividends to shareholders	-	-	-	-	-	(24,469)	-	(24,469)
Balance at 1 January 2012	3,449	43,862	(2,581)	(14,023)	33,898	220,149	414	285,168
Total comprehensive income for the year	**-**	**-**	**-**	**4,044**	**(12,779)**	**57,127**	**285**	**48,677**
Own shares acquired	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Disposal of own shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Equity-settled employee share scheme	**21**	**4,890**	**-**	**-**	**-**	**2,346**	**-**	**7,257**
Non-controlling interest's investment made in subsidiary	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Dividends to shareholders	**-**	**-**	**-**	**-**	**-**	**(26,877)**	**-**	**(26,877)**
Balance at 31 December 2012	**3,470**	**48,752**	**(2,581)**	**(9,979)**	**21,119**	**252,745**	**699**	**314,225**

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 2012, the number of own shares held was 235,245 (2011: 235,245).

29 Notes to the cash flow statement

	2012 £'000	2011 £'000
Operating profit	**88,671**	99,215
Adjustments for:		
Depreciation of property, plant and equipment	**10,882**	9,140
Amortisation of intangible assets	**35,242**	29,431
Acquisition costs and adjustments	**1,494**	(232)
Cost of equity-settled employee share schemes	**1,974**	1,974
Adjustment for pension funding	**(7,209)**	(5,968)
Loss on disposal of property, plant and equipment	**137**	61
Share of profit from associate	**(3,487)**	(2,793)
(Decrease)/increase in provisions	**(3,088)**	2,701
Operating cash flow before movements in working capital	**124,616**	133,529
(Increase)/decrease in inventories	**(2,719)**	5,382
Increase in receivables	**(5,969)**	(26,488)
(Decrease)/increase in payables	**(2,047)**	36,895
Cash generated by operations	**113,881**	149,318
Income taxes paid	**(25,589)**	(29,134)
Interest paid	**(4,555)**	(4,771)
Net cash from operating activities	**83,737**	115,413

29 Notes to the cash flow statement (continued)

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

	2012 £'000	2011 £'000
Net decrease in cash and cash equivalents	**(8,331)**	(25,207)
Cash outflow/(inflow) from decrease/(increase) in debt and finance leasing	**8,899**	(37,224)
Change in net debt arising from cash flows	**568**	(62,431)
Loan syndication costs	**903**	771
Amortisation of finance costs of debt	**(551)**	(670)
Translation differences	**2,228**	(1,643)
Movement in net debt in the year	**3,148**	(63,973)
Net (debt)/cash at start of year	**(46,148)**	17,825
Net debt at end of year	**(43,000)**	(46,148)

Net debt comprised the following:

	2012 £'000	2011 £'000
Cash and cash equivalents	**30,840**	41,051
Borrowings	**(73,753)**	(87,060)
Obligations under finance leases included in current liabilities	**(37)**	(63)
Obligations under finance leases included in non-current liabilities	**(50)**	(76)
	(43,000)	(46,148)

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:

	2012 £'000	2011 £'000
Contracted but not provided	**2,950**	1,113

b) Lease commitments

At 31 December 2012, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2012 £'000	2011 £'000
Within one year	**9,861**	8,960
Between one and five years	**30,340**	27,861
After five years	**18,189**	21,184
	58,390	58,005

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 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 2010. 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.

Defined contribution schemes

The total cost charged to income in respect of the defined contribution schemes was £5,889,000 (2011: £5,076,000).

Defined benefit schemes

The UK defined benefit scheme was actuarially assessed at 31 December 2012 using the 'projected unit' method. The Canadian defined benefit schemes were actuarially assessed at 31 December 2012 using the 'projected unit' method.

Key financial assumptions used in the valuation of these schemes were as follows:

	UK 2012	**Canada 2012**	UK 2011	Canada 2011
Discount rate	**4.70%**	**4.70%**	5.0%	5.0%
Inflation rate – RPI	**2.85%**	**2.85%**	3.0%	3.0%
Inflation rate – CPI	**2.05%**	**n/a**	2.2%	n/a
Expected rate of salary increases	**3.35%**	**3.35%**	3.5%	3.5%
Future pension increases (pre 6/4/08)	**2.75%**	**2.85%**	3.0%	2.7%
Future pension increases (post 6/4/08)	**1.85%**	**n/a**	2.2%	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% reduction in the inflation assumption to 2.75% and a 0.1% increase in the discount rate to 4.8% would decrease the schemes liabilities by 1.8% and 1.7% respectively. If the members life expectancy were to increase by 1 year, the scheme liabilities would increase by 2.9%.

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:

	2012	2011
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	**25 years**	25 years

Amounts recognised in the income statement in respect of the Group's defined benefit schemes were as follows:

	UK 2012 £m	**Canada 2012 £m**	**Total 2012 £m**	UK 2011 £m	Canada 2011 £m	Total 2011 £m
Past service cost	**-**	**-**	**-**	-	0.4	0.4
Current service cost	**5.2**	**0.2**	**5.4**	5.5	0.3	5.8
Interest on pension scheme liabilities	**11.0**	**0.6**	**11.6**	11.7	0.5	12.2
Expected return on pension scheme assets	**(9.6)**	**(0.7)**	**(10.3)**	(9.7)	(0.5)	(10.2)
	6.6	**0.1**	**6.7**	7.5	0.7	8.2

The prior year past service cost related to the enhancement of cash commutation factors.

Of the current service cost for the year, £4.2 million (2011: £4.4 million) has been included in cost of sales, and £1.2 million (2011: £1.4 million) has been included in administrative expenses.

31 Retirement benefit schemes (continued)

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 2012 £m	**Canada 2012 £m**	**Total 2012 £m**	UK 2011 £m	Canada 2011 £m	Total 2011 £m
Fair value of scheme assets	**153.4**	**10.0**	**163.4**	139.5	9.6	149.1
Present value of scheme liabilities	**(235.4)**	**(11.1)**	**(246.5)**	(220.5)	(11.5)	(232.0)
Scheme deficit	**(82.0)**	**(1.1)**	**(83.1)**	(81.0)	(1.9)	(82.9)
Related deferred tax asset	**18.8**	**0.4**	**19.2**	20.2	0.7	20.9
Net pension liability	**(63.2)**	**(0.7)**	**(63.9)**	(60.8)	(1.2)	(62.0)

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

	UK 2012 £m	**Canada 2012 £m**	**Total 2012 £m**	UK 2011 £m	Canada 2011 £m	Total 2011 £m
Present value of obligation at 1 January	**(220.5)**	**(11.5)**	**(232.0)**	(211.7)	(9.9)	(221.6)
Past service cost	**-**	**-**	**-**	-	(0.4)	(0.4)
Current service cost	**(5.2)**	**(0.2)**	**(5.4)**	(5.5)	(0.3)	(5.8)
Interest cost	**(11.0)**	**(0.6)**	**(11.6)**	(11.7)	(0.5)	(12.2)
Actuarial gains and losses	**(5.7)**	**(0.3)**	**(6.0)**	3.8	(0.6)	3.2
Exchange difference	**-**	**0.2**	**0.2**	-	(0.3)	(0.3)
Benefits paid	**7.0**	**1.3**	**8.3**	4.6	0.5	5.1
Present value of obligation at 31 December	**(235.4)**	**(11.1)**	**(246.5)**	(220.5)	(11.5)	(232.0)

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

	UK 2012 £m	**Canada 2012 £m**	**Total 2012 £m**	UK 2011 £m	Canada 2011 £m	Total 2011 £m
Fair value at 1 January	**139.5**	**9.6**	**149.1**	134.2	8.9	143.1
Expected return on scheme assets	**9.6**	**0.7**	**10.3**	9.7	0.5	10.2
Actuarial gains and losses	**(0.4)**	**0.3**	**(0.1)**	(10.7)	(0.9)	(11.6)
Exchange differences	**-**	**(0.2)**	**(0.2)**	-	0.3	0.3
Employer contributions	**11.7**	**0.9**	**12.6**	10.9	1.3	12.2
Benefits paid	**(7.0)**	**(1.3)**	**(8.3)**	(4.6)	(0.5)	(5.1)
Fair value at 31 December	**153.4**	**10.0**	**163.4**	139.5	9.6	149.1

The analysis of the scheme assets and the expected rate of return at the balance sheet date were as follows:

	2012	2011
Expected return:		
Equities	**7.5%**	7.5%
Bonds	**4.1%**	4.7%
Gilts	**2.3%**	2.5%
Property	**6.5%**	6.5%
Other assets	**2.3%**	2.5%
Other investment funds	**7.5%**	7.5%
Actual return on plan assets	**6.7%**	0.01%

31 Retirement benefit schemes (continued)

The expected rates of return are determined by reference to relevant published indices. The overall expected rate of return is calculated as a weighted average rate of return on each asset class.

Scheme assets were as follows:

	UK 2012 £m	**Canada 2012 £m**	**Total 2012 £m**	UK 2011 £m	Canada 2011 £m	Total 2011 £m
Fair value:						
Equities	**75.4**	**5.9**	**81.3**	79.1	5.2	84.3
Bonds	**32.2**	**3.5**	**35.7**	29.4	3.5	32.9
Property	**7.3**	**-**	**7.3**	6.8	-	6.8
Other assets	**0.8**	**0.6**	**1.4**	1.4	0.9	2.3
Other investment funds	**37.7**	**-**	**37.7**	22.8	-	22.8
	153.4	**10.0**	**163.4**	139.5	9.6	149.1

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

	UK 2012 £m	**Canada 2012 £m**	**Total 2012 £m**	UK 2011 £m	Canada 2011 £m	Total 2011 £m
Actual return less expected return on pension scheme assets	**(0.4)**	**0.3**	**(0.1)**	(10.7)	(0.9)	(11.6)
Experience gains arising on scheme liabilities	**(2.9)**	**(0.3)**	**(3.2)**	0.2	0.2	0.4
Changes in assumptions underlying the present value of the scheme liabilities	**(2.8)**	**-**	**(2.8)**	3.5	(0.7)	2.8
	(6.1)	**-**	**(6.1)**	(7.0)	(1.4)	(8.4)

Cumulative actuarial losses, net of deferred tax, recognised in the consolidated statement of comprehensive income at 31 December 2012 were £43.0 million (2011: £36.8 million).

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

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Present value of defined benefit obligations	**(246.5)**	(232.0)	(221.6)	(204.7)	(159.7)
Fair value of scheme assets	**163.4**	149.1	143.1	127.2	100.9
Scheme deficit	**(83.1)**	(82.9)	(78.5)	(77.5)	(58.8)
Experience adjustments on scheme liabilities	**(3.2)**	0.4	7.5	(0.5)	(0.7)
Percentage of scheme liabilities	**1.2%**	(0.2%)	(3.4%)	0.2%	0.4%
Experience adjustment on scheme assets	**(0.1)**	11.6	6.1	16.0	(38.7)
Percentage of scheme assets	**0%**	(7.8%)	4.3%	12.6%	(38.3%)

The amount of contributions expected to be paid to defined benefit schemes during the 2013 financial year is £11.0m. For the UK scheme this includes additional deficit payments of £7.2m per annum, agreed with the Trustee, to fund the scheme deficit over a ten year period. As part of the settlement the Trustee released certain cash and property assets previously held as security.

32 Acquisitions

Acquisitions during the year

In aggregate, consideration of £36,953,000 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	38,633
Deferred consideration on subsidiaries acquired in prior years	3,765
Cash acquired with subsidiaries	(5,445)
Net cash outflow	36,953

Aggregate assets and liabilities acquired comprised intangible assets of £33,499,000, property, plant and equipment of £1,236,000, cash of £5,445,000, inventories of £3,094,000, net receivables of £5,933,000 and payables of £16,166,000.

If all the acquisitions had occurred on 1 January 2012 the revenue for the Group would have been £775,787,000 and operating profit would have been £91,396,000.

With respect to prior year acquisitions, fair value adjustments totalling net £0.9m have been debited to goodwill, offset by adjustments to contingent consideration which have credited goodwill by £0.3m.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. Following a detailed review, no impairment losses have been recognised in the year.

GigaSat

On 30 May 2012, the Group acquired the entire share capital of certain Giga Group companies (GigaSat) for cash consideration of £13.6m. A further sum, estimated at the time of acquisition as £15.2m (discounted), is payable if certain earnings targets are met for the years ending 30 June 2013 and 30 June 2014. This contingent consideration has been recorded against goodwill in accordance with IFRS 3.

GigaSat develops, manufactures, sells and supports fixed, mobile and transportable satellite earth stations, or satcom terminals, offered in several forms that operate in the most commonly used frequency bands for satellite communications. Its range of products adds to Ultra's strategy of being able to offer both terrestrial and satellite communication links.

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

	Book value	Revaluations	Provisional fair value
	£'000	£'000	£'000
Intangible assets	250	22,257	22,507
Property, plant and equipment	556	-	556
Cash and cash equivalents	1,176	-	1,176
Inventories	1,652	(234)	1,418
Receivables	3,679	-	3,679
Payables	(4,386)	(5,721)	(10,107)
Net assets acquired	2,927	16,302	19,229
Goodwill arising on acquisition			9,544
Purchase consideration			28,773

The revenue and profit contributions from GigaSat were approximately £8.1m and £1.9m respectively in the period from the date of acquisition to 31 December 2012.

The goodwill arising on the acquisition is attributable to the the strategic premium to gain access to GigaSat's market niche relative to an organic entry and opportunities to develop new technologies and acquire new customers in the market.

Acquisition costs of £0.6m were charged to the income statement during the year.

The total goodwill on this acquisition expected to be deductible for tax is £nil.

32 Acquisitions (continued)

Barron McCann Technology & Payments

On 26 June 2012, the Group acquired the entire share capital of Barron McCann Technology Limited and Barron McCann Payments Limited (BeMac) for initial cash consideration of £16.1m. BeMac provides baseline grade crypto and key management services to the UK government, military, law enforcement agencies and the finance sector. BeMac will broaden Ultra's crypto portfolio beyond the high-grade domain and also provide access to the lucrative financial services market.

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

	Book value	Revaluations	Provisional fair value
	£'000	£'000	£'000
Intangible assets	-	7,248	7,248
Property, plant and equipment	419	-	419
Cash and cash equivalents	4,269	-	4,269
Inventories	565	-	565
Receivables	1,716	-	1,716
Payables	(3,977)	(1,667)	(5,644)
Net assets acquired	2,992	5,581	8,573
Goodwill arising on acquisition			7,505
Purchase consideration			16,078

The revenue and profit contributions from BeMac were approximately £3.6m and £0.4m respectively in the period from the date of acquisition to 31 December 2012.

The goodwill arising on the acquisition is attributable to the value of synergies arising from the acquisition, the acquiree's technology and future profits arising from access to new markets.

Acquisition costs of £0.2m were charged to the income statement during the year.

The total goodwill on this acquisition expected to be deductible for tax is £nil.

RFI Corporation

On 17 August 2012, the Group acquired the power conversion business operated by RFI Corporation ("RFI"), a wholly-owned subsidiary of DGT Holdings Corp ("DGT") for a cash consideration of $12.0m.

RFI is an established manufacturer of proprietary, high-voltage, power conversion subsystems including electronic filters, high voltage capacitors, pulse modulators, transformers and reactors, and a variety of other products designed for industrial, medical, military and other commercial applications. It is located on Long Island, New York, USA, close to Ultra's EMS Development Corp., part of the Group's Airport & Power Systems division, and has been integrated into the EMS business.

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

	Book value	Revaluations	Provisional fair value
	£'000	£'000	£'000
Intangible assets	-	3,744	3,744
Property, plant and equipment	261	-	261
Inventories	1,111	-	1,111
Receivables	538	-	538
Payables	(415)	-	(415)
Net assets acquired	1,495	3,744	5,239
Goodwill arising on acquisition			2,429
Purchase consideration			7,668

The revenue and operating profit contributions from RFI were approximately £2.1m and £(0.1)m respectively in the period from the date of acquisition to 31 December 2012.

The goodwill arising on the acquisition is attributable to the acquiree's technology, the value of synergies arising from the acquisition and opportunities to acquire new customers in the market.

Acquisition costs of £0.5m have been charged to the income statement.

The total goodwill on this acquisition expected to be deductible for tax £2.4m.

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 65 and 66:

	2012 £'000	2011 £'000
Short-term employee benefits	**2,818**	4,193
Post-employment benefits	**279**	309
Share-based payments	**902**	1,635
	3,999	6,137

Transactions with associate

At 31 December 2012, a loan of £657,000 (2011: £1,289,000) 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 Post balance sheet events

On 13 January 2013 the Group initiated the new £100 million banking facility, as signed in December 2012, which is provided by a small club of banks. This facility replaces the £120 million facility and provides revolving credit over a five year period. It is denominated in Sterling, US Dollars, Canadian Dollars, Euros or Australian Dollars. This facility is in addition to the Group's existing £90 million revolving credit facility and a £15 million overdraft facility for funding short-term working capital requirements.

35 Contingent liabilities

The Group has entered into a number of guarantee and performance bond arrangements in the normal course of business totalling £57.4m (2011: £67.6m). Provision is made for any amounts that the Directors consider may become payable under such arrangements, the provision as at 31 December 2012 and 31 December 2011 was £nil.

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. 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.

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, are 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 12 Income Taxes (amended) – Deferred Tax: Recovery of Underlying Assets
- IFRS 7 Financial Instalments: Disclosures (amended) – Disclosures: Transfers of Financial Assets

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 1 Severe Hyperinflation and Removal of Fixed Dates for First Time Adopters
- 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 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement
- Amendments to IAS 1 Presentation of Items of Other Comprehensive Income
- IAS 19 (Revised) Employee Benefits
- 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
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

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 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IAS 27 (Revised) Separate Financial Statements and IAS 28 (Revised) Investments in Associates and Joint Ventures – This will introduce additional disclosures within the notes to the accounts.
- Amendments to IAS 1 Presentation of Financial Statements – This will impact the presentation of various items within the Statement of Other Comprehensive Income by requiring the separation of items that will later be reclassified through the Income Statement from those that will never pass through the Income Statement.
- IAS 19 Employee Benefits (Revised) – This will impact the measurement of the various components representing movements in the defined benefit pension obligation and associated disclosures. The impact on current year statutory profit would have been a reduction of £2.6 million if the revised standard had been in effect during 2012.

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 56.

Basis of consolidation

The consolidated financial information includes the results, cash flows and assets and liabilities of Ultra Electronics Holdings plc ("the Company") and its subsidiaries (together, "the Group") made up to 31 December each year.

Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary that meet the conditions for recognition under IFRS 3 are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired is credited to the income statement in the period of acquisition.

The results of subsidiaries acquired during the year are included in the consolidated income statement from the effective date of acquisition.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill 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, but not control or joint control, through participation in the financial and operating policy decisions of the investee. 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.

Leases (continued)

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Rentals under operating leases, where the Group acts as either lessee or lessor, are charged on a straight line basis over the lease term, even if the payments are not made on such a basis. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Inventories

Inventories are valued at the lower of cost (determined on a first-in, first-out basis and including an appropriate proportion of overheads incurred in bringing the inventories to their present location and condition) and net realisable value. Provision is made for any obsolete, slow moving or defective items.

Trade receivables

Trade receivables are measured at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

Cash and cash equivalents

Cash and cash equivalents comprise cash in-hand, call deposits and bank overdrafts, where there is right of set off. Bank overdrafts are presented as current liabilities to the extent that there is no right of offset with cash balances.

Assets held for sale

Assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Trade payables

Trade payables are stated at their fair value.

Loans and overdrafts

Interest-bearing loans and overdrafts are recorded at the proceeds received, net of direct issue costs where there is a facility commitment. In these circumstances issue costs are deducted from the value of the loan and amortised over the life of the commitment. Where there is no facility commitment, issue costs are written-off as incurred. Finance charges including premiums payable on settlement or redemption are accounted for on an accruals basis in profit or loss using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Share-based payments

The Group issues equity settled share-based payments to certain employees. Equity settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market related conditions.

Fair value is measured by use of a Black-Scholes model for the share option plans and a stochastic model for awards made under the 2007 Long-Term Incentive Plan.

The credits in respect of equity-settled amounts are included in equity.

Provisions

Provisions, including property related provisions are recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and where it is probable that an outflow of economic benefits will be required to settle the obligation.

Provision is made for the anticipated cost of repair and rectification of products under warranty, based on known exposures and historical occurrences. Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring that has been communicated to affected parties.

Equity instruments
Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Taxation
The tax expense represents the sum of the current tax payable and deferred tax.

The current tax payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities.

Derivative financial instruments
Ultra uses derivative financial instruments, principally forward foreign currency contracts and interest rate swaps, to reduce its exposure to exchange rate and interest rate movements. Ultra does not hold or issue derivatives for speculative or trading purposes.

Derivative financial instruments are recognised as assets and liabilities and measured at their fair values at the balance sheet date. Changes in their fair values are recognised in the income statement and this is likely to cause volatility in situations where the carrying value of the hedged item is not adjusted to reflect fair value changes arising from the hedged risk. Provided the conditions specified by IAS 39 are met, hedge accounting may be used to mitigate this income statement volatility. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting will not generally be applied to transactional hedging relationships, such as hedges of forecast or committed transactions. However, hedge accounting will be applied to translational hedging relationships where it is permissible under IAS 39. When hedge accounting is used, the relevant hedging relationships will be classified as fair value hedges, cash flow hedges or net investment hedges.

Where the hedging relationship is classified as a fair value hedge, the carrying amount of the hedged asset or liability will be adjusted by the increase or decrease in the fair value attributable to the hedged risk and the resulting gain or loss will be recognised in the income statement where, to the extent that the hedge is effective, it will be offset by the change in the fair value of the hedging instrument.

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.

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.

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. 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 2012 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.

Critical accounting judgements and key sources of estimation uncertainty (continued)

DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivatives in the normal course of business to manage its exposure to fluctuations in foreign currency rates. Derivatives are accounted for in the consolidated balance sheet as assets or liabilities at fair value in accordance with IAS 39 "Financial Instruments: Recognition and Measurement".

Accounting for derivatives is complex and significant judgements and estimates are involved in estimating the fair value of these instruments. Generally, fair value estimates of derivative contracts involve the selection of an appropriate valuation model and determining the appropriate inputs to use in that model.

In evaluating whether a particular relationship qualifies for hedge accounting, the Group determines whether the relationship meets the strict hedging relationship criteria. For a relationship that does not meet these criteria, effectiveness is tested by determining whether changes in the fair value of the derivative offset, within a specified range, changes in the fair value of the hedged item. If fair value changes fail this test, hedge accounting is no longer 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 (CGU's). These value in use calculations are dependent on estimates of future cash flows and long-term growth rates of the CGU's. 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.

Independent auditor's report – Company

To the members of Ultra Electronics Holdings plc

We have audited the Parent Company financial statements of Ultra Electronics Holdings plc for the year ended 31 December 2012 which comprise the Parent Company Balance Sheet, the related notes 36 to 47, and the Statement of Accounting Policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the Parent Company 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 Parent Company 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 (APB's) Ethical Standards for Auditors.

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 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. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2012;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the Parent Company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- 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 and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of Ultra Electronics Holdings plc for the year ended 31 December 2012.

Kerr Mitchell

Kerr Mitchell, *Senior Statutory Auditor*
for and on behalf of **Deloitte LLP**
Chartered Accountants and Statutory Auditor
Reading, United Kingdom
1 March 2013

Notes: An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the Directors but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

Company balance sheet
31 December 2012

	Note	2012 £'000	2011 £'000
Fixed assets			
Tangible assets	*37*	**1,057**	1,179
Investments	*38*	**555,682**	392,787
		556,739	393,966
Current assets			
Debtors: Amounts falling due within one year	*39*	**5,776**	5,534
Cash at bank and in hand		**-**	-
		5,776	5,534
Creditors: Amounts falling due within one year	*41*	**(103,944)**	(168,307)
Net current liabilities		**(98,168)**	(162,773)
Total assets less current liabilities		**458,571**	231,193
Creditors: Amounts falling due after more than one year	*42*	**(49,701)**	(6,847)
Net assets		**408,870**	224,346
Capital and reserves			
Called-up share capital	*44*	**3,470**	3,449
Share premium account	*45*	**48,752**	43,862
Profit and loss account	*45*	**359,229**	179,616
Own shares	*45*	**(2,581)**	(2,581)
Shareholders' funds		**408,870**	224,346

The financial statements of Ultra Electronics Holdings plc, registered number 02830397, were approved by the Board of Directors and authorised for issue on 1 March 2013.

On behalf of the Board
R. Sharma, *Chief Executive*
P. Dean, *Finance Director*

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

Notes to accounts – Company

31 December 2012

36 Staff costs

	2012 £'000	2011 £'000
Employee costs during the year amounted to:		
Wages and salaries	**3,376**	4,158
Social security costs	**271**	575
Other pension costs	**7,424**	6,976
	11,071	11,709

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

	2012 number	2011 number
Support services	**22**	18

37 Tangible fixed assets

	Plant and machinery £'000
Cost	
At 1 January 2011	1,067
Additions	879
At 1 January 2012	1,946
Additions	80
At 31 December 2012	**2,026**
Accumulated depreciation	
At 1 January 2011	608
Charge	159
At 1 January 2012	767
Charge	202
At 31 December 2012	**969**
Net book value	
At 31 December 2012	**1,057**
At 31 December 2011	1,179

38 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.

38 Investments (continued)

b) Investment in subsidiary undertakings

	Total £'000
At 1 January 2012	**392,787**
Foreign exchange differences	**-**
Additions	**179,722**
Disposals	**(16,827)**
At 31 December 2012	**555,682**

39 Debtors

	2012 £'000	2011 £'000
Amounts falling due within one year:		
Amounts due from subsidiary undertakings	**4,001**	3,885
Deferred tax assets	**670**	1,074
Other debtors	**920**	309
Prepayments and accrued income	**179**	266
VAT	**6**	-
	5,776	5,534

40 Deferred tax

Movements in the deferred tax asset were as follows:

	2012 £'000	2011 £'000
Beginning of year	**1,074**	592
(Charge)/credit to the profit and loss account	**(404)**	766
Charge to equity	**-**	(284)
End of year	**670**	1,074

The deferred tax balances are analysed as follows:

	2012 £'000	2011 £'000
Other temporary differences relating to current assets and liabilities	**670**	1,074
Deferred tax asset	**670**	1,074

These balances are shown as follows:

	2012 £'000	2011 £'000
Debtors: Amounts falling due within one year	**670**	1,074

At the balance sheet date the Company had nil unprovided deferred tax (2011: nil).

41 Creditors: amounts falling due within one year

	2012 £'000	2011 £'000
Bank loans and overdraft	**63,474**	90,018
Amounts owed to subsidiary undertakings	**21,262**	55,417
Other creditors:		
– VAT	**-**	285
– social security and PAYE	**250**	249
– other creditors	**16,971**	19,807
Accruals and deferred income	**1,987**	2,531
	103,944	168,307

The bank loans are unsecured. Interest was predominantly charged at 1.5% (2011: 1.5%) over base or contracted rate.

42 Creditors: amounts falling due after more than one year

	2012 £'000	2011 £'000
Amounts owed to subsidiary undertakings	**-**	379
Loan notes	**43,295**	6,468
Other creditors	**6,406**	-
	49,701	6,847

43 Borrowings

Borrowings fall due as analysed below:

	2012 £'000	2011 £'000
Bank loans and overdraft		
In one year or less, or on demand	**65,116**	91,308
	65,116	91,308
Less: unamortised finance costs of debt	**(1,642)**	(1,290)
	63,474	90,018
Less: included in creditors: amounts falling due within one year	**(63,474)**	(90,018)
Loan notes		
Due after more than five years	**43,295**	6,468

The loan notes are unsecured and due for repayment in 2018 and 2019. Interest was charged at 3.60% (2011: 4.09%).

44 Called-up share capital

	2012		2011	
	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	**69,403,659**	**3,470**	68,976,915	3,449

426,744 ordinary shares having a nominal value of £21,337 were allotted during the year under the terms of the Group's various Share Option Schemes. The aggregate consideration received by the Company was £4,911,265.

45 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	2012 £'000	2011 £'000
Balance at 1 January	3,449	43,862	179,616	(2,581)	**224,346**	224,940
Share based payments	-	-	1,974	-	**1,974**	3,885
Retained profit for the year	-	-	204,516	-	**204,516**	17,671
Dividends paid	-	-	(26,877)	-	**(26,877)**	(24,469)
Long-Term Incentive Plan – additions	-	-	-	-	**-**	(422)
Issue of new shares	21	4,890	-	-	**4,911**	2,741
Balance at 31 December	**3,470**	**48,752**	**359,229**	**(2,581)**	**408,870**	**224,346**

The profit and loss account includes £190,957,000 (2011: £65,400,000) which is not distributable. A net foreign exchange loss of £122,000 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 (2011: 235,245).

46 Guarantees and other financial commitments

Lease commitments

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

	Plant and machinery 2012 £'000	Plant and machinery 2011 £'000
Operating lease rentals which expire		
– within one year	**27**	37
– between two to five years	**38**	27
	65	64

47 Post balance sheet events

On 13 January 2013 the Group initiated the new £100 million banking facility, as signed in December 2012, which is provided by a small club of banks. This facility replaces the £120 million facility and provides revolving credit over a five year period. It is denominated in Sterling, US Dollars, Canadian Dollars, Euros or Australian Dollars. This facility is in addition to the Group's existing £90 million revolving credit facility and a £15 million overdraft facility for funding short-term working capital requirements.

Statement of accounting policies
for the Company accounts

A summary of the Company's principal accounting policies, which has continued to apply United Kingdom accounting standards, 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 45.

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 2012 was £82.0 million (2011: £81.0 million). Further disclosures in relation to this pension scheme are given in note 31 to the Group financial statements.

Payments to defined contribution retirement 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 56.

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. Fair value is measured by use of an option pricing model, using the assumptions disclosed within the Group accounts in note 27.

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 65 and 66.

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

	2008 £m	2009 £m	2010 £m	2011 £m	**2012 £m**
Revenue					
Aircraft & Vehicle Systems	150.3	180.0	174.1	166.1	**147.0**
Information & Power Systems	141.3	193.5	224.0	257.0	**315.8**
Tactical & Sonar Systems	223.7	277.5	311.9	308.6	**298.0**
Total revenue	515.3	651.0	710.0	731.7	**760.8**
Underlying operating profit[1]					
Aircraft & Vehicle Systems	22.0	22.6	23.4	31.1	**30.8**
Information & Power Systems	19.9	23.6	27.5	30.5	**45.0**
Tactical & Sonar Systems	35.2	51.1	59.4	60.5	**46.4**
Total underlying operating profit[1]	77.1	97.3	110.3	122.1	**122.2**
Margin[1]	15.0%	15.0%	15.5%	16.7%	**16.1%**
Profit/(loss) before tax	(2.9)	107.9	91.3	91.2	**82.8**
Profit after tax	1.8	78.5	66.3	66.2	**63.6**
Operating cash flow[2]	79.0	111.6	106.4	133.7	**89.6**
Free cash flow before dividends, acquisitions and financing[3]	54.7	93.3	83.4	100.1	**58.8**
Net (debt)/cash at year-end[4]	(63.9)	(28.7)	17.8	(46.1)	**(43.0)**
Underlying earnings per share (p)[5]	80.1	96.4	107.9	120.2	**124.5**
Dividends per share (p)	26.0	31.2	34.6	38.5	**40.0**
Average employee numbers	3,582	3,961	4,006	4,206	**4,430**

[1] Before acquisition-related costs and amortisation of intangibles arising on acquisition and profit on disposal of property, plant and equipment net of property-related provisions.

[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, fair value movement on derivative financial instruments, profit on disposal of property, plant and equipment net of property-related provisions, loss on closing out foreign currency hedging contracts and unwinding of discount on provisions.

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Molyneux Associates

TEAM PHOTOGRAPH ON PAGE 28:
Ultra Electronics, Advanced Tactical Systems, In-house Media

PLATFORMS/END APPLICATIONS COURTESY OF:
BAE Systems, Boeing, Lockheed Martin and US DoD

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