portfolio **strength…**
widening markets…
resilient performance

Ultra Electronics Holdings plc Annual Report and Accounts **2011**

Ultra
ELECTRONICS

Ultra is…

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.

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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.

Footnote

underlying operating profit is before amortisation of intangibles arising on acquisition and adjustments to deferred consideration net of acquisition costs. IFRS operating profit £99.2m (2010: £90.0m). **underlying profit before tax** and **underlying earnings per share** are before amortisation of intangibles arising on acquisition, fair value movements on derivatives, and adjustments to deferred consideration net of acquisition costs. Basic EPS 96.2p (2010: 96.8p). **operating cash flow** is cash generated by operations, less net capital expenditure, R&D and LTIP share purchases. **cash conversion** is cash generated by operations, 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. **associated undertaking:** Dascam's major activities became part of Al Shaheen, of which Ultra owns 49%. The enlarged Al Shaheen has been reported as an 'associated undertaking' with effect from 1 August 2010.

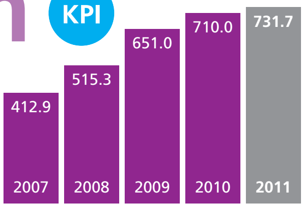
Financial and operational highlights

Revenue £m

£731.7m KPI

+3%

(2010: £710.0m)

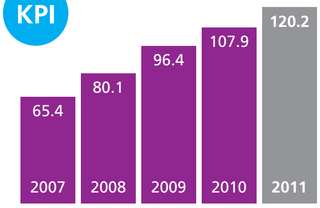


Underlying earnings per share (pence)

120.2p KPI

+11%

(2010: 107.9p)

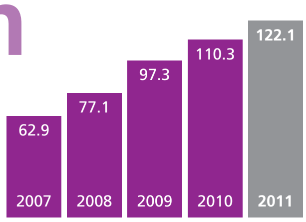


Underlying operating profit £m

£122.1m

+11%

(2010: £110.3m)

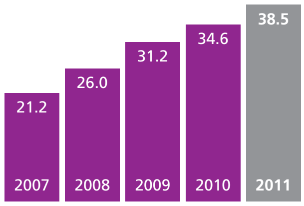


Dividend per share (pence)

38.5p

+11%

(2010: 34.6p)

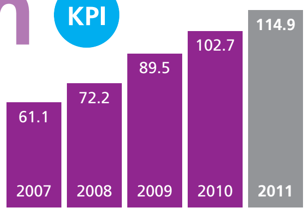


Underlying profit before tax £m

£114.9m KPI

+12%

(2010: £102.7m)

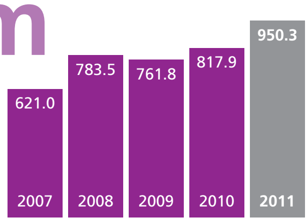


Group order book £m

£950.3m

+16%

(2010: £817.9m)



Operational highlights

- A high level of internal reinvestment maintained to underpin future growth
- Award of £200m contract for airport systems integration in Oman
- Four acquisitions to augment Ultra's cyber security capability

Dividend

The proposed final dividend is 26.8p, bringing the total dividend for the year to 38.5p (2010: 34.6p). This represents an annual increase of 11%, with the dividend being covered 3.1 times (2010: 3.1 times) by underlying earnings per share. If approved, the dividend will be paid on 4 May 2012 to shareholders on the register on 13 April 2012.

KPI = Key Performance Indicator, see **pages 12 and 13** for details

*see footnote on inside front cover

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

the Ultra business model
Why we’re different
a look at our DNA

What Ultra does

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.

Ultra focuses on developing specialist capabilities that provide differentiated solutions to customers’ requirements. Across the Group’s businesses there are more than **180** of these specialist capability areas. These are categorised into three broad market areas (see revenue by capability pie adjacent) and are illustrated as the columns in the matrix shown in the graphic.

Ultra provides these specialist capabilities on a long list of international, multi-year platforms and programmes. These are shown as the rows in the matrix on the graphic. The Group is positioned on more than **350** such platforms and programmes. None typically contributes more than **5%** of Ultra’s revenue in any year.

The Group constantly seeks to increase the number of columns in the matrix by adding new specialist capabilities in narrow market niches, to add more rows to the matrix by winning positions on more programmes and to maximise the value at each intersect in the matrix.

The broad 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.

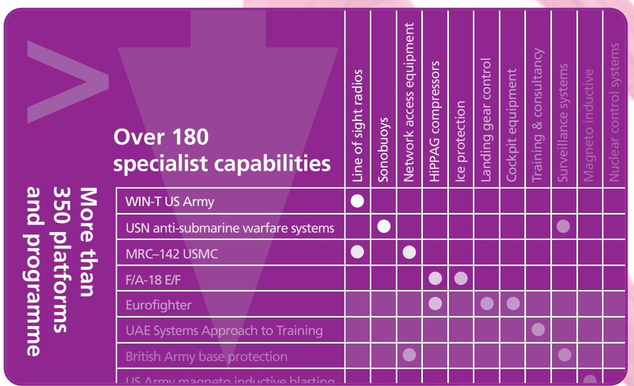
Ultra ensures that all of its businesses are well managed, profitable and cash generative (see the comments on Ultra’s structure on **page 5**). This allows the Group to fund acquisitions that augment Ultra’s position in its market areas. Since the Group’s formation, Ultra has maintained a balance between organic and acquisition growth, having successfully integrated 45 acquisitions since 1993.

The Group pursues four parallel strategies for growth that are explained more fully on **pages 14 and 15**.

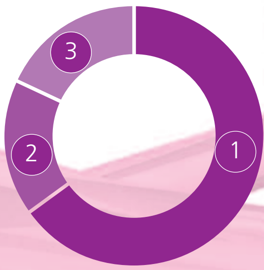
>180
specialist capabilities

>350
platforms & programmes… none of which typically contributes more than **5%** of Ultra’s annual revenue

A representation of Ultra’s capabilities mapped onto their corresponding programmes



Revenue by capability



1	Defence	**65%**
2	Security and cyber	**17%**
3	Transport and energy	**18%**

> “The broad spread of **specialist capability** areas mapped onto so many platforms and programmes provides great resilience to Ultra’s financial performance and reduces the Group’s risk profile.”

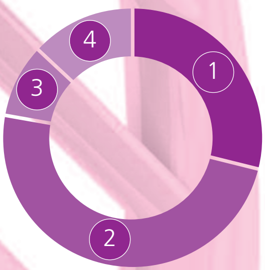
Where Ultra operates

Ultra's markets

Ultra has consistently and continuously positioned and repositioned itself in areas of preferential customer spend within its main **defence**, **security**, **transport** and **energy** markets. The Group has demonstrated a long track record of identifying such market sectors and then investing to create differentiated positions in them. Ultra's ever broadening range of specialist market positions continues to underpin the Group's growth momentum.

Ultra has pursued a strategic focus on gaining access to the two largest addressable defence budgets in the world, the US and the UK. 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.

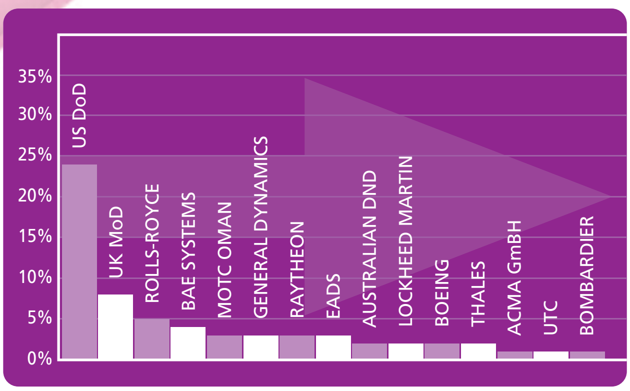
Revenue by region



1	United Kingdom	**29%**
2	North America	**49%**
3	Mainland Europe	**9%**
4	Rest of the world	**13%**

Ultra's customers

Ultra's independence allows it to work with the world's major prime contractors in its markets and to sell its wide portfolio of specialist capabilities to a broad range of customers around the world. The graphic below shows the major customers for the Group's 2011 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 customers than the graphic might first suggest.

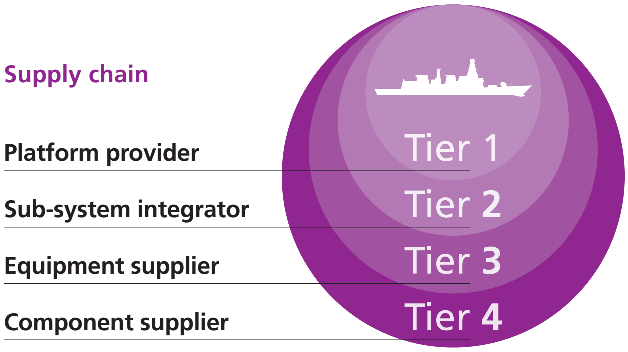


Ultra's position in the supply chain

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

Supply chain



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.

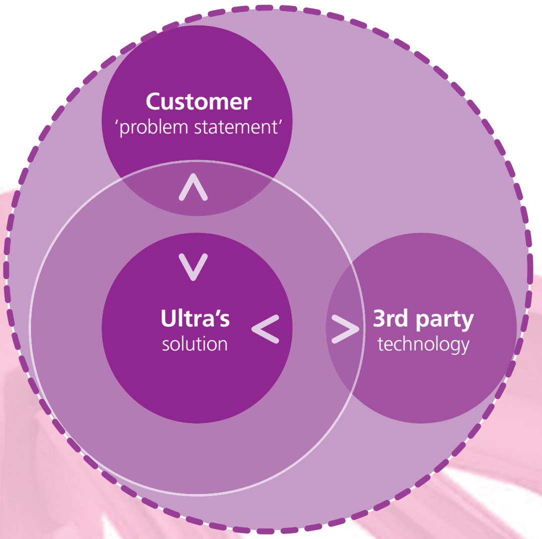
the Ultra business model
Why we're different
a look at our DNA (continued)

Innovative solutions – delivered in partnership

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 **'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 wants to buy. 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 the technology that is required to deliver the solution. When proven technology that meets the 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 achieve something that would not be possible without teaming.



One example is reaching up the supply chain to supply an integrated torpedo defence system, with **twelve** businesses, inside and outside Ultra, providing elements of the solution. The Group has also teamed to transfer technology across international borders to deliver to the customer nation the sovereign operational capability it needs. The fact that Ultra is technology-agnostic makes it an ideal teaming partner for such technology transfer. Similarly, the Group shares the benefits of such teaming arrangements with its partners in an equitable fashion so that all teaming partners should want to work together on the next opportunity, resulting in long-term relationships that benefit all parties.

Ultra reinvests 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.

> "Over **15%** of revenue spend is focused on product and business development, of which over **10%** is customer funded."

Innovation at Ultra is driven by great people working in an environment that encourages innovation and audacity within a structure that allows individuals to make a real difference. Further comment on Ultra's culture can be found **on page 18.**

Organising the Group to deliver results

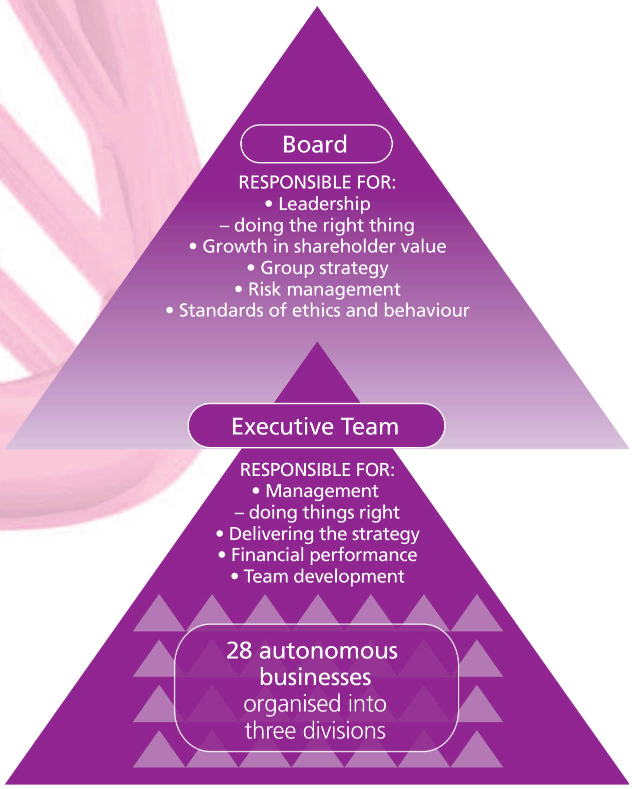
Structure

A key differentiator for Ultra is the agility that businesses in the Group exhibit in their dealings with customers. This agility is underpinned by Ultra's structure and its management and governance processes. In turn, these maintain a strong focus on operational autonomy, whilst ensuring that the appropriate levels of control and guidance are in place to support growth.

The Board provides effective leadership and direction in delivering the key corporate objective of reliable and consistent growth in shareholder value. The Board retains full responsibility for the Group strategy and receives a detailed annual presentation from the Executive Team on the proposed strategy for the following five years. It also ensures that internal controls and risk management are strong in all of Ultra's operations and ensures that appropriate standards of ethics and behaviour are in place across the Group and that the culture is positive and constructive. At the operational level, the Executive Team has responsibility for running the Group and for guiding the delivery of strategy, financial performance and team development.

With around **4,500** 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. 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. This balance of giving the businesses autonomy and responsibility for their success and regular Group-level review gives the businesses the agility needed to succeed in their markets whilst maintaining an appropriate level of central control.

Ultra's agile management structure

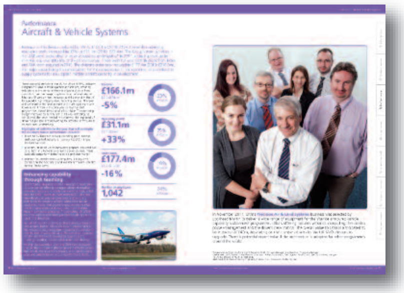


Focus on autonomy

As much authority and responsibility as possible is devolved to the Managing Directors and Presidents 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 central management processes therefore focus on just three topics. These are:

- **strategy** – agreeing and then delivering a five-year plan 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.
- **financial performance** – managing the main processes (for example, winning new business, execution of contracts, production and support) so that the business meets or beats the agreed financial budget. Across all Ultra businesses the focus is mainly on cash generation as an indicator of the high quality of earnings growth.
- **developing people** – developing the team and the individuals within the team 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.

at a glance
Ultra's divisions
How the Group operates



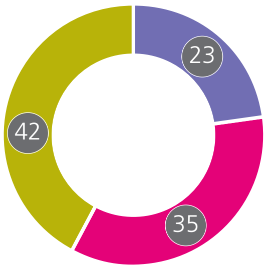
> MORE
on pages 26 and 27

Maintaining an appropriate management span of control

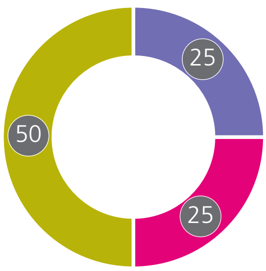
Ultra's Divisional Managing Directors and Presidents play a vital role in ensuring that an appropriate management span of control is maintained across the Group. Within a structure of delegated authorities, Divisional Managing Directors and Presidents work closely with business management teams to ensure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

Operationally, the Group is organised into three divisions:
Aircraft & Vehicle Systems,
Information & Power Systems and
Tactical & Sonar Systems.

Revenue % of Group



Profit* % of Group



Aircraft & Vehicle Systems

Capabilities
Ultra specialises in high integrity real-time control systems for aircraft and vehicle applications. These include airframe 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 uninhabited ground and air vehicles. Ultra provides innovative small power sources including miniature pneumatic systems, propane-powered fuel cells and multi-fuel UAV engines.

Major customers in 2011
• EADS •ACMA • BAE Systems • Boeing • US DoD

Major successes in 2011
- selection by Embraer to supply landing gear, steering and door control systems on its new KC-390 military transport aircraft
- successful trials of Ultra's innovative propane-powered fuel cells, both in UAVs and as ground power sources. These fuel cells outperform batteries by a significant margin
- selection to provide various computers, displays and controls on the new Scout and Warrior armoured vehicles for the British Army

Revenue
£166.1m -5%
2010 £174.1m

Underlying operating profit*
£31.1m +33%
2010 £23.4m

Order book
£177.4m -16%
2010 £210.9m

Number of employees
1,042

Locations in:
United Kingdom, North America and the Middle East

*see footnote on inside front cover

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> MORE on **pages 28 and 29**

Information & Power Systems

Capabilities

Ultra supplies advanced command and control systems for battlespace visualisation, cyber surveillance systems, air defence and naval combat management. The Group provides perimeter security solutions for critical infrastructure, crisis response planning and management software and secured 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 are used for naval vessels and mass transit. Ultra is a world-leading integrator of airport and airline management and information systems.

Major customers in 2011

• US DoD • Rolls-Royce • MOTC Oman • BAE Systems • General Dynamics

Major successes in 2011

- being selected to act as the master systems integrator at two airports in Oman
- production contracts to supply reactor control systems and equipment for Royal Navy submarines
- completing qualification testing of an enhanced range of specialist sensors for use in nuclear power stations around the world

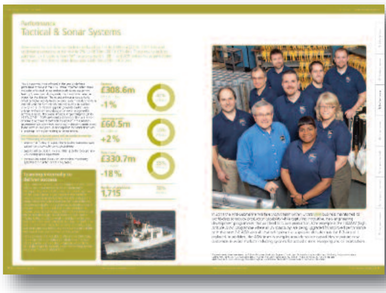
Revenue
£257.0m +15%
2010 £224.0m

Underlying operating profit*
£30.5m +11%
2010 £27.5m

Order book
£442.2m +116%
2010 £204.7m

Number of employees
1,714

Locations in:
United Kingdom, North America and the Middle East



> MORE on **pages 30 and 31**

Tactical & Sonar Systems

Capabilities

Ultra supplies advanced cyber security solutions, high capacity communication systems 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 acoustic systems, equipment and products to meet the challenges of the underwater battlespace. These include advanced sonar, anti-submarine warfare and torpedo defence systems. Ultra has developed a range of highly efficient acoustic hailing devices.

Major customers in 2011

• US DoD • UK MoD • Australian DND • Raytheon • Lockheed Martin

Major successes in 2011

- selection in Turkey to supply the torpedo countermeasure system for a new submarine programme
- passing critical design reviews relating to the Group's new UK cryptographic equipment, following successful development and risk reduction activities
- contracts to install Ultra's secure wireless perimeter protection systems at an initial batch of US Navy bases

Revenue
£308.6m -1%
2010 £311.9m

Underlying operating profit*
£60.5m +2%
2010 £59.4m

Order book
£330.7m -18%
2010 £402.3m

Number of employees
1,715

Locations in:
United Kingdom, North America and Australia

*see footnote on inside front cover

Chairman's statement

Growth in underlying earnings per share*

+11%

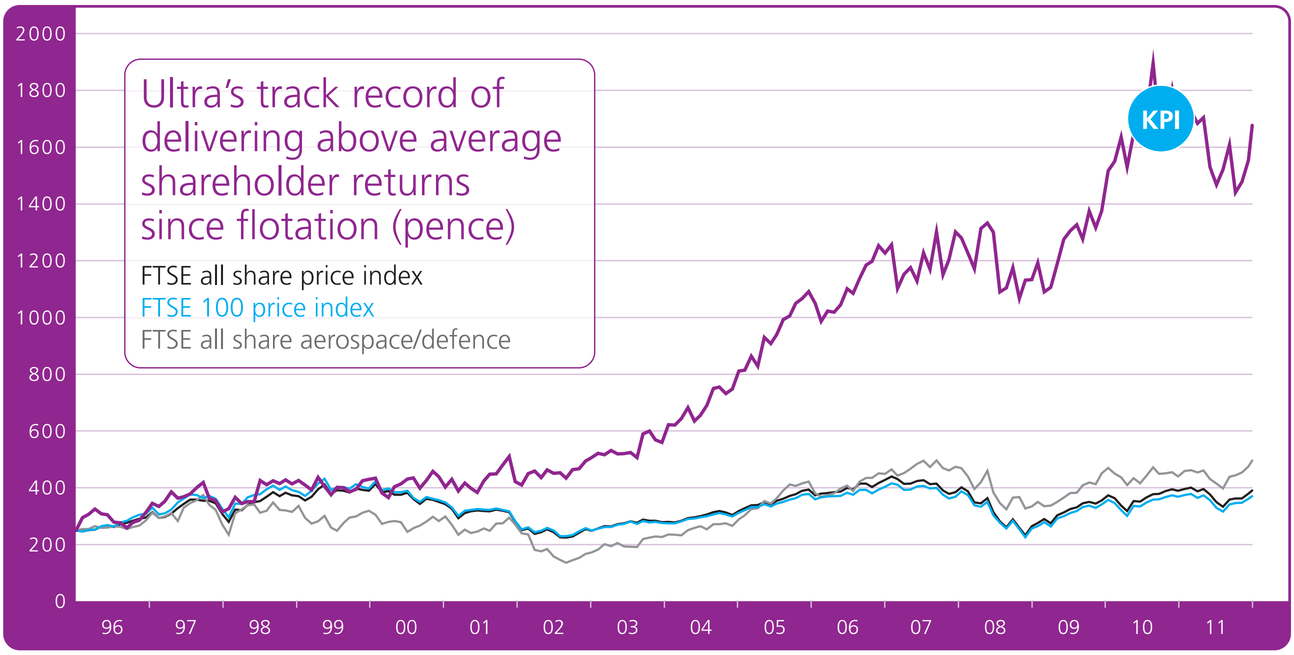
120.2p (2010: 107.9p)

"In a time of uncertain market conditions, the **resilience** of the Ultra business model was demonstrated by the Group's performance in 2011."

Dear shareholder
I am pleased to report that, in a time of uncertain market conditions, the resilience of the Ultra business model was demonstrated by the Group's performance in 2011. Ultra maintained its focus on winning new business in its specialist niches in the defence, security, transport and energy markets. The Group's business model is explained in detail on **pages 2 to 5**. The consistency of Ultra's performance has been rewarded with a rating through its share price towards the top of its peer group. The Group's growing profile has been further reflected by Ultra being invited to join foreign trade delegations, led by senior members of the government, and I am pleased to have been able to represent the Group on these.

Since the Group was formed in 1993, Ultra has consistently and successfully positioned and repositioned itself in the sweet spots of its markets. An important role of the Board is to participate fully in the review of the Executive Directors' strategic plan for the Group, to make sure that this positioning addresses current, and anticipates future, market dynamics. This process, which has been in place since Ultra's inception, works extremely well and will continue in the future.

A key part of this positioning is Ultra's acquisition strategy. The Group has always augmented its organic growth with value-adding acquisitions and I am pleased that 2011 has been no exception. Ultra completed four acquisitions in the year: 3eTI at the beginning of February; AEP Networks in



Growth in dividend per share

+11%

38.5p (2010: 34.6p)

September and Zu and SOTECH at the start of December. All four of these businesses take the Group deeper into the cyber security and surveillance market niches that have been identified by Ultra as areas of preferential customer spend with expanding budgets, even in the current economic climate.

Making sure that the Group is positioned appropriately in its markets is one element of the Board's approach to managing risk. Another is the review of acquisitions; the Board is regularly briefed about the watch-list that Ultra maintains on possible targets and all approaches are reviewed by the Board to ensure that any potential acquisition achieves an appropriate strategic fit and that it is valued sensibly. We are never afraid to walk away from a deal if we don't believe that it will enhance shareholder value as part of the Group. In the same way, Ultra's major programmes are reviewed by the Board, during both the bid and execution phases. In Ultra, the responsibility for managing risk flows through all levels of management and all involved have an obligation to maintain the high standards for which Ultra is known. The Board also ensures that appropriate stress testing of the business performance and projections takes place at regular intervals, with particular focus on confirming that the Group maintains a robust balance sheet with sensible headroom against its banking covenants.

This is all part of the Group's commitment to ensuring that a high standard of corporate governance is upheld. This report contains a specific section devoted to the framework and processes that are in place to maintain a standard of governance that is appropriate to Ultra. Further detail about how the Board provides effective leadership and minimises risk can be found in the risk management section (**pages 35 to 39**) and the governance section, starting on **page 45** of this report.

Ultra relies on having good people in excellent teams in all aspects of the business and works hard to recruit, retain and develop the skills of staff at all levels of the organisation. To ensure that the Board continues to add as much value as the rest of the Group's employees, a review of the Board's effectiveness is conducted. This is an externally-facilitated, annual process that considers the performance of the Board and that of each Director over a two-year cycle. The result this year is that the Board is considered to be highly effective with strong individual Board member performances. This is crucial if the Board is to continue to provide the appropriate amount of rigour to the matters under consideration. In addition, just as each of the Group's businesses has succession plans in place for all key employees, a plan is in place for the succession of each of the Board's members.

I would like to finish by thanking, on behalf of the Board, all of Ultra's employees for their hard work and dedication in what has been a tougher year than most. 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

Strategic review
Ultra's objective

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 generally. An anticipated outcome of meeting this objective is that Ultra's ranking in the FTSE index on the London Stock Exchange should improve. Ultra seeks to extend its long track record of delivering above average shareholder returns. In order to outperform the market, Ultra must add shareholder value and increase its market capitalisation more rapidly than other companies. 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.

The four main strategies for growth are:

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

Competitive and corporate strategies

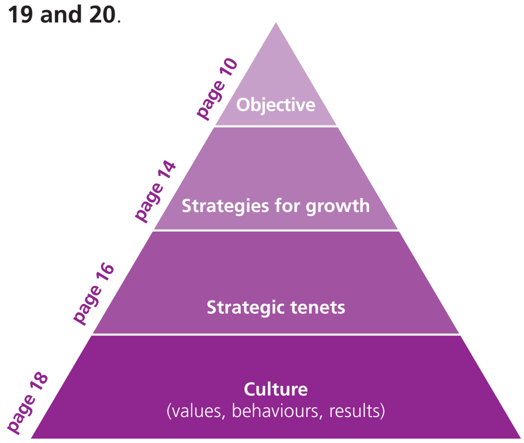
Achieving success in these four areas requires the successful execution of both competitive and corporate strategies. The first element, the competitive strategies, is implemented by each of Ultra's businesses and focuses on winning new business in the niche market sectors in which the Group has positioned itself. The second element, corporate strategy, adds value by focusing on Ultra's investments in acquisitions and in significant internally-funded development programmes. Successful pursuit of these growth strategies drives the resilience of the Group's financial performance. Ultra's growth momentum is derived from the Group's broad mix of specialist activities in its 28 businesses, within which the Group has about 180 specialist capability areas. The diversity of specialist capabilities enables Ultra to contribute to a large number of defence, security, transport and energy platforms and programmes. Ultra has world-leading positions in many of its specialities and, as an independent, non-threatening partner, is able to support all of the main prime contractors with its capabilities and solutions. Through such positioning, Ultra's systems, equipment or services are often mission-critical to the successful operation of the platform to which they contribute. In turn, this mission-criticality secures Ultra's positions for the long term which underpins the superior financial performance of the Group and drives the sustainability of Ultra's business model (see **pages 2 to 5** for more details).

Continuity of management

Working to attain the goals of these growth strategies also requires consistency of management focus and drive. The continuity of Ultra's management team ensures that the expertise is retained to maintain the growth momentum in the Group and to address and resolve issues posed by its markets. In April, I became the Group's Chief Executive and Douglas Caster became Chairman. Ultra has a strong Executive Team that includes the Executive Directors, the Divisional Managing Directors and Presidents, the HR and M&A Directors and the Company Secretary/General Counsel. The members of the Executive Team understand 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.

Ultra's strategic framework

The hierarchical nature of Ultra's **objective**, **strategies for growth**, **strategic tenets** and **culture** are shown on this graphic. The Board's prime **objective** of outperforming the market in terms of delivering shareholder value is detailed above. The Group's four **strategies for growth** are outlined on **pages 14 and 15**. Underpinning these growth strategies are the eight **strategic tenets** described on **pages 16 and 17**. These strategic tenets help shape the **culture**, defined as values and behaviours, that drives Group results, thereby driving the achievement of the Group's prime objective. Ultra's culture, values and behaviours are described on **pages 18, 19 and 20**.



*see footnote on inside front cover

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

> "One indicator of the success of Ultra's growth strategies is the acquisitions that the Group makes. Since the start of 2011, Ultra has bought four specialist businesses."

Acquisitions

One indicator of the success of Ultra's growth strategies is the acquisitions that the Group makes. Since the start of 2011, Ultra has bought four specialist businesses. In early 2011 the Group acquired **3eTI**, a business in Maryland USA that designs, develops, markets and supports military grade wireless local area network access points, mesh networks, security software, and encryption technologies for military, government and commercial markets. It is part of Ultra's Tactical & Sonar Systems division.

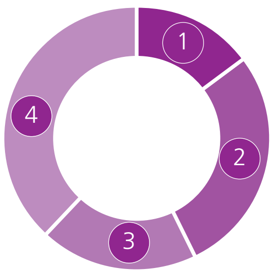
In September, Ultra acquired **AEP Networks**, a leading supplier of secure network communication solutions. AEP's proprietary products are accredited by CESG/GCHQ, the UK government's national technical authority for secure electronic communications. AEP's security solutions include secure network gateways, remote access hardware encryption products and a 'security as a service' offering known as 'Cloud Protect'. AEP is also part of Ultra's Tactical & Sonar Systems division.

In December, the Group made two further acquisitions in the security and cyber field, **SOTECH** and **Zu Industries**. SOTECH offers turnkey communications surveillance systems, integrating proprietary and commercial-off-the-shelf data analytic tools to manage large volumes of data from mobile, fixed line and broadband networks. Customers are government agencies that support and perform global counter-terrorism and counter-narcotic missions. SOTECH is part of the Group's Information & Power Systems division. Zu specialises in the provision of equipment for cyber surveillance systems, built primarily from two proprietary software products that operate on commercial-off-the-shelf hardware. Zu is now part of ProLogic in Ultra's Information & Power Systems division.

Rakesh Sharma
Chief Executive

£129.4m

the amount spent on four acquisitions in 2011



1 3eTI	**£19.4m**
2 AEP Networks	**£36.1m**
3 SOTECH	**£24.7m**
4 Zu Industries	**£49.2m**

45th

Zu Industries Inc

was Ultra's 45th acquisition

Strategic review

KPIs charting growth

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

	KPI **1**	KPI **2**	KPI **3**
	Revenue growth	**Profit growth**	**Growth in earnings per share over a three year period**
Performance	**+3%** 2010: 9% 2009: 26%	**+12%** 2010: 15% 2009: 24%	**+15%** 2010: 16% 2009: 18%
Definition	Growth in total Group revenue compared to the prior year.	Growth in Group underlying profit before tax* compared to the prior year.	Annual growth in underlying earnings per share* calculated over a rolling three year period.
Comment	**Revenue growth** gives a quantified indication of the rate at which the Group's business activity is expanding.	A satisfactory underlying **profit growth** trend confirms that additional revenue is being gained without profit margins being compromised. It also indicates that the additional contribution to profits from new acquisitions is greater than the extra financing costs associated with those acquisitions.	A key objective of the Board is to increase underlying **earnings per share*** at a faster rate than other similar quoted companies in the UK. If successful, this should ensure that investors will continue to hold Ultra's shares, rather than those of its peers. The Directors aim to manage the Group so that it continues to generate high levels of cash, which can be reinvested in the business in the form of acquisitions or to develop new products.

*see footnote on inside front cover

KPI 4	KPI 5	KPI 6
Cash conversion	**Interest cover**	**Relative total shareholder return**
110%	**23** times	**+9%** per annum
2010: 96%	2010: 23times	2010: +5% per annum
2009: 115%	2009: 20times	2009: +8% per annum
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*.	The ratio of underlying operating profit* to finance costs associated with borrowings.	Annual total shareholder return (capital growth plus dividends paid, assuming dividends reinvested) over a rolling five year period compared to the FTSE 250 index.
The Board uses **operating cash conversion*** as a simple yet reliable measure of cash generation, which represents the major element of the Group's short-term incentive bonus scheme. Whilst free cash will continue to fund Ultra's expansion by acquisition, it is important to ensure that the balance sheet remains sufficiently strong and that the cost of carrying additional debt does not become too high.	**Interest cover** is a reliable indicator of balance sheet strength.	**Total shareholder return** is a suitable measure, as compared to the overall population of FTSE 250 companies.

Non-financial performance indicators

Ultra's four strategies for growth are described on **pages 14 and 15** 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 **pages 18, 19 and 20** of this report.

*see footnote on inside front cover

Strategic review

Strategies for growth

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 if an above-average rate of revenue growth is achieved. Ultra constantly strives to increase its share of the high growth sectors of the markets in which it has positioned itself. The four main strategies for 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, security, 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 about 180 of these specialist capability areas.

In 2011…
Ultra added **14 new specialist capability areas** to its portfolio.

Strategies in action...

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

- network gateways that provide secure access to business applications via web browsers
- a 'security as a service' offering known as 'Cloud Protect'. This is a secure, subscriber-based, thin client virtualisation service; essentially a 'secure PC over the internet'
- remote access hardware encryption products
- hardware security modules for the protection and distribution of cryptographic keys

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 of which none typically contributes more than 5% of Ultra's revenue in any year.

In 2011…
the Group's specialist capabilities were specified on **16 new platforms and programmes**.

Strategies in action...

In separate programmes, Ultra is supplying acoustic energy sources and electric field sensors for oil and gas exploration through advanced hydrocarbon mapping techniques.

Ultra has been selected to supply landing gear, steering and cargo door control systems on Embraer's new KC-390 military transport aircraft.

54%
opening firm order cover compared to analysts' consensus forecast for 2012 revenue
(2010: 57%)

22%
increase in sales to countries outside Europe and North America
£93.2m (2010: £76.5m)

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. Amongst Ultra's top customers, such as the US DoD, UK MoD and BAE Systems, Ultra actually supplies to a wide range of different project offices, integrated project teams and platform teams.

In 2011…
Ultra won business with
31 new customers.

Strategies in action...

Ultra is now approved by EDF as a vendor for specialist sensors for use in nuclear reactors. This approval and the subsequent qualification of the sensors to the appropriate standards opens up the aftermarket for the 58 reactor sites in France.

Gippsland Aeronautics in Australia now specifies Ultra's range of advanced cockpit and engine instrumentation for both new build aircraft and the upgrade of earlier versions.

4

Widen Ultra's geographic footprint

Ultra has pursued a strategy of gaining access to the two largest addressable defence budgets in the world. The US spends more on defence each year than the rest of NATO nations added together. 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. Revenue from the Middle East and Asia Pacific regions are also capable of expansion. The Group's growing presence in Australia and its enlarged joint venture with Emirates Advanced Investments in the UAE indicates Ultra's intent in this regard.

In 2011…
the Group was successful in
11 new geographic areas.

Strategies in action...

Ultra has supplied many radar warning systems for use on oil rigs in the North Sea. In 2011 the Group was selected to supply similar systems to the rebuilt off-shore oil loading facility in Iraq.

SOTECH's turnkey communications surveillance systems are used by government agencies that support and perform global counter-terrorism and counter-narcotic missions, the geographic spread of which is rapidly increasing.

Strategic review
Strategic tenets

Ultra's growth momentum has been maintained in 2011, as it has been for many years, by successfully pursuing its strategies for growth. 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. These are summarised below:

one

To concentrate 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 requirements; responding to complex invitations to tender or requests for proposals to capture large contracts; 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.

two

To be a niche player where the Group has competitive advantage through technology or market position

Within the Group's 28 businesses, about 180 niches can be identified where the aim is to sustain competitive advantage and achieve a world-leading position. The Group values its portfolio of niches, since each offering can be defended against competition through barriers to entry, resulting 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.

three

To offer a through-life product and service portfolio that includes systems, sub-systems, products and components

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.

four

To grow organically and by acquisition

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 ideal size of acquisitions, as measured by annual revenue, is currently about £30m to £100m for bolt-ons and up to £15m for 'bolt-ins'. 'Organisation transforming' acquisitions are unlikely owing to the risk profile of such transactions.

95%
retention of key staff in 2011

9%
Ultra's growth of organic operating profit at constant currencies

five

To have an efficient organisation with committed and competent people

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.

six

To be an excellent and strategic supplier to our customers

Ultra businesses are expected to maximise their relationships with customers for the long term, through 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 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.

seven

To gain competitive advantage by internal and external 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 sovereign operational independence where required.

eight

To meet our 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 review
Developing Ultra's people

8 winners

from 50 applications to Ultra's Audacity Fund

Culture:
Ultra defines its culture as the values, role models, processes, procedures and behaviours of its employees that drive the achievement of Ultra's prime objective, as illustrated in the pyramid on **page 10**. Ultra recruits a large number of people each year as the business grows and new people also join through acquisitions. Ultra is committed to ensuring that the Ultra culture is not diluted as the Group grows. The Group's culture, values and behaviours are shaped by the strategic tenets, described on **page 16 and 17**, with the fifth tenet calling for an efficient organisation with committed 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 that is delivered around the Group. One example is the MLI (Maximising Leadership Impact) programme that is run at least once every year and is 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. For Ultra, the leadership model of an authoritarian leader, using hard power to get their way, is outmoded. The Group prefers the more modern concept where leaders co-opt the support of their followers by inspiring them and appealing to their moral sense of duty and avoid acting like dictators. To be successful in appealing to followers' moral sense, leaders must ensure that their organisations have an appropriate supportive, learning culture. Ultra needs effective leaders who have the ability to utilise both 'soft' and 'hard' power, depending on management circumstances, known as 'smart power'.

Entrepreneurship:
Being entrepreneurial is a behaviour that underpins the Group's strategy. It results in robust plans that provide the Group's customers with solutions that are different from, and better than, those of the competitors. One of the most important aspects of developing an entrepreneurial culture is to create an organisation that has the capability to generate excellent ideas and the business skills to bring them to market. Ultra does this by encouraging businesses and people to try new things. Inevitably, not everything is going to work and so learning from the mistakes that are made along the way is an important part of the entrepreneurial culture that the Group fosters. Entrepreneurship is hard-wired into the Group's structure as each of the individual businesses are run autonomously, with the Managing Directors and Presidents encouraged to behave like owner-managers. In this way, the businesses have the freedom to invest quickly in innovative solutions, giving them agility to out-manoeuvre the competition, but the decisions are always based on sound business judgement.

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 our 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. As part of this thinking, many of Ultra's businesses have conducted 'audacity workshops' which challenge the attendees to think of stretch targets for which their business aims and, in doing so, transform the business. Employees from other Ultra businesses join these workshops, providing an outsider's view on the topic and challenging the status quo. The Group has also rolled out an internal innovation challenge called the 'Audacity Fund'. Here, a fund of £500,000 is made available each year 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 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 the Group faces. They can then be pre-empted and either prevented from occurring or their effects can be 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. This allows Ultra to maximise the quality of proposals, engineering solutions and processes by undertaking robust, challenging peer reviews of them.

An example of using paranoia to achieve success is the Oman contract win achieved by Airport Systems. The bid process required significant levels of paranoia throughout to keep ahead of the competition in terms of local diplomacy, government level diplomacy, technical interaction with the customer and pricing. The constant awareness of the ambitious competitiveness of bid competitors Thales and Siemens was also of the utmost importance during the bidding process and was a factor in the Ultra win.

Fig 1. Retention rate within green zone

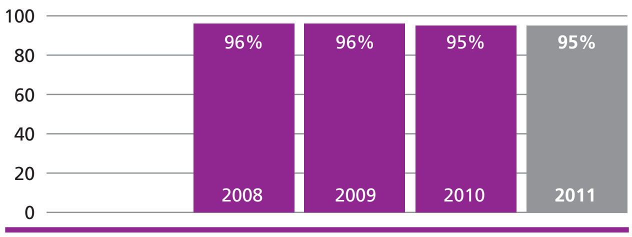
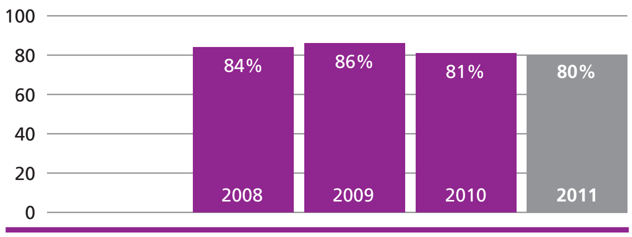


Fig 2. Internal appointments at Exec Team, MD/President level

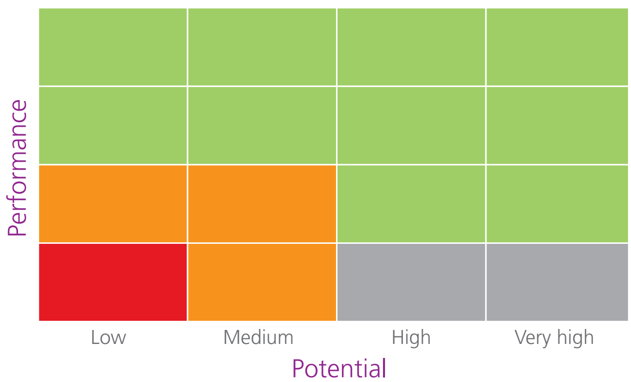


What people mean to Ultra

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, supported by HR professionals, work towards the aim of delivering an efficient organisation with competent 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 management 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.

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'. This is a process that has been organically developed within the Group. 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 (Fig 1).



By developing and retaining the high potential individuals in this zone, the Group is creating its next generation of business leaders who will be able to take up the challenge, when required, 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 (Fig 2). 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 500 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. Specific training programmes are provided for individuals as necessary. In 2011, 20 different in-house training courses were run in the UK and in North America. Many of these are courses that are 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 processes and techniques, along with workshops on Ultra's successful competitive strategy, strategic selling, programme management and systems engineering processes. In 2011, the Group launched the Ultra Learning Academy. This is an online portal, available to all of the Group's business, and enables the scheduling of training, hosts online courses and retains the training records of Ultra's employees. The Learning Academy was used to roll out training to all relevant Ultra employees, preparing them for the UK's new legislation regarding bribery and corruption. As a UK business, all of the Group's employees, even those based outside the United Kingdom, are required to abide by the UK Bribery Act 2010 and so the Learning Academy played a crucial role in providing training to Ultra's employees regardless of their location.

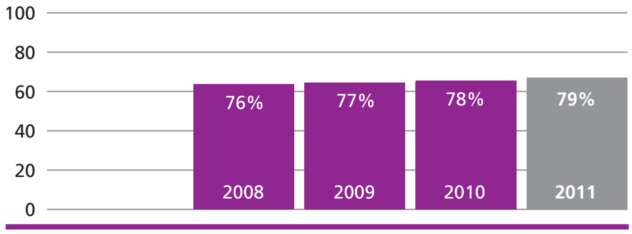
Strategic review
Developing Ultra's people (continued)

five

To have an efficient organisation with committed and competent people

see all eight of the strategic tenets on **pages 16 & 17**

Fig 3. Employee engagement across the Group



> "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."

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 are helping the Group to attract people as well as encouraging students in general to develop careers in engineering or business.

A number 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.

Ultra has sponsored six students through their last two years at school as part of the Arkwright Scholarship programme in the UK. This provides students with support and mentoring during their studies and one student has now been sponsored on an engineering degree course at the University of Nottingham.

Many Ultra businesses have well established, successful, apprenticeship programmes. Most common are opportunities for students to work on real projects in the business and these come under a number of titles including work placement, co-op programmes and internships. These are not just engineering or science students either but include a far broader range including finance, marketing and HR.

Government-funded Knowledge Transfer Partnerships (KTP) in the UK have been a real success at a number of businesses. The programme helps exploit university networks and resources. A KTP student from the University of the West of England worked on a two-year project to design a smaller, lighter and cheaper compressor resulting in prototype hardware.

Ultra tries hard to develop links with universities for many reasons. It allows the Group access to leading research, relationships with students who may ultimately join Ultra can be developed and also as a responsible corporate citizen Ultra sees the benefit in providing universities with a link to business.

Benefits

Another way that Ultra attracts and retains the right people is to offer all employees competitive and comprehensive benefits, which are regularly reviewed. The Group believes in rewarding its employees well for good performance. All US and Canadian employees are offered medical plans and the businesses promote and offer specific wellness programmes. Ultra also places a high level of importance on share plans that are open to all employees. These are offered annually as savings related share option plans in the UK, US and Canada and enable all employees to share in the success of Ultra as a whole. Following the last invitation in 2011, over 64% of eligible US employees opted to participate. Ultra offers retirement benefits to its employees around the world. Further details are provided on **pages 33 and 34.**

Diversity

Ultra has always followed the policy of appointing the best person for a particular role, regardless of nationality, gender or ethnic background. Much effort is made to ensure that all of the Group's employees around the world can expect similar compensation, benefits and working conditions. The Group takes seriously its responsibility to improve the number of graduates recruited into engineering roles, who may then become the business leaders of the future.

Employee communication

Gaining the commitment of everyone who works at Ultra involves effective communication and consultation. This takes a number of forms such as the bi-annual Group magazine 'UltraNews', company-wide strategy and performance presentations, birthday and communication lunches, cascade 'team brief' meetings, specific consultation groups and YOURviews employee surveys. As a result of this focus on developing its people, Ultra is seen as an attractive place to work with many interesting and rewarding opportunities.

Engagement

Ultra recognises the importance of committed employees and, using its YOURviews employee survey, first developed a measure of employee engagement in 2005. The survey is conducted in each Ultra business at least every two years and the businesses across the Group have successfully improved engagement over the last three years (Fig 3).

Communities

Ultra recognises the importance of being a responsible partner in the communities in which it operates and in which its employees live. The Group has a positive attitude to environmental issues and is pleased to support selected charities and to maintain links with its local communities.

Strategic review

Positioning in market areas of preferential customer spend

Ultra's focus is on developing differentiated solutions within a large number of niche markets in high growth sectors where it can maintain sustainable competitive advantage and can win business worldwide. This specialism and diversity gives some protection from budget variations and provides resilience to its financial performance. The Group operates in a number of different distinct areas of capability, reducing the potential impact of a risk posed by a decline in any one market sector.

>350

Ultra's specialist capabilities are specified on over 350 international platforms and programmes

Defence

About 65% of Ultra's revenue is from the defence sector. The level of international tension remains high, driven by the actions of rogue states, terrorist groups and the potential for significant state-on-state conflicts. This underpins continuing expenditure worldwide on defence. The focus of expenditure has been in recent years and continues to be on improving information superiority, command & control, unmanned sensors & systems and secure communications. These are all areas where Ultra has strong market positions. The scaling back of allied operations in Afghanistan and Iraq is not expected to harm the Group's trading position, since Ultra did not benefit materially from the start of the operations. It may even provide benefit as it may alleviate some of the current pressures on defence budgets.

Whilst the level of international tension remains high, defence budgets are coming under pressure from governments seeking to rein in public spending. As a consequence of the squeeze, it is likely that upgrades of existing military platforms will take precedence over new platforms, which typically drives demand for the advanced electronic solutions in which Ultra specialises.

Furthermore, Ultra's strategic positioning means that it has a broad customer base, supplying all elements of the armed forces, i.e. the army, navy, air force and marines. This provides an element of risk mitigation.

In the US, Ultra's largest single market, the deficit reduction process will reduce expenditure on the 'investment accounts' of procurement and research, development, testing and evaluation. The impact will be felt across many programmes. Ultra is represented on a significant range of programmes and platforms so the cancellation or curtailment of any single programme is unlikely to have a significant adverse impact on the Group. Areas in which US defence expenditure is rising is in underwater battlespace generally and in anti-submarine warfare specifically – both areas of Ultra expertise.

In the UK, defence budgets will be reduced, though, for Ultra, UK defence, directly and indirectly, represents only about 12% of Group revenue. In the short term, the imperative for change and reorganisation within the MoD is likely to continue restricting or delaying the authorisation of new contracts.

Elsewhere, in areas where Ultra has achieved market presence, such as Australia, Turkey and the Middle East, the upward trend of defence spending is being maintained. Modern armed forces around the world rely on many forms of sophisticated electronic systems to achieve smart capability for precision targeting, information superiority, as well as interoperability between coalition forces. As a result, an increasing proportion of defence and security budgets is being spent on electronics and Ultra should benefit from this trend.

16%

Growth in order book value in 2011

£950m (2010: £818m)

Strategic review
Positioning in market areas (continued)

"**Cyber security** is now embedded in the national security policies of governments worldwide."

17%

Security and cyber accounted for 17% of Group revenue in 2011

Security and cyber

Ultra's cyber, security and intelligence markets continue to grow, again driven by global terrorist activity, organised crime and state-sponsored cyber activity. By their nature, budgets in these areas are difficult to define and quantify. Any published estimate of expenditure is almost certainly a substantial underestimate of the true total. These budgets certainly support growth for Ultra in these market sectors.

Cyber security is now embedded in the national security policies of governments worldwide. In the UK, the government estimates that many billions of pounds are being lost in government, industry and civilian assets each year to cyber crime. GCHQ, the UK government agency responsible for cyber security, has reported that the UK government gets 20,000 attacks each month. Following publication of the 2010 National Security Strategy and the Strategic Defence & Security Reviews, funding for tackling cyber crime was increased. At a time of government austerity, this is an indication of the seriousness with which governments take the cyber threat and the opportunities in cyber security that are available.

In the US, cyber warfare is an area where budgets are expected to increase over the coming budget cycle. At the beginning of 2012, President Obama outlined a new defence strategy for the US that will focus on investments in cyber as well as the broad area of intelligence, surveillance and reconnaissance. FY2012 departmental budgets submitted for Congressional approval also point to increased funding being made available for cyber security efforts. As this is a global problem, many countries are facing similar challenges, making this a worldwide growth market.

The global intelligence market is also still being driven by the high threat levels caused by terrorists, organised criminals and narcotics cartels. Often, these three groups are interlinked making intelligence an area of high customer preferential spend. Covert surveillance and legal intercept of electronic communications continue to be effective ways of identifying and negating the threat. The current high levels of political, social and economic instability that have emerged in many regions since the onset of the global recession are catalysing many governments to maintain or accelerate acquisition plans so as to improve their intelligence capabilities.

The need for homeland security is continuing to drive expenditure in the security area. Demand continues to grow for the intelligence and surveillance gathering capabilities needed to secure borders and protect critical national infrastructure from physical attack. Assurance is also sought that information and online systems will retain their integrity when confronted with cyber-attacks.

Ultra has highly specialised capabilities in secure communications, networks and high grade cryptographic equipment, key management systems and surveillance and intelligence gathering systems. The Group is well positioned to benefit from demand for enhanced cyber defences, intelligence gathering requirements and infrastructure protection around the world. The four acquisitions that Ultra completed in 2011 all have significant capabilities in the cyber, security and intelligence markets, boosting the Group's exposure to these high growth areas of the cyber and security markets.

*see footnote on inside front cover

"Population growth is driving demand for increased **travel** and **energy** resources around the world."

$150,000

the value of Ultra's equipment on each Boeing 787 aircraft, which entered service in 2011

Transport and energy

Population growth is driving demand for travel and energy. For transport, this drives demand for civil aircraft and infrastructure investment in mass passenger transport systems. In the short term, these investment decisions may, however, be slowed by overall concerns about the state of some national economies as deficit reduction plans are implemented. Demand will remain strong, however, in other, high-growth economies. Increases have been announced in production rates at both Boeing and Airbus, reflecting their long order books. Sales of equipment for the Boeing 787, as the build rate increases and the size of the fleet in airline service grows, will be additive to the Group's performance.

The long-term, worldwide increase in air travel drives investment in infrastructure including airport IT systems where Ultra has a portfolio of different specialist system solutions. Modern airports have many different systems that must all work in harmony for the airport to run efficiently. Ultra has a proven capability to undertake such large-scale integration projects. The Group continues to win new business around the world and the two airports in Oman will augment Ultra's already impressive list of reference sites for this broad capability.

The world's population tends to cluster around major conurbations that then require efficient internal transport mechanisms to minimise congestion and pollution. Light rail-based passenger transport systems are increasingly a key element of integrated transport solutions. Ultra has a broad range of trackside power equipment, suitable for use in these ground transport systems.

Around the world there is a strategic need to have secure access to an increasing amount of energy with a low carbon footprint from independent sources. This is driving a steady increase in the level of investment in civil nuclear power generation and in the search for new reserves of oil and gas. Investment is being channelled into extending the life of existing plant as well as building new reactors. The number of power stations being built in China for which nuclear reactors are the heat source is rising in order to satisfy the demand for electricity as the economy grows. Ultra's specialist sensors are fully qualified and well proven in service with all the reactor designs being manufactured.

Increasing efforts are being made to find oil and gas resources in areas of the world where access has to date been considered too difficult to make extraction economically viable. Ultra has energy sources and specialist sensors, derived from defence applications, which are highly effective in the underwater environment at hydrocarbon mapping.

Demand is increasing for fuel cells that can generate electrical power in remote areas. Applications include distributed long-life sensor systems and other uses of small portable power sources. Ultra has a range of innovative, propane-powered fuel cells that outperform batteries by a considerable margin.

Performance
Ultra's 2011 results

Paul Dean, Finance Director

The order book at the end of 2011 was £950.3m compared with £817.9m (£819.5m at constant currencies) at the end of 2010. Within the order book total, opening firm order cover for trading in 2012, defined as firm order cover compared with analysts' consensus revenue forecast, was 54% (2010: 57%) reflecting in part the acquisition by the Group of businesses that typically have shorter order books. Within this total, Ultra's businesses in North America, where procurement delays by government agencies have been most marked, had an average opening order cover of 40% (2010: 50%). The average for businesses elsewhere was 65% (2010: 70%).

Revenue

Revenue grew by 3.1% to £731.7m, an increase of £21.7m. Organic growth and acquisitions more than offset the negative effect of currency translation and the transfer to an associated undertaking* of Ultra's investment in the UAE.

To enhance its market position within the UAE, Dascam became part of Al Shaheen Adventures LLC, an enlarged joint enterprise with Emirates Advanced Investments, with a focus on training and performance development. Ultra owns 49% of this enlarged joint enterprise and so has reported its interest in UAE as 'an associated undertaking' with effect from 1st August 2010. The turnover for the first seven months of 2010, which was consolidated under the previous treatment, was £14.4m.

Underlying constant currency organic growth* was 2.2%. Information & Power Systems grew very strongly due to a good start to the Oman Airport master systems integration project, as well as strong nuclear sales (military and civil). There were also increased sales of electrical power controls for both submarines and passenger mass transit systems. Within Aircraft & Vehicle Systems, organic sales growth was more modest; stronger sales of aircraft components and of the Group's specialist high integrity manufacturing services in the UK more than offset lower demand for hand controls for remote weapon systems. In Tactical & Sonar Systems, there was a reduction in organic sales due to lower demand from the US DoD for tactical radios with the completion of Ultra's involvement in phase II of the WIN-T programme in the USA.

In addition to the organic growth, acquisitions contributed 5.0%; this was largely due to 3eTI and AMI as the other acquisitions happened too late in the year to have a material impact. Adverse currency translation arose due to the relative strength of sterling compared to the US dollar (1.60 compared to 1.55 in 2010).

Operating profit and margin

Underlying operating profit increased by £11.8m (10.7%) to reach £122.1m and the margin increased to 16.7%. As with the turnover, acquisitions contributed to the rise, but the major factor was the underlying organic growth, which more than offset the adverse currency translation.

Underlying constant currency organic growth was 8.6%, well ahead of the equivalent turnover increase and was driven by a particularly strong profit performance in Aircraft & Vehicle Systems. This was due to a reduction in engineering spend following the completion of Ultra's Boeing 787 and F-35 JSF development programmes and also to a more favourable hedged exchange rate for US dollar flows into the UK. Acquisitions contributed £4.7m (4.3%). At the same time as increasing the margin, the Group continued to invest in research and development, which increased by £1.7m to £41.4m (2010: £39.7m) and represented 5.7% of Group turnover. This investment of Ultra's funds was supplemented by customers' contributions to dedicated product development activities. In 2011, this amounted to £85.8m (2010: £73.0m) and so, in total, spending on new product and business development was 17% of Group revenue.

Interest and profit before tax

Net financing charges, excluding fair value adjustments on derivatives were £7.2m (2010: £7.6m). The finance cost of the bank debt was £5.2m (2010: £4.7m) due largely to the increase in debt taken on to fund acquisitions. The finance cost of the pension scheme was reduced by £0.9m to £2.0m (2010: £2.9m); the increase in the liabilities was more than offset by a lower discount rate. The interest on the bank debt was covered around 23 times by underlying operating profit*, a KPI; see **pages 12 and 13** for more information. Underlying profit before tax* was £114.9m (2010: £102.7m) an increase of 11.9%.

*see footnote on inside front cover

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

IFRS profit before tax

Ultra's IFRS profit before tax was little changed in 2011 at £91.2m (2010: £91.3m) and reflected the combined effects of the elements detailed below:

	2011 £m	2010 £m
Underlying profit before tax*	**114.9**	102.7
Amortisation of intangibles arising on acquisition	**(23.1)**	(20.3)
(Loss)/profit on fair value movements on derivatives	**(0.8)**	8.9
Acquisition-related costs and adjustments	**0.2**	-
Reported profit before tax	**91.2**	91.3

The amortisation of intangibles increased by £2.8m and reflected the increased level of acquisition activity during the year, particularly 3eTI, AMI and AEP Networks.

There was a small loss on the mark-to-market of the Group's derivatives, but the movement was far less pronounced than in previous years due to the relatively small movement between the respective year-end exchange rates.

Tax, EPS and dividends

The underlying tax rate was stable at 28.0% (2010: 28.0%), a slight reduction in the standard UK rate being offset by the movement on provisions.

Headline earnings per share was 120.2p (2010: 107.9p), an increase of 11.4%. A final dividend of 26.8p (2010: 24.0p) is proposed. If this is approved at the Annual General meeting, this will give a full year dividend of 38.5p (2010: 34.6p) and will be covered 3.1 times.

four

To grow organically and by acquisition

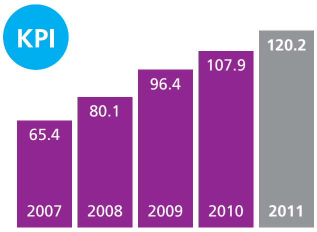
see all eight of the strategic tenets on **pages 16 & 17**

Underlying earnings per share (pence)

120.2p KPI

+11%

(2010: 107.9p)

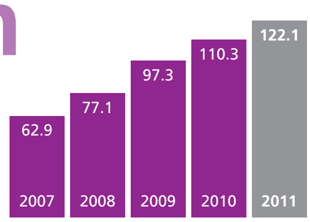


Underlying operating profit £m

£122.1m

+11%

(2010: £110.3m)



*see footnote on inside front cover

Performance
Aircraft & Vehicle Systems

Revenue in this division reduced by 5% to £166.1m (2010: £174.1m) while underlying operating profit increased by 33% to £31.1m (2010: £23.4m). The Group's main activities in the UAE were accounted for as an associated undertaking* in 2011, reducing revenue by £14.4m, equivalent to 8% of divisional revenue. There were full-year contributions from Extec and AMI, both acquired in 2010. The division's order book reduced to £177.4m (2010: £210.9m), the major cause being the cancellation, for the convenience of the customer, of a contract to supply systems for a European military aircraft currently in development.

There was solid demand in the US for Ultra's HiPPAG airborne compressors used in stores ejection applications, offset by reductions in the period in the rate of production of hand controls for remote weapon systems. International sales of Magicard ID card printers increased as did demand in the UK for specialist high integrity manufacturing services. The level of investment in the development of aircraft equipment was lower in 2011 than in the prior year as major aircraft programmes moved into a production phase. The operating margin improved to 18.7% (2010: 13.4%) reflecting, as anticipated, the lower level of reinvestment, the improved US dollar hedged rate and accounting for activities in the UAE as an associated undertaking.

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

- selection by Embraer to supply landing gear, steering and door control systems on its new KC-390 military transport aircraft
- successful trials of Ultra's innovative propane-powered fuel cells, both in UAVs and as ground power sources. These fuel cells outperform batteries by a significant margin
- selection to provide various computers, displays and controls on the new Scout and Warrior armoured vehicles for the British Army

Enhancing capability through teaming

Ultra's Controls business and GKN Aerospace teamed in 2004 to explore offering Boeing an electro-thermal ice protection system for a possible all-electric aircraft, then called the B7E7 – eventually named the B787. Ultra had been developing a power generation and switching technology for propeller aircraft, whilst GKN had an established heater mat capability used on engine inlets and helicopter blades and experience in embedding these in composite structures. The combined Ultra/GKN team was able to offer Boeing a wider capability than it could find elsewhere.

As part of the normal, complex development process of a new aircraft, Boeing refined the system requirements of the wing ice protection system, increasing the complexity and the level of safety-criticality. The combined resources of GKN and Ultra were required to respond to the challenge, working in close collaboration with Boeing.

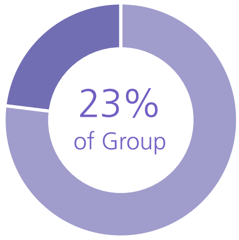
Having now succeeded, Ultra and GKN have developed and certified a unique, highly complex and effective system that would take any other company or companies many years and substantial non-recurring effort to replicate.

Revenue

£166.1m

2010 £174.1m

-5%

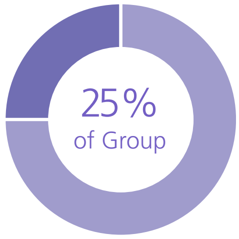


Underlying operating profit*

£31.1m

2010 £23.4m

+33%

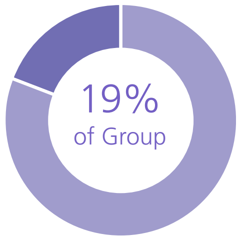


Order book

£177.4m

2010 £210.9m

-16%



Number of employees

1,042

24%
of Group

*see footnote on inside front cover

In November 2011, Ultra's **Precision Air & Land Systems** business was selected by Lockheed Martin to deliver a wide range of equipment for the Warrior armoured vehicle capability sustainment programme. Ultra's offering includes vetronics computing, fire control, power-management and the driver's crew station. The overall value to Ultra is anticipated to be in excess of £40m, depending on the number of vehicles the UK MoD chooses to upgrade. There is potential export value if the architecture is adopted for other programmes around the world.

Pictured above, front row from L to R: Samantha Smith, Contracts Manager; Alan Needham, Programme Manager.
Centre row L to R: Debbie Massey, Head of Commercial; Adrian Butterworth, Chief Engineer; Naomi Dukes, Sales & Marketing Manager; Tony White, Director of Advanced Technology.
Back row L to R: Gavin Armstrong, Engineering Director; Mark Greenwood, Quality Engineer.

*see footnote on inside front cover

Performance
Information & Power Systems

Revenue in Information & Power Systems grew by 15% to £257.0m compared to £224.0m in the previous year. Underlying operating profit increased by 11% to £30.5m (2010: £27.5m). These results included a full-year contribution from Transmag, acquired in 2010, and a part-year contribution from SOTECH and Zu, acquired late in 2011. The order book at the end of the year was £442.2m (2010: £204.7m), the increase mainly driven by the multi-year systems integration contract for two airports in Oman.

There was strong demand in the period for specialist sensors and control systems for military and civil nuclear reactors. In addition, sales increased of the Group's specialist electrical power controls for Royal Navy submarines and for passenger transit systems. These increases were partially offset by reduced demand, both in the US and internationally, for Ultra's traditional ADSI command and control systems.

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

- being selected to act as the master systems integrator at two airports in Oman
- production contracts to supply reactor control systems and equipment for Royal Navy submarines
- completing qualification testing of an enhanced range of specialist sensors for use in nuclear power stations around the world

Minimising risk through teaming in Oman

To supply the entire IT infrastructure in the new terminals at Muscat and Salalah airports in Oman, Ultra will be deploying much of its own in-house systems and software, product that has been proven in many of the world's other airports. In addition, a world-class supply chain has been assembled beneath Ultra including NCR and Cisco for networks, Tyco for security systems and the Spanish group Indra for control room and training facilities; Cap Gemini, Ernst & Young, Smiths Detection and iD1 are also adding their weight to the Ultra solution.

The delivery team is strongly supported by a project management office headed by Turner & Townsend and the design interface and stakeholder management is led by FirstCo. The experience of Ultra's world-class team was fully recognised by the Omani Government, their Ministry and their consultant engineers.

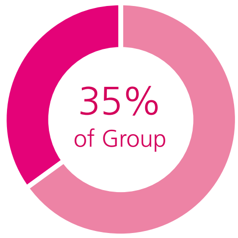
As well as expanding the scope of work and providing credibility to Ultra's bid, teaming with world-class partners also minimises the amount of risk that the Group will face on such a large project as it allows specialists to take care of parts of the scope where Ultra has limited expertise.

Revenue

£257.0m

2010 £224.0m

+15%

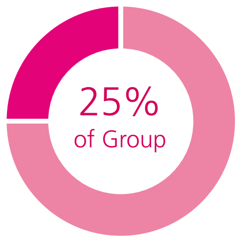


Underlying operating profit*

£30.5m

2010 £27.5m

+11%

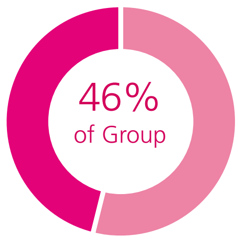


Order book

£442.2m

2010 £204.7m

+116%



Number of employees

1,714

38%
of Group

*see footnote on inside front cover

In July, Ultra's **Airport Systems** business won a contract to supply all of the electronic infrastructure, including installing Ultra's airport IT systems, IT networks, communications and security equipment to the new terminals being built at Oman's Muscat and Salalah airports. With a value of over £200 million, this was by some distance the largest contract awarded to Ultra in the Group's history and represents the successful culmination of a three year bid process.

Pictured above, clockwise from bottom left: Daryll Battersby, Senior Project Manager; Dave Ogden, Solutions Architect; Graham Kenyon, Principal Engineer and Project Manager; Aidan Douglas, Managing Director; Tim Walshaw, Operations Director; Jim Bethell, Managing Director, Ultra Electronics Oman Airport Programme and Project Director for the MC6 Project; Carol Marchbank, Programme Manager – Oman.

Performance
Tactical & Sonar Systems

Revenue in Tactical & Sonar Systems reduced by 1% to £308.6m (2010: £311.9m) and underlying operating profit rose by 2% to £60.5m (2010: £59.4m). These results include part-year contributions from 3eTI, acquired early in 2011 and AEP Networks, acquired later in the year. The closing order book was £330.7m (2010: £402.3m).

This division was most affected in the year by defence procurement delays in the US. These impacted order intake and sales of tactical radios and network access equipment, leading to a reduced closing order book and lower revenue overall for the division. The reduction in sales was partially offset by higher activity levels on sonar system developments in Australia and the Netherlands and anti-submarine warfare activity in the US. Operating profit generally tracked sales volume and one-off redundancy costs were recognised in some businesses. The overall increase in operating margin to 19.6% (2010: 19.0%) reflected profit recognition at the end of some development contracts. In addition, the Canadian government has committed to making multi-year contributions to the costs of new product development for which there was a 'catch up' in the year relating to earlier activity.

Performance in future years will be underpinned by the following developments in 2011:

- selection in Turkey to supply the torpedo countermeasure system for a new submarine programme
- passing critical design reviews relating to the Group's new UK cryptographic equipment
- contracts to install Ultra's secure wireless monitoring systems at a number of US Navy bases

Teaming internally to deliver success

Ultra's Maritime Systems, based in Canada and EMS, based in the US, have teamed to deliver an on-board demagnetising system to the Royal Canadian Navy's new Halifax Class frigates. It was important that Maritime Systems, as a Canadian business, was able to establish a strong relationship with a customer with whom they had not previously dealt so as to influence the downstream procurement. This required EMS to educate Maritime Systems about its technology so that Maritime Systems had the correct knowledge in addition to the right accent. Thanks to the preparation work undertaken by the two businesses, the customer made it clear that their preference was for Ultra's technology. Nonetheless, the competition was conducted as a lowest cost, technically compliant bid that would result in a firm fixed priced contract.

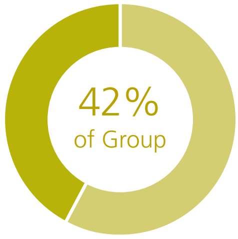
Ultra won because it was able to offer proven technology, at a competitive price, from a Canadian entity. The two Ultra businesses, working closely together, were able to de-risk the project by agreeing a work-share that played to the strengths of each organisation.

Revenue

£308.6m

2010 £311.9m

-1%

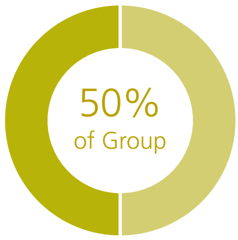


Underlying operating profit*

£60.5m

2010 £59.4m

+2%

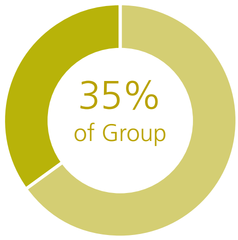


Order book

£330.7m

2010 £402.3m

-18%



Number of employees

1,715

38%
of Group

*see footnote on inside front cover

In 2011 the Anti-Submarine Warfare (ASW) team within Ultra's **USSI** business maintained its world-class sonobuoy production capability while capturing innovative, new engineering development programmes that will lead to future production. One example is the HAASW (High Altitude ASW) programme where all US sonobuoys are being upgraded for improved performance with the new P-8 ASW aircraft that will operate at a greater altitude than the P-3 aircraft it replaced. In addition, the ASW team is using its acoustic source capabilities to pursue new customers in wider markets including systems for acoustic mine-sweeping and oil exploration.

Pictured above, front row from L to R: Darrel Massman, Production Engineer; Chuck Logar, Business Development Manager; Ollie Kelley, Production Associate.
Centre row L to R: Ed Chase, Acoustic Engineer; Paul Sell, Production Team Leader; Sue Drohan, Production Sonobuoy Program Manager.
Back row L to R: Aaron Winteregg, Production Engineer; Kyle Pattison, Electrical RF Engineer; Mike Driver, Electrical Technician.

Performance
Financial review

Operating cash conversion*

110% KPI

(2010: 96%)

Operating cash flow

The Group had another strong year of cash generation in 2011. Underlying operating cash flow* was £133.7m (2010: £106.4m). The ratio of cash to underlying operating profit* was 110%; the rolling five year average is 103%.

Capital expenditure on property, plant and equipment fell slightly to £12.1m (2010: £15.5m). The major expenditure was on the outfitting of new leased facilities to support the growth at USSI, Manufacturing & Card Systems and CIS, which has a new facility close to GCHQ in Cheltenham. It is anticipated that capital expenditure in 2012 will return to about the levels seen in 2010.

There were no material property sales in 2011. In 2010, proceeds from the disposal of property, plant and equipment amounted to £3.8m, which related primarily to the final payment for the Rugeley site. Depreciation of fixed assets was £9.1m which was a slight increase on the 2010 total of £8.4m.

Cash expenditure on capitalised product development was modest at £0.9m (2010: £0.8m). However, the amortisation charge, at £4.6m, was considerably higher than 2010 (£1.2m). This arose due to the cancellation of a contract to supply systems to a European military aircraft and the consequent need to write-off the related capitalised development costs. The cancellation occurred due to changed requirements on the aircraft and was not due to Ultra's performance.

The net effect of movements in working capital was an inflow of £15.8m (2010: £1.0m). Inventories reduced by £5.4m (2010: £4.2m) due to the movement of some development projects into a more stable production phase and the continuing process of improving inventory management throughout the Group. The most significant flows related to receivables and payables; the receivables outflow was £26.5m (2010: £28.8m) and the creditors inflow was £36.9m (2010: £25.6m). However, both flows were 'grossed up' by a substantial advanced payment relating to the Oman project that was invoiced in December and so was both a trade debtor in the receivables flow and an advanced payment in the payables flow. The average credit period on sales of goods increased to 42 days (2010: 40 days). The average credit period in trade purchases reduced to 63 days (2010: 65 days) and there was a significant increase in advanced payments from contract customers, notably on a number of different UK contracts.

Non-operating cash flow

From the underlying operating cash flow of £133.7m (2010: £106.4m) the Group funded various non-operating items to arrive at the increase in net debt of £64.0m (2010: £46.5m reduction). The major non-operating items were:

- the cash cost of tax increased in all three of the Group's main jurisdictions but it was particularly marked in the UK. This was partly due to increased UK profitability but largely because the 2010 flow was artificially low (it benefited, for example,from R&D claim refunds).
- acquisition spend at £142.1m was considerably higher than 2010 (£13.1m). The 2011 spend included £129.4m for the four acquisitions made in the year and £12.7m relating to deferred payments and earn-outs on deals done in earlier years (£11.4m related to AMI).
- dividend payments of £24.5m (2010: £22.0m)

At the end of the year there was net debt of £46.1m, compared to net cash at the end of 2010 of £17.8m.

Treasury and balance sheet matters
Effect of acquisitions

The four acquisitions undertaken in the year (3eTI, AEP Networks, SOTECH and Zu) were made at a total purchase consideration of £133.6m. Total net assets acquired amounted to £72.1m, including liabilities of £25.0m and excluding cash acquired of £4.0m. The balance of £57.5m was allocated to goodwill.

*see footnote on inside front cover

Underlying operating profit* margin

16.7%

(2010: 15.5%)

Net debt at end of 2011

£46.1m

(2010: net cash of £17.8m)

Banking facilities

Ultra's current banking facilities amount to £210m in total plus a £15m overdraft. They are provided by a small club of banks led by the Royal Bank of Scotland and comprise two tranches. The first tranche is a £120m revolving credit facility, which can be drawn down in any common currencies and is due to expire in September 2013. The second tranche provides a further £90m of revolving credit and was put in place in January 2011 and is due to expire in January 2016. This second tranche is effectively the renewal of the £80m facility that was due to expire in September 2011 but was refinanced early to ensure continuity of funding. The financial covenants are unchanged.

The banking facilities are used to fund acquisitions and for other balance sheet and operational needs, including funding day-to-day working capital requirements.

As well as sterling, Ultra draws a proportion of its borrowing in US and Canadian dollars. The US and Canadian dollar borrowings represent natural hedges against assets denominated in those currencies.

The total borrowings drawn from the facilities was £80.2m (2010: £51.2m) giving headroom of £129.8m (2010: £148.8m) plus the £15m overdraft. At the year-end, the Group also held £41.1m of cash which was held for working capital purposes and to fund acquisitions.

During 2011, the Group agreed 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 December 2011, $10m of loan notes had been issued, which will mature in 2018. A further $60m of loan notes were issued in January 2012 that will mature in 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.

Interest rate management

Much of the Group's current bank financing has been taken on to fund acquisitions in North America. To reduce the risks associated with taking on debt at floating interest rates, Ultra entered into two interest rate hedging contracts in late 2008. The first involved fixing $100m of US dollars borrowings for one year, a value which reduced by $20m in December 2009 and by a further $20m in December 2010; it expired in December 2011. The second interest rate hedging contract was put in place for the $20m of Canadian dollar debt and also expired in December 2011.

With the issuance of the seven-year notes to Pricoa, 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 2011, when the net scheme deficit calculated in accordance with IAS19 was £60.8m, compared to £56.5m in 2010. The present value of the liabilities rose by £8.8m in 2011, mainly because the interest rate used to discount future liabilities back to present value fell to 5.0% (2010: 5.5%). The increase in the schemes liabilities was partly offset by an increase in the value of the scheme assets of £5.3m.

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.

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.

*see footnote on inside front cover

Performance
Financial review (continued)

All staff who have joined Ultra in the UK since the defined benefit scheme was closed in 2003 have been invited to become members of the Ultra Electronics Group Personal Pension Plan 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 £1.2m at the end of the year (2010: deficit of £0.7m). 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. Adaptive Materials, Inc., had its own 401(k) plan in place when it became part of Ultra during 2010 and this was consolidated into the main Ultra scheme on 5 January 2012. SOTECH, which had its own 401(k) plan in place when it became part of Ultra during 2011, will consolidate its plan into the main Ultra scheme during 2012. Wells Fargo Bank N.A. provides third party administrative services and is also a directed trustee of the plan.

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, 84% of the expected exposure for 2012 was covered, reducing to 25% of the exposure for 2015. Exposure to other currencies is hedged as it arises on specific contracts.

60+

Ultra sells its products and services in over 60 countries worldwide

*see footnote on inside front cover

Performance
Risk management

> Strategic risks are assessed formally each year by the Board during the strategic planning process and steps are taken subsequently to ensure that such risks are minimised at all times.

The pursuit of profitable growth is inherently a risky undertaking. The Group encourages individuals and teams to be entrepreneurial and to exhibit audacity; taking risks is an inevitable outcome of this. Ultra manages risk very well – it takes considered risks. Risk management is not treated as a separate function within the Group; it is an integral part of normal management processes within Ultra. There is a hierarchy within the risk management process. Many risks are reviewed, negated or mitigated at departmental, team or project level. Where the potential impact of a risk occurring is larger, the level of management that reviews it is escalated.

The table below illustrates the business activities that are considered around the typical parameters that might be reviewed. Also shown is how the management of certain risks is reviewed by the Board, while others are delegated. The table is illustrative, not exhaustive. The major risks, their context, potential impact and mitigation actions are then shown on the following pages.

Business activty	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)	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	● (grey)	○	○	○	● (blue)	
Contract execution	Progress against plan and milestones; costs incurred/to complete/at completion; risk register	● (blue)	● (blue)	○	○		
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	● (blue)	○	○	○		
Business processes	Quality systems; segregation of duties; disaster recovery; health, safety & environmental management; IT penetration testing	● (blue)	○	○	○	○	○
Regulatory and compliance	Compliance with local laws, compliance with export regulations, compliance with security requirements	○	○	○	○		○

○ reviewed as normal practice ● (grey) major only, in accordance with delegated authorities ● (blue) by exception

Performance

Risk management (continued)

Risk: **Market factors**

Context

- Ultra is reliant on defence budgets that are forecast to decline. There is a risk that the declines could accelerate.
- Parts of Ultra's civil business (notably aerospace and nuclear) may be vulnerable to sudden changes in economics or sentiment.

Impact

- An amount of Ultra's business could be lost as programmes are potentially cut from both government and commercial procurement budgets.

Mitigation

- The Group has positioned itself in the sweet-spot of defence budgets by focusing on electronic and software solutions. All new platforms and platform upgrades require improved electronics and software.
- The Group has over 180 specialist capabilities specified on a large number of platforms and programmes. Ultra is not reliant on a small number of large contracts that could be cancelled.
- Ultra's agility, innovation and speed of response allows the Group to constantly move into new growth markets.
- Ultra is positioned on many civil aerospace platforms that have long order books providing cover for many years to come.
- The reaction to the recent incident at the Fukushima nuclear power station showed that the strategic need for secure access to energy outweighed the negative sentiment surrounding this kind of incident.
- For more information on all of the Group's markets, **see pages 21 to 23**.

Risk: **Market access**

Context

- Ultra has elected to cede some control of certain businesses (e.g. Proxy Board, joint enterprises) to enhance market position in key markets.

Impact

- Overall control is lost.

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.

Risk: **Bidding for contracts**

Context

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

Impact

- Ultra could underestimate the required resources or the project complexity and lose money.

Mitigation

- The Group has many ways of sharing best practise and lessons learnt from all of its large bids.
- All large bids are reviewed at many levels of the business, including the Board, before proceeding. Internal peer group reviews are conducted on the solution, the cost build-up and the key points of the proposal.

Risk: **Execution of contracts**

Context

- Ultra has an increasing number of large and complex contracts.

Impact

- The Group could manage these contracts badly and lose money and reputation.

Mitigation

- Ultra places great emphasis on managing the risks embedded in its customer contracts. The management teams of Ultra businesses must focus on reducing or retiring these risks as quickly as possible.
- Ultra will not enter into a fixed, firm priced solution with a firm timetable if there is embedded technical risk i.e. the overall design solution is not yet proven. Ultra will only commit to delivering what it knows it can deliver; Ultra places great pride in meeting its commitments.

Risk: **Staff retention**

Context
- The Group businesses are capital-light but specialist knowledge intensive.

Impact
- Ultra could lose key staff or capabilities so that the Group cannot fulfil its contractual obligations or is forced to outsource work, squeezing margins.

Mitigation
- The Group places great emphasis on recruiting, retaining and developing high quality individuals to work in Ultra teams.
- Ultra has consistently high levels of retention for key staff.
- Ultra has developed many human resources processes that reinforce the Group's culture and unique ways of operating.
- In addition to offering properly benchmarked salary and benefits, many training and career development techniques are used constantly to develop those identified as potential high achievers to maintain a challenging but rewarding environment for them.
- The Group also gives high priority to succession planning; all key staff have a nominated successor so the impact, if someone does leave the business, is reduced.
- For more information on Ultra's human resources initiatives, **see pages 18 to 20.**

Risk: **Exchange rates**

Context
- Ultra trades internationally and has both transaction and translation risk.

Impact
- Poor management or sudden exchange rate movements lead to losses.

Mitigation
- Ultra's projected net transaction exposure is mitigated by the use of forward hedging contracts.
- The level of hedging cover is regularly reviewed to ensure compliance with the agreed policy.
- By their nature, currency translation risks cannot be mitigated.
- For more information about how the Group manages foreign exchange risks, see **page 34**.

Risk: **Industry restructuring – vertical integration**

Context
- Ultra's customers could integrate vertically (organically or by acquisition), so undermining the Group's market position.

Impact
- A sudden removal of key market segments resulting in a loss of business.

Mitigation
- The Group operates in specific market niches that often have extremely high barriers to entry.
- Ultra executes its contracts well and constantly meets its commitments, thereby reducing the incentive for customers to attempt to emulate the Group's specialist expertise and capabilities.

Risk: **Pricing pressures**

Context
- Many of Ultra's customers are under severe budgetary constraints.

Impact
- Customers could react by demanding price reductions that the Group cannot offset with efficiency savings, thereby squeezing margins.

Mitigation
- Ultra has a long track record of product innovation, exploiting new, lower cost electronics technologies to reduce costs whilst delivering improved performance.
- Additionally, operational efficiencies are achieved by working more intelligently, particularly through embracing lean manufacturing and design processes.
- Ultra has made significant progress in sourcing production in low cost economies where this is appropriate given the nature of the products that the Group provides. The anticipated cost reductions have been achieved, thereby helping protect and improve the Group's underlying operating margins.

Performance
Risk management (continued)

Risk: **Relationships**

Context
- Some Ultra business depends on specific relationships, such as suppliers, joint venture, partners, agents, teaming partners, customers, governments and regulators.

Impact
- The Group potentially loses those relationships and consequently the business.

Mitigation
- The diversified nature of Ultra's activities is reflected in the broad range of platforms and programmes in which the Group is involved.
- This diversification extends to customer, supplier and partner relationships. Within its total sales to the major prime contractors, Ultra typically supplies products, equipment, sub-systems and services to a range of different platforms and programmes, with each one effectively acting as a different customer.
- Given that no single platform or programme represents more than 5% of revenue in any one year, there is, therefore, no single relationship of such significance that its severance would have a material impact on Ultra's performance or prospects.
- For more information about how the Group manages its relationships, **see page 40**.

Risk: **Supply chain constraints**

Context
- Ultra is reliant on key suppliers that could be impacted by various factors; examples include natural disasters (e.g. the Japanese tsunami), the pricing of subcomponents or financial issues (e.g. bankruptcy).

Impact
- Necessary components could become unavailable, causing programme delays or price rises that reduce margins. This could have a negative impact on Ultra's reputation and the Group's relationship with its end customers.

Mitigation
- Where possible Ultra dual-sources specialist components.
- Where necessary the Group holds sufficient buffer stock to protect against supply chain disruptions.
- In specific instances Ultra has undertaken 'lifetime buys' of components to assure supply and to protect against technical obsolescence.

Risk: **Technology or market change**

Context
- Ultra's competitive position could be undermined by a disruptive technology or a significant change in customer preferences regarding technologies, e.g. a move to commercial-off-the-shelf solutions.

Impact
- The Group's specialist capabilities could become redundant leading to a loss of business.

Mitigation
- Ultra's constant focus on innovation leads the Group to be a leader more often than a follower in introducing advanced technology solutions where appropriate.
- Lengthy programme timescales make it improbable that a technical innovation could invalidate Ultra's offering overnight.
- High integrity markets are, by their nature, quite conservative so technical revolutions are not commonplace.
- Ultra develops good relations with its customers – the Group focuses on customer pull rather than technology push so is likely to find out about changes in attitude early on in the process.
- The Group is 'technology-agnostic' and so willingly adopts commercial technologies where they can meet the customer requirement.

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

Risk: **Loss of regulatory approvals**

Context

- Much of Ultra's business relies on markets that require a high level of regulatory approval. For example, international defence sales are subject to export controls and high integrity equipment is subject to high minimum requirements set by regulatory authorities.

Impact

- If Ultra had a major ITAR or security infringement then the Group's ability to operate in the US, for example, could be severely curtailed.
- If the Group's high-integrity nuclear safety systems and components, for example, failed to meet regulatory approval then Ultra would not be able to access these markets.

Mitigation

- In all Ultra businesses there is a clear focus on maintaining compliance with all regulatory requirements of customers, industry, national and international law.
- The internal audit process that reviews such compliance is reported by each business in each monthly business report.
- Where non-compliances with required process are noted, the corrective action is monitored until full compliance is regained.

Risk: **Lack of suitable acquisition targets**

Context

- Ultra maintains a balance between organic and acquisition growth. Appropriate businesses that can be acquired at value-enhancing prices augment the Group's portfolio of capabilities.

Impact

- Ultra's rate of growth would be adversely impacted.

Mitigation

- Ultra retains a solid list of potential acquisitions and is confident that it can expand its range of specialist capabilities and take market share from others.
- Ultra identifies targets as part of its internal strategy review process; through use of specialist consultants and by receiving details of businesses being marketed.

Corporate responsibility

eight

To meet our commitments

see all eight of the strategic tenets on **pages 16 & 17**

Ultra believes that it 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. Ultra's policies relating to its corporate responsibility are generally established by the Board, with the individual businesses taking a major role in their implementation.

Relationships

- customers
  Ultra promotes excellent working relationships with all its customers with a special emphasis on meeting its commitments. The Group receives direct feedback on relationships from the UK MoD Directorate of Supplier Relations and from many customers, such as BAE Systems where Ultra is one of five members of its Strategic Supplier Programme. Ultra continues to be recognised as a long-term partner to its customers with a variety of achievements. For more information on how Ultra delivers its innovative solutions in partnership with teaming members and customers, see **pages 4, 26, 28 and 30**.

- suppliers
  Contracts with suppliers are placed following a fair, competitive tendering process on an arms-length basis or through formal teaming agreements. Conflicts of interest are avoided at all times. Ultra's supplier relationships engender a cooperative culture which assists problem solving and helps to accommodate changes of requirements where these occur. Gain-share arrangements are also entered into where appropriate and provide benefits for Ultra, its suppliers and its partners. 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.

Ethics

Ultra is committed to operating in accordance with all legislative requirements, including those pertaining to corrupt commercial practices. In the US, the Foreign and Corrupt Practices Act has been in force since 1977 and the UK Government has introduced into law the Bribery Act 2010. Both pieces of legislation are designed to ensure that commercial dealings are conducted ethically and free from corrupt practices.

Ultra requires that its employees comply with the spirit and principles of the laws and standards of conduct of the countries in which it does business as well as behaving in an ethical and fair manner. The Group's employees are required to maintain high standards of personal conduct and integrity at all times in carrying out the company's affairs.

Ultra has a corporate ethics policy and businesses are required to report on compliance every month. In addition, the Board reviews compliance twice per year.

Although ultimate responsibility for the Group's ethics policy lies with the Board, Managing Directors and Presidents of the individual businesses have total responsibility for the implementation and control of the policy.

Directors and employees are required to avoid personal conflicts of interest regarding company business and are bound by strict rules on insider dealing and insider information. In addition, all businesses are strictly required to comply fully with the relevant national export control regulations. They are also required to conduct their business in strict accordance with competition and anti-trust laws.

Ethics Committee

Ultra has established an Ethics Committee to provide independent advice and scrutiny of Ultra's business activity, providing assurance that the Group's current and planned undertakings are conducted in a manner consistent with the legislative environment and, just as importantly, are transparent and open to scrutiny.

The Committee comprises six permanent members, three of whom, including the Chairman, are independent.

The independent members are:

- David Shattock (Chairman)
  David is a retired Chief Constable and has served on the Committee since its inception.
- Martin Bell
  Martin is a journalist and former MP with a long track-record of campaigning against corruption.
- Major General (Retired) Tim Cross
  Tim is widely acknowledged as an expert commentator on moral and ethical behaviour.

The independent members of the Committee are self-selecting. This means that they are fully independent of the company and, as such, are able to scrutinise its activities free from undue influence.

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

The three Ultra members are:

- Rakesh Sharma – Chief Executive
- David Garbett-Edwards – Company Secretary
- Phil Evans – Managing Director, Aircraft & Vehicle Systems division

Fig 1. Reportable/recordable accidents per employee

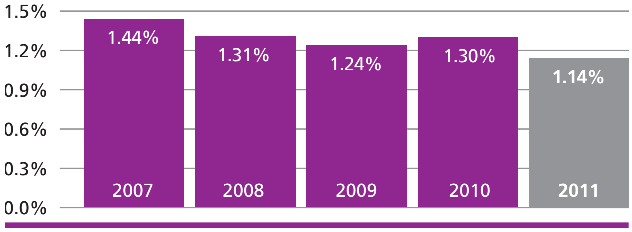
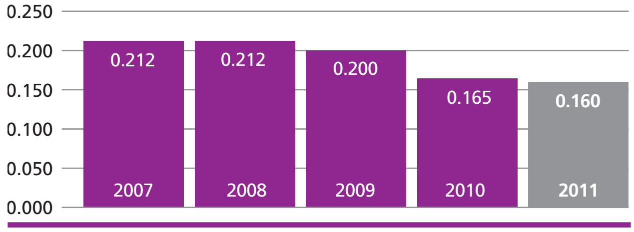


Fig 2. Packaging waste (t/3m sale) – UK businesses



The Committee meets approximately six times per year and undertakes a formal review of business activities. During these reviews, the independent members provide advice and guidance on the appropriateness of target markets and customers; on potential teaming partners and on risks associated with operating in potentially corrupt environments.

EthicsPoint

As part of its commitment to business ethics, Ultra recognises the importance of receiving feedback on compliance from employees. At the beginning of 2010, a Group-wide independent, anonymous web- and telephone based hotline, called EthicsPoint, was implemented for reporting ethical and other compliance issues. Any reports that are generated are compiled by the independent operator and forwarded to the Chairman of the Audit Committee (other than US security-related issues that will be routed through the outside directors of the Special Security Arrangement Board or Proxy Board). This service has been publicised to employees through emails, the Group intranet and posters.

Health and safety

One of the most important commitments Ultra has is to the health and well-being of the Group's employees. 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 to employees but also to visitors and the local communities in which the Group's businesses operate. All Ultra businesses are required to have a written local policy; to have the necessary resources to implement the policy; to provide adequate information, instruction and training for employees and to implement monitoring of health and safety standards. The Chief Executive is the Board member with overall health and safety responsibility. The Managing Directors and Presidents of the operating businesses are responsible for implementation of the policy. Bi-annual audits are conducted by independent, external, qualified assessors covering health and safety matters. The last audit cycle took place successfully in 2011. Each business is required to submit a separate annual report on health and safety issues. The results of the audits and annual reports from each business are reviewed by the Board annually in January. Incidents involving lost time or requiring external reporting are reported monthly. Accident and incident data is collected annually. The reportable/recordable accident rate has been maintained over recent years (Fig 1). The lost time accident rate per 200,000 hours for 2011 fell from 0.55 to 0.34.

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 ensure that the Group minimises the environmental impact of its activities. 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 audit process. 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. Bi-annual external audits covering environmental matters are conducted by independent, external, qualified auditors; the most recent audits took place in 2011. As with health and safety, the audits and the resulting follow-up process have proved effective in reaching and maintaining high standards of compliance across all sites. Where appropriate, individual businesses have ISO14001 accreditation. Energy consumption is measured annually and, where possible, the data compared with previous years. There was no contamination of land during 2011, continuing the track record of the previous three years. The results of the annual reports from each business are reviewed by the Board annually in January. In the UK, Ultra measures and reports on its packaging waste annually (Fig 2). Businesses are encouraged and incentivised to reduce the net amount of waste they produce.

Ultra is part of the UK Environment Agency's Carbon Reduction Commitment Scheme. See http://environment-agency.gov.uk/business/topics/pollution/126698.aspx for more information. The Group was ranked 1,098 with a weighted score of 1001.00 in the 2010/2011 CRC performance league table.

Ultra businesses have video communication and conferencing facilities. These have been progressively installed and upgraded over the last ten years and have proven highly effective in eliminating the need for travel in order to hold reviews and other meetings. The most significant effect has been a reduction in the amount of air travel undertaken.

Board of Directors

For the year ended 31 December 2011

Douglas Caster CBE BSc MIET (Chairman)
Douglas Caster is a highly experienced engineer and manager of electronics businesses. He has a long track record of driving growth and superior financial performance in the companies for which he is responsible.

Biographical details
Douglas Caster started his career as an electronics design engineer with the Racal Electronics Group in 1975, before moving to Schlumberger in 1986 and then to Dowty as Engineering Director of Sonar & Communication Systems in 1988. In 1992, he became Managing Director of that business and, after participating in the management buy-out 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 CPhys MInstP (Chief Executive)
Rakesh Sharma has unmatched experience of running different Ultra businesses and divisions and his focus always has been on driving growth in the Group. He ensures Ultra businesses concentrate on maintaining competitive advantage in the various specialist market sectors in which Ultra operates and delivering superior financial performance.

Biographical details
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)
Chris Bailey is an experienced plc Finance Director who brings valuable specialist and general management expertise to Ultra's board. With Aggregate Industries, Chris gained experience of an organisation with operations in all of Ultra's main geographic markets.

Biographical details
Chris Bailey was appointed to the board in January 2005. He was Group Finance Director of Aggregate Industries plc until 2004. 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.

Paul Dean MA FCMA (Finance Director)
Paul Dean is an experienced plc Finance Director whose experience, including participating in the buyout from Burmah Castrol and subsequent flotation, is an excellent match for Ultra.

Biographical details
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.

*Audit, Remuneration and Nominations Committee member

Ian Griffiths* BSc (Non-Executive Director)
Ian Griffiths brings to the Ultra board his substantial experience of running complex engineering organisations around the world and has demonstrated his skill at driving programmes of reinvestment to underpin business growth.

Biographical details
Ian Griffiths was appointed to the board in April 2003. From February 2006 until May 2007 he was Managing Director, Royal Mail Letters. Previously, he was a main board Executive Director of GKN plc, where he was Group Managing Director GKN Automotive, having been a member of the GKN Driveline senior management team since 1990. He is also a Non-Executive Director of Renold plc.

Sir Robert Walmsley* KCB, FREng (Non-Executive Director)
Sir Robert Walmsley brings to Ultra's board solid experience in the defence, security, energy and transport sectors, markets in which the Group is investing for further growth. He has substantial knowledge of all of Ultra's main geographic markets.

Biographical details
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.

Andy Hamment BA FRAeS (Group Marketing Director)
Andy Hamment has worked in the aerospace and defence industry for most of his career, mainly in business development and management roles. He focuses on ensuring that there is a robust strategic review process in each of the Group businesses.

Biographical details
Andy Hamment started his career with Hawker Siddeley before moving to Schlumberger in 1980, working in procurement and then marketing at Weston Aerospace before transferring to Solartron to become its Aerospace Business Manager. He joined Dowty in 1988 as Managing Director of the Controls business and participated in the management buy-out that created Ultra Electronics. He was appointed Group Marketing Director in July 2000 and joined the board at that time. He will retire from Ultra on 30 March 2012. He is also a Non-Executive Director of Senior plc.

Note: All details correct as at 31st December 2011

*Audit, Remuneration and Nominations Committee member

Executives and advisors

Executive Team members

Rakesh Sharma
Chief Executive

Paul Dean
Group Finance Director

Andy Hamment
Group Marketing Director

Mark Anderson
Group Marketing Director
(Designate)

Alan Barker
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

Bob Henry
Mergers & Acquisitions Director

David Garbett-Edwards
Company Secretary

Sharon Harris
General Counsel & Company Secretary
(Designate)

The members of Ultra's Executive Team have an average of 25 years experience working in the defence, security, transport and energy markets.

Business MDs and Presidents

Olugbenga Erinle
President
3eTI

John McAlonan
President
Advanced Tactical Systems

Peter Van De Geest
Managing Director
AEP Networks

Aidan Douglas
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

Kim Wrighton
Managing Director
Controls

Brian Garcia
President
Criticom

Pete Crawford
President
EMS

Paul Fardellone
President
Flightline Systems

Grant Levy
Project Director
Ithra (70%)

Ken Walker
Acting General Manager
Maritime Systems

Ken Tasch
President
Measurement Systems Inc.

Nick Gaines
Managing Director
Nuclear Control Systems

Dan Upp
President
Nuclear Sensors & Process Instrumentation

Rusty Kollmorgen
President
Ocean Systems

Jon Everett
Managing Director
PMES

Andy Yates
Managing Director
Precision Air & Land Systems

Paul Maguire
President
ProLogic

Mark Merrifield
Managing Director
Sonar Systems

Michael Phipps
President
SOTECH

Iwan Jemczyk
President
Tactical Communication Systems

Joe Peters
President
USSI

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Solicitors

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Corporate governance

Douglas Caster, Chairman

Chairman's introduction

Ultra's distinctive corporate culture

Since taking over from Julian Blogh, I have continued to foster the distinctive corporate culture that Ultra has established during its life as an independent entity. A key element on which the Group prides itself is a small Head Office team which sets policy and strategy guidance, and maintains contact with the operating businesses through the divisional management structure. Ultra does not have a centralised control mentality, but instead makes the 28 operating businesses responsible for their own success whilst maintaining scrutiny of their activities via a well established system of regular review meetings. This operational basis has served the Group well in identifying those situations which require higher level management guidance, and in some cases, intervention, whilst also allowing the businesses to maintain the agility that differentiates Ultra and underpins the Group's growth.

A strong corporate governance framework

The governance framework that supports this culture remains largely unchanged and is explained in detail on pages 46 to 54 of this report. During 2011 we have continued to strengthen the Group's governance framework in a number of ways, including the transfer to divisional management teams of the responsibility for carrying out monthly performance reviews with each operating business. Some divisional management teams have also been further strengthened during the year by the appointment of Divisional Strategy Directors.

Board composition and succession

I am committed to ensuring that the Board retains the right balance of skills and experience and that the Non-Executive Directors have ample opportunity to challenge and probe the plans and performance reports put forward by the Executive Directors. The Board will go through an interesting time of change during 2012 with the retirements of Andy Hamment, Group Marketing Director, and Ian Griffiths, Non-Executive Director.

Andy Hamment has served on the Board since 2000 and has been instrumental in the development of the Group's strategic planning process. He has ensured the successful implementation of this process in all of Ultra's businesses and as a result has made a significant contribution to the success of the Group. In addition he has ensured a co-ordinated approach to the marketing activities undertaken in the individual businesses and has provided the Board with well-informed regular updates on the global market environments in which the businesses operate.

Ian Griffiths joined the Board in 2003. He has served on the Audit, Remuneration and Nominations Committees throughout his tenure. His experience of other international engineering businesses has enabled him to make telling and insightful contributions to the Board's and the Committees' decision making processes.

The other Directors join me in thanking Andy and Ian for their valuable service to Ultra and in wishing them well in their retirement.

I am delighted with the appointment of Mark Anderson as Ultra's new Marketing Director and we are seeking a replacement for Ian Griffiths of similar experience and ability.

UK Bribery Act

The implementation of the UK Bribery Act has been a strong focus for the Board during 2011. We have ensured that the Group is in compliance with the requirements of the Act and have introduced new processes and disciplines including relevant training for all outward-facing employees and a thorough review of all agency agreements, particularly those in higher risk countries. The Group's Ethics Overview Committee continues to work well and provides a level of independent check on the Group's activities.

Looking ahead

Ultra's corporate governance culture remains strong and appropriate as the Group continues to expand into new countries and new operating arrangements, particularly joint ventures. The resilient performance during 2011 in a challenging market environment is evidence that having a high performing and experienced management team combined with a robust set of control processes enables Ultra to deliver sustained growth in shareholder returns.

Douglas Caster, *Chairman*
24 February 2012

Corporate governance report

Compliance statement

During 2011 Ultra complied with the requirements of the UK Corporate Governance Code (the "Code"), available from the website of the Financial Reporting Council, with the exceptions of the appointment of the former Chief Executive as Chairman (Code Provision A.3.1) and of the composition of the Board (Code Provision B.1.2).

The Board structure following the 2010 AGM comprised the Chairman, Dr Julian Blogh, three Non-Executive Directors, and four Executive Directors (including Douglas Caster, Chief Executive and Rakesh Sharma, Chief Operating Officer). Julian Blogh retired from Ultra at the 2011 AGM and was succeeded by Douglas Caster. In turn, Douglas Caster was succeeded as Chief Executive by Rakesh Sharma. The Board structure after the 2011 AGM therefore consisted of the new Chairman, and a balance of three Non-Executive and three Executive Directors which is compliant with the Code.

The Board recognises the need, under the Code, to explain the move of Douglas Caster from the position of Chief Executive to that of Chairman. Before considering such an appointment the Board consulted with Ultra's major shareholders who had all indicated their support for such a move. The appointment has been explained in detail in the 2009 and 2010 Annual Reports. The Board is confident that Douglas Caster is much better equipped to present an informed and effective challenge to the executive management than a new chairman appointed from outside the Group.

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 company. The business model and the Group's strategy are specifically addressed on pages 2 to 5 and 14 to 15 of the Annual Report.

The Group has applied the principles set out in the Code, including both the main principles and the supporting principles, by complying with the Code as reported above. Further explanations of how the main principles have been applied are set out below and 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 Board sets the overall strategy and direction for the Group and ensures that adequate controls are in place, including calibrating risk appetite and maintaining oversight of Ultra's risk management processes. The Board also ensures that the Group's businesses behave ethically and properly at all times and that the culture within those businesses is positive and constructive. It is the function of the Group's management, through Chief Executive Rakesh Sharma and his Executive Team, to run the operations of the Group. 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.

During 2011 the Board introduced a regular review of major projects being undertaken by the operating businesses. The Board has also given close scrutiny to the operation of those joint ventures into which it has entered with strong partners in new geographic regions.

A summary of some of the Board's key responsibilities and activities is set out below 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.

Routine 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 and the overall outlook for the Group
- 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

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
- A full day is dedicated to the review of the five-year strategic plan, receiving presentations from the Executive Team and discussing significant matters identified in the proposed plan
- Review of six-monthly 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

Meeting attendance 2011

	Main Board		Audit Committee		Remuneration Committee		Nominations Committee	
	Actual	Maximum possible	Actual	Maximum possible	Actual	Maximum possible	Actual	Maximum possible
Chairman								
Julian Blogh[1]	**3**	3						
Douglas Caster[2]	**10**	10	**-**	-	**-**	-	**-**	-
Chief Executive								
Rakesh Sharma[3]	**10**	10	**-**	-	**-**	-	**-**	-
Executive Directors								
Paul Dean	**10**	10	**-**	-	**-**	-	**-**	-
Andy Hamment	**10**	10	**-**	-	**-**	-	**-**	-
Non-Executive Directors								
Chris Bailey[4]	**10**	10	**4**	4	**5**	5	**2**	2
Ian Griffiths[5]	**9**	10	**4**	4	**4**	5	**2**	2
Sir Robert Walmsley	**10**	10	**4**	4	**5**	5	**2**	2

[1] Julian Blogh retired 21 April 2011.

[2] Douglas Caster was appointed 21 April 2011 (formerly Deputy Chairman and Chief Executive).

[3] Rakesh Sharma was appointed 21 April 2011 (formerly Chief Operating Officer).

[4] Chris Bailey is the Senior Independent Director and Chairman of the Audit, Remuneration and Nominations Committees.

[5] Ian Griffiths was unable to attend the December 2011 meetings due to illness.

Role of the Board (continued)

Other significant matters addressed by the Board in 2011 included:

- Approval of the deficit recovery plan following the triennial review of the Group's UK defined benefit pension scheme
- Agreement of the terms of reference for the Group's Ethics Overview Committee (*note – this is not a Board Committee but reports to the Chief Executive*)
- Approval of new banking facility agreements
- Approval of anti-corruption and bribery, and gifts and corporate hospitality policies

Board roles

Chairman

The role of the Chairman 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. The Chairman continues to utilise externally facilitated annual Board evaluations conducted over a two-year cycle to develop and promote smooth and effective interpersonal relationships within the Board.

Upon the appointment of Douglas Caster as Chairman, a set of Terms of Reference for his activities was agreed by the other Directors. These included 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 would seek to promote. New approaches that have been introduced include a series of private dinners at which only the Non-Executive Directors are present, a greater focus on the succession plans for each Director position and invitations to the senior management teams of Ultra's businesses to attend Board dinners.

Chief Executive

The role of the Chief Executive, Rakesh Sharma, is to manage and run the Group's businesses. He accomplishes this task through the Executive Team of which he is a member and Chairman. Management of the individual businesses is devolved to the Divisional Managing Directors and Presidents, assisted by dedicated Divisional Finance Directors. The Chief Executive also utilises the independent Ethics Overview Committee to provide independent oversight of specific ethical issues. The Chief Executive reports to the Board each month on the operational performance of the Group and of each Division, and on its future opportunities and prospects.

Senior Independent Director

Chris Bailey is the Senior Independent Director. He acts as a sounding board for the Chairman, when needed. While Ultra enjoys an open board culture, Chris Bailey provides an independent voice and is available as a point of contact for other 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 receives any reports anonymously submitted by employees via the externally hosted Employee Hotline. He ensures that any such reports are fully investigated and that corrective action is taken where necessary.

Board roles (continued)

Non-Executive Directors

Chris Bailey, Ian Griffiths and Sir Robert Walmsley 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 recognises that Ian Griffiths will complete 9 years service at the 2012 AGM. The Board is actively seeking a suitable replacement for Ian and expects to make an appointment after the AGM, at which time Ian will step down. For the interim period the Board considers that Ian will continue to act independently. 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 industries with exposure to international business, and in Sir Robert's case, a distinguished career in the Royal Navy followed by a senior position in the Ministry of Defence.

The key role of the Non-Executive Directors is to provide an appropriate level of challenge and constructive criticism to the plans of the Executive Directors.

Insurance

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

Board composition

Board of Directors pre 2011 AGM

Chairman: 1
Executive Directors: 4
Non-Executive Directors: 3

Current Board of Directors

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

Chairman; Executive Directors; Non-Executive Directors

The only personnel change to the Board during 2011 was the retirement of the Chairman, Dr Julian Blogh, at the AGM in April. The rationale for the move of Douglas Caster from his previous position as Chief Executive has been explained in detail in previous Annual Reports and on page 46. Following the AGM in April 2011 the Board structure is in line with the Code.

Board – tenure and independence

	Tenure years	Independent	Experience on other plc Boards
Chairman			
Douglas Caster[1]	**18**	**No**	**No**
Non-Executive Directors			
Chris Bailey	**7**	**Yes**	**Yes**
Ian Griffiths	**8**	**Yes**	**Yes**
Sir Robert Walmsley	**3**	**Yes**	**Yes**
Executive Directors			
Rakesh Sharma	**1**	**No**	**No**
Paul Dean	**2**	**No**	**Yes**
Andy Hamment	**11**	**No**	**Yes**

[1] Douglas Caster was appointed as Chairman on 21 April 2011.

Board skills and experience

The Board collectively possesses a deep understanding of the Group's core defence, security, transport and energy markets. This is complemented by its experience and expertise in other industries and other disciplines including procurement, accountancy and financial management. 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 and guidance.

Board expertise

The key elements of expertise that the Board have to call on are:

Executive Directors

Defence, security, transport and energy sectors – procurement, engineering, marketing, electronics design, general management, divisional management.

Other industries – accounting, financial management, executive and non-executive directorships in other listed companies (UK).

Non-Executive Directors

Defence, security, transport and energy sectors – engineering, general management, divisional management, service in the Royal Navy, government defence procurement, non-executive directorships in other listed companies (both UK and overseas).

Other industries – engineering, general management, divisional management, executive and non-executive directorships in other listed UK companies, accounting, financial management.

The particular skills and experience that each Director brings to the Board are described in their biographical details on pages 42 to 43.

Board skills and experience (continued)

The Board has agreed 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. Andy Hamment received fees of £25,541 in 2011 for his service as a Non-Executive Director of Senior plc.

Andy Hamment retires on 30 March 2012 and Ian Griffiths will be retiring from the Board shortly after the 2012 AGM. In appointing Mark Anderson as the new Marketing Director and in the search for a replacement for Ian Griffiths, 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 the other Board members. The process followed by the Nominations Committee is described on page 54. Mark Anderson brings significant experience of the defence industry, gained during his long experience in senior positions in the Royal Navy. More recently Mark has been a Divisional Strategy Director in Ultra's Tactical & Sonar Systems division and has gained a working understanding of the operations of the businesses in that division and of Ultra's culture and working practices. In seeking a replacement for Ian, Ultra is searching for a candidate with senior experience in a multinational organisation. Experience of working within engineering and manufacturing environments will be an essential attribute when making this appointment.

Diversity

Ultra has always followed the 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 has held detailed discussions over the requirements of the Code, the guidance issued by Lord Davies of Abersoch in his report "Women on boards" published in February 2011 and the FRC's subsequent consultation and forthcoming revisions to the Code. The Board understands and supports the principle that having a diverse range of views expressed at Board level strengthens and supports the Group's aims and its efforts to meet its strategic objectives. It is paramount that each Director appointed to the Ultra Board should be the best person available for the specific Board position.

Ultra's policy of always appointing the best person for the job is demonstrated by recent appointments to the Board. These include Rakesh Sharma as its Chief Executive; Mark Anderson, who will replace Andy Hamment as Marketing Director at the end of March 2012; and Sharon Harris who will succeed David Garbett-Edwards as Company Secretary when he retires at the 2012 AGM in April.

Director re-election

The Directors believe that the guidance contained within the UK Corporate Governance Code remains appropriate for Ultra and accordingly, with the exception of Andy Hamment who will retire, they will all stand for re-election at the AGM in April 2012. In previous years a small number of shareholders have either abstained or voted against the re-election of any director and an analysis of the reasons behind such a decision has provided useful information as to the motivation of those shareholders even when they have chosen not to engage directly with the Company on any areas of concern that they may have. Frequently these have proven to be relatively minor issues or misunderstandings on corporate governance issues which could be easily addressed and remedied. The Company is committed to active engagement with shareholders and strives for continual improvement in such areas.

Conflicts of interest

Each Director has a responsibility to bring any situational or transactional conflicts of interest to the attention of the Board as soon as they may arise. No new conflicts were identified during 2011.

Information flow, training and development

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 the Board meeting.

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 and the Mergers & Acquisitions Director. 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 may also be presented in person include major bids, updates on key strategic initiatives and major capital expenditure proposals; for example the relocation of businesses to new sites, or new buildings on existing sites.

The formal Board meetings are rotated around the sites of the UK operating businesses during the year and are planned to include one meeting a year at a North American business.

Due to a conflict with a meeting with a UK Government Minister, the North American visit was cancelled in 2011 but will be reinstated in future years. During 2011 the Board visited six operating businesses on sites away from Ultra's head office.

In 2012, nine visits are planned, including one to the US. The Board receives presentations from the senior managers of the host business detailing recent performance, key opportunities and future forecasts. Product demonstrations and site tours also take place and the senior managers are also invited to an informal dinner the night before the Board meeting.

Information flow, training and development (continued)

This gives all of the Directors a good practical insight into these operating businesses and is particularly useful for the Non-Executive Directors. The Non-Executive Directors will also conduct separate visits to a number of the North American 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.

Directors' induction and training

No new Directors joined the Board during 2011 so there was no requirement for any induction activity during the year. There will be new appointments to the Board in 2012. New Directors will 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. Programmes of visits to Group businesses will be arranged. It is important for these to encompass as many businesses as possible, since no two Ultra businesses are alike. New Directors will be encouraged to meet business and divisional management teams to gain a feel for the Group's style and culture. Annual visits are arranged for Non-Executive Directors to visit the Group's non-UK businesses. The Executive Directors travel frequently to all Group businesses and have ample opportunity to meet local management teams.

Specific training is arranged for all Directors as and when appropriate.

If any other areas are identified where specialist training is required this is arranged by the Company Secretary who will bring in experts in the particular subject, such as pensions, or company law, to present to the Board.

The Directors are able to call on independent professional advice should this be necessary in order for them to carry out their duties. The Company Secretary is responsible for providing guidance to the Board on the appropriate processes and procedures in order to maintain compliance with corporate governance and regulatory requirements.

Board evaluation

A Board evaluation process is operated which runs on a two year cycle.

During 2011 each Director completed a confidential evaluation on each of his colleagues on the Board. This was facilitated by an independent external consultant who provided the Chairman with a detailed summary of the results for each Director. The Chairman provided feedback to the Board as a whole, whilst each Director was provided with personal summarised feedback of the views of his colleagues. Strict anonymity was maintained throughout the exercise with only the Chairman being aware of the source of individual views and comments.

The next stage of the evaluation cycle will take place in 2012 where the Board will evaluate its performance as a whole. This second stage will cover the Board structure, processes and administration together with the dissemination of information to Directors.

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 all risks are managed and covers strategic, operational and financial matters. Particular attention is paid to the security of the Group's IT systems.

Ultra's internal controls are designed to meet the Group's particular needs and the risks to which it is exposed. The controls can provide only reasonable, not 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 each 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.

The Board maintains an internal audit process, carried out by Ernst & Young LLP, to review financial and information systems control procedures throughout the Group. All significant business units are audited at least once every two years, while other businesses are audited on a three-year cycle. In addition, all newly acquired free-standing businesses are audited within a year of their acquisition date.

The lead partner of 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 confirms whether appropriate action has been taken to address the risks when they next visit the business concerned.

Risk management

Risk management is not treated as a separate function within Ultra but is managed as an integral part of all of Ultra's management and control processes. During 2011 the Executive Team carried out a review of principal risks facing the Group and proposed that three additional risks should be specifically addressed in the Annual Report. Please refer to pages 35 to 39 for details of these major risks and the approach taken to mitigate these.

In all other respects risk management is part of the Group's normal control processes. In their monthly business performance reports individual operating businesses identify key opportunities and risks and their possible financial impacts. These are reviewed by and discussed with the Divisional Managing Directors and Presidents at monthly review meetings and any appropriate action agreed. In turn the Divisional Managing Directors and Presidents present monthly reports to the Chief Executive and the Group Finance Director which include an assessment of the risks inherent in each business's financial forecasts and of any other key risks. At a detailed operating level each business maintains risk registers for major projects in which the possible financial impact of each risk is identified, together with its probability and a description of the mitigating actions taken.

As part of the strategic planning process any major strategic risks facing the Group are identified and steps are proposed to and agreed with the Board by which these risks can be managed and minimised.

The Managing Directors and Presidents, and 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 2011 have been reviewed and internal procedures amended where necessary.

Financial reporting systems

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

Financial results for every operating business, for each Division and for the whole Group, are presented to the Board at every full Board meeting. These 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 responds promptly to any specific queries. Throughout the year, Ultra initiates and takes part in a number of events with current and prospective investors and financial analysts. 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. In an effort to make the Group's complex operations easier to understand, Ultra organises a number of events each year, from introductory briefings on the Group as a whole to presentations on specific areas of capability. Ultra also invites investors and members of the financial community to large exhibitions, such as Defence & Security Equipment International (DSEi), where the Group is exhibiting a large range of its specialist capabilities. Members of the Executive Team also take part in investor events arranged 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. The terms of reference for the Board and its committees are available for inspection at the meetings and may also be found on the Group's website at www.ultra-electronics.com. The Group has moved to electronic communication with shareholders wherever possible since this is both more efficient and environmentally friendly. Shareholders may opt to receive hard copy communication if they wish.

Non-Executive Directors are always available to meet with shareholders at any time should they have any concerns or questions that they wish to raise.

Financial calendar

27 March 2012	Annual Report and Accounts e-mailed to shareholders, made available on website or hard copies posted
11 April 2012	Ex-dividend date
13 April 2012	Record date
27 April 2012	Annual General Meeting
4 May 2012	Final dividend payment date
30 July 2012	Interim results announced
September 2012	Interim dividend

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 do members of the Company'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 2011

Fund	Holding	%
Unit trusts	32,268,374	46.7
Pension funds	12,273,500	17.8
Insurance companies	5,282,354	7.7
Private investor	3,160,169	4.6
Sovereign wealth	3,030,076	4.4
Trading position	2,292,044	3.3
Investment trust	860,851	1.2
Custodians	850,301	1.2
Delivery By value (collateral)	637,380	0.9
Charity	317,019	0.5
Mutual fund	278,711	0.4
Exchange-traded fund	249,285	0.4
Employees	235,247	0.3
UK Banks	120,000	0.2
Other managed funds	110,479	0.2
Foreign government	69,624	0.1
University	25,788	0.1
Other	6,915,713	10.0
Total issued share capital	**68,976,915**	**100.0**

Shareholder analysis by size of holding as at 31 December 2011

Size of shareholding	Total number of holdings	% of holders	Total number of shares	% issued capital
1-50	101	6.22	2,168	0.01
51-100	93	5.72	7,775	0.01
101-250	337	20.74	63,148	0.09
251-500	261	16.06	96,083	0.14
501-1,000	215	13.23	158,377	0.23
1,001-5,000	267	16.43	537,286	0.78
5,001-10,000	56	3.45	401,024	0.58
10,001-25,000	81	4.98	1,300,352	1.89
25,001-50,000	49	3.02	1,713,923	2.48
Over 50,000	165	10.15	64,696,779	93.79
Totals	**1,625**	**100.00**	**68,976,915**	**100.00**

Board Committees

Ultra has established three board Committees – 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, Ian Griffiths and Sir Robert Walmsley. 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, the Chief Executive and the Finance Director are invited to attend Audit Committee Meetings. The Company Secretary acts as Secretary to the Committee. The Marketing Director normally attends Audit Committee Meetings as an observer. The External Audit Lead Client Service Partner attends all Audit Committee Meetings, whilst the Lead Partner of Ernst & Young and the Internal Audit Manager attend those meetings at which summary Internal Audit Reports are reviewed by the Committee.

Role

As has been described in the sections on the control environment and risk management, 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 primarily through its receipt and review of internal audit reports from Ernst & Young which carries out this work, through reports from the Group Finance Director of his actions to ensure that the Group's operating businesses address any control weaknesses, through its review of the accounts and supporting reports presented by the Group's external auditor, Deloitte, and through 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 Deloitte, the Group's external auditor
- Review of internal audit reports from Ernst & Young who carry out a programme of internal audit visits to the operating businesses
- Receipt and review of plans to improve any internal controls where identified in the internal audit reports
- Carrying 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.

During 2011 the key activities carried out by the Committee were:

January

- Review of Ernst & Young's internal audit report
- Review of Finance Director's internal control improvements report
- Review and approval of external auditor's engagement policy
- Review of representation on fraud statement
- Review of proposed wording of Going Concern statement
- Initial work on evaluation of the external audit
- Additional matters for review as proposed by the Financial Reporting Council
- Introduction of new external Audit Partner (5 year rotation)

February

- Review of 2010 accounts
- Confirmation that Group should be treated as a going concern for 2010 accounts
- Receipt of external auditor's report on 2010 accounts
- Discussion on points raised for review by FRC
- Recommendation to the Board to approve 2010 accounts

July

- Presentation by Deloitte on the overview of the corporation tax landscape
- Report on internal audits conducted in 2011
- Review of Finance Director's internal control improvements report
- External auditor's management letter
- Feedback from new external Audit Partner
- Update from Deloitte on benchmarking of Ultra Annual Report & Accounts against peer group
- Review of Interim Results to 1 July 2011
- Recommendation to Board that Interim Accounts should be approved

September

- External audit plan and scope for 2011 reviewed and approved
- Audit Fees reviewed and approved
- Internal audit plan for 2012 reviewed and approved

During 2011 the Committee met with Deloitte, the Group's external auditor, on two occasions at which there were no Executive Directors present. At these meetings Deloitte reported on their views of the Group's performance and on the performance of the Executive Directors in running the Group.

Board Committees (continued)

The public interest disclosure process utilises an independent party to provide a point of contact for employees. Employees can file reports via an external website or by telephone 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 2011 there have been three reports submitted (four in 2010). These were fully investigated and appropriate action taken where required.

It is the policy of the Group that non-audit services provided by Deloitte LLP, 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, the Board believes that the auditors' 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 LLP 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. During 2011 Mark Mullins was succeeded by Kerr Mitchell as the Deloitte Lead Client Service Partner. Mr Mullins will remain as an advisory partner until the end of the 2012 audit.

The Committee has considered the likelihood of a withdrawal of the current auditors from the market and noted that there are no contractual obligations to restrict the choice of external auditors. The Committee has a policy formally to review the selection of external auditors, including the consideration of whether a tender process is appropriate.

The Committee has reviewed and monitored the external auditors' 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 in meetings where management had not been present, 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 LLP 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.

During 2011 the Committee met twice. The first meeting was to debate and agree the process for appointing a successor to Andy Hamment who had announced his intention to retire at the end of March 2012. It was decided that there should be an external recruitment process to enable internal candidates to be benchmarked against the best candidates available in the market. It was agreed that an executive search firm should be engaged for this task. A short list was prepared for the Committee to consider. A second meeting was held to consider the result of the selection process and to formally approve a recommendation to the Board that Mark Anderson be appointed to succeed Andy Hamment as Marketing Director (please refer to comments under "Board Skills and experience" above).

Ultra operates a well established succession planning process. This is described in detail on page 19.

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 Group Chairman being present to agree his remuneration. Full details of the activities of the Remuneration Committee during 2011 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 AGM.

Statement of going concern

Ultra's banking facilities amount to £210m in total, plus a £15m overdraft. They were established in two tranches.

The first tranche comprises £120m of revolving credit, denominated in Sterling, US dollars and Canadian dollars. This facility was signed in February 2010 and expires in September 2013. The facility is provided by a group of five banks.

The second tranche provides a further £90m of revolving credit. This was signed in January 2011 with six banks and is set to expire in February 2016. Both facilities have the same covenants.

During 2011, the Group agreed a "shelf" facility 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 $10m of loan notes had been issued, which will mature in 2018. A further $60m of loan notes were issued in January 2012.

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 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 2012 and strategic plan for later years give confidence that the Group will continue to meet these covenants. Details of how Ultra manages its liquidity risk can be found in note 23 – Financial Instruments and Financial Risk Management.

Though global macro-economic conditions remain uncertain, the long-term nature of Ultra's business and its positioning in attractive sectors of its markets, taken together with the Group's forward order book provide a satisfactory level of confidence in respect of trading in the year to come. As a consequence the Directors believe that the Group is well placed to mitigate any material adverse consequences of the current economic conditions.

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 IAS Regulation 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; and
- 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; and
- 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 hence 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; 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, *Finance Director*
24 February 2012

Remuneration report

Chris Bailey, Chairman, Remuneration Committee

Chairman's Introduction

I am pleased to present Ultra's Remuneration report setting out future policy for 2012 and beyond and remuneration outcomes for 2011. During 2011 Douglas Caster succeeded Julian Blogh as Chairman of the Group and was in turn succeeded by Rakesh Sharma as Chief Executive. The Committee held an additional meeting to agree the new Chief Executive's salary following his promotion from his previous position of Chief Operating Officer. The Committee also set the initial salary for the new Marketing Director, Mark Anderson. The Committee now has a policy of carrying out an annual review of the total remuneration package for Executive Directors. In carrying out the review, the Committee considered reward arrangements across the entire Group, as well as those of Ultra's competitors. In setting reward structures, the objective has continued to be keeping remuneration levels at a sufficient level to maintain and motivate the high quality of Directors and senior managers at Ultra whilst being mindful of median remuneration levels for companies of a similar size and market capitalisation. The Committee was satisfied that the existing components of the Executive Directors' remuneration packages, namely a base salary, a bonus scheme based on the Group's profit and cash performance, and a Long Term Incentive Plan ("LTIP"), are still appropriate for the Group's needs and that these packages drive the right behaviour needed to deliver the Group's strategic objectives.

The Committee continues to believe that challenging targets, supported by clear sets of rules which are firmly and consistently applied, result in a strong motivation for Executive Directors and senior managers to continue the excellent performance of the Group. The Earnings per Share underpin in the LTIP is regarded by the Committee as an essential element in the incentive framework for ensuring the Group's continued growth.

In the light of developing best practice the Committee also decided to introduce clawback provisions into the Executive Directors' Bonus and Share Scheme Rules. Although the likelihood of fraud or deliberate mis-statement of the Group's financial results is thought to be very low, the Committee has nevertheless decided that a clawback provision provides a useful safeguard.

This year, the Committee specifically debated the issue of risk management within the remuneration policy, with particular reference to ensuring that the remuneration policy aligns closely with the risk profile of the company and does not encourage unnecessary risk taking. The Committee believes that such risk is mitigated by the fact that all Board members (including those Non-Executive Directors who are members of the Remuneration Committee) have a high degree of oversight to the corporate strategy, and a deep understanding of the measures and targets set within the 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. The 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 the report will be proposed at the AGM of the Company at which the financial statements will be approved.

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 the report have been properly prepared in accordance with the relevant legislation. The report has therefore been divided into separate sections for audited and unaudited information.

Composition and role of the Remuneration Committee ('the Committee')

Role

The remit of the Committee is to make recommendations to the Board on the framework of senior executive remuneration and to determine annually the individual salaries, annual bonuses payable (if any), share-based incentive awards and other terms and conditions of employment of the Executive Directors. The Committee is also required to monitor and make recommendations regarding the level of remuneration for senior managers reporting to the Executive Directors. The full terms of reference of the Committee are available on the Company's website (www.ultra-electronics.com).

Composition

Chris Bailey was the Chairman of the Remuneration Committee during 2011. Sir Robert Walmsley and Ian Griffiths, both independent Non-Executive Directors, were the other Committee members. David Garbett-Edwards acted as secretary to the Committee. The Chairman and the Chief Executive also normally attend Committee meetings by invitation, except where matters directly relating to their own remuneration are discussed, although they are not Committee members.

Composition and role of the Remuneration Committee (continued)

Advice

Wholly independent advice on executive remuneration and share schemes is received from New Bridge Street, an Aon Company. Pensions advisory services were also provided to the Committee and the Group by Aon Hewitt Ltd. During 2011 insurance broking services were also provided to the Group by other subsidiaries of Aon Corporation which the Committee believes in no way prejudices New Bridge Street's position as the Committee's independent advisers. 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.

In addition, the Committee consults the Chief Executive with regard to the remuneration and benefits packages offered to Executive Directors and members of the Executive Team during the year, except in relation to his own remuneration and benefits package. This is determined by the Committee, which meets without him for this purpose.

Key activities during 2011

During 2011 the Remuneration Committee met five times. The key activities were:

February
- Agreement of Chairman's fees for 2011
- Review and approval of 2010 Remuneration report
- Approval of 2010 executive bonus awards
- Setting of 2011 executive bonus targets
- Approval of 2008 LTIP award vesting
- Grants of 2011 LTIPS
- Approval of executive share option awards for 2011

April
- Agreement of fees for newly appointed Chairman
- Discretionary decision re LTIPs
- Setting and approval of new Chief Executive's remuneration

July
- Additional executive share option awards
- Approval of mid-year salary award for a newly appointed Executive Team member

November
- Overall review of Executive Directors' remuneration – market trends, regulatory developments, investor guidelines, salary surveys, disclosure trends, risk management
- Setting of Executive Directors' remuneration packages for 2012
- Review of Chief Executive's recommendations for Executive Team remuneration 2012
- Review of bonus scheme rules – introduction of clawback provision
- Review of Divisional Managing Directors' and Presidents' bonus scheme mechanisms
- Authorisation of changes in pension payments following statutory changes to annual and lifetime allowances

December
- Approval of Chairman's fees for 2012

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 based on a comparator group of representative UK listed companies

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

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

The Group's remuneration policy is to reward senior management competitively, enabling the Company to recruit, motivate and retain executives of high calibre, whilst avoiding making excessive remuneration payments. The remuneration of senior managers is aligned with corporate objectives and the interests of shareholders in the same manner as that of the Executive Directors. As is outlined in the table below, base salary levels are set by reference to the salaries paid in companies of a similar turnover and market capitalisation. The linkages between the three elements of the Executive Directors' remuneration packages with the Group's objectives and the interests of shareholders are outlined opposite.

When setting base salaries and the other elements of remuneration for the Executive Directors, regard is given to 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 basic mechanism of the Executive Directors' bonus scheme is the same as that utilised for the Executive Team, individual operating business Managing Directors and Presidents and for other functional directors, although the quantum of the bonus varies between these groups of employees.

Salaries

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 15 companies drawn from the LTIP TSR comparator group with a similar size to Ultra in 2011. These companies were:

WS Atkins	**Domino Printing Sciences**	**QinetiQ Group**	**Spectris**
Charter International	**Halma**	**Renishaw**	**Spirax-Sarco Engineering**
Chemring Group	**Logica**	**Rotork**	**Spirent Communications**
Cobham	**Oxford Instruments**	**Senior**	

and

(2) A "general" group comprising 40 companies from across all sectors (excluding Financial Services) with a similar market capitalisation and turnover to Ultra.

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

Specific factors taken into account by the Committee when determining each Executive Director's base salary are:

- the median level of base salary for a similar position within a like group of companies chosen on the basis of size and similarity of operations;
- the individual Director's performance;
- his responsibilities; and
- the relative levels of pay and employment conditions across the Group.

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 2012:

	2012 Salary	2011 Salary	% Increase
	£'000	£'000	%
Chief Executive	**420**	400[1]	5.0
Finance Director	**305**	290	5.2
Marketing Director	**255**	243[2]	4.9

[1] The salary shown is the annual equivalent salary for the Chief Executive following his appointment to that position with effect from 21 April 2011. The annual equivalent salary of Douglas Caster, the previous Chief Executive, was £466,000 per annum for the period 1 January 2011 to 21 April 2011, although Mr. Caster worked a three-day week during that time and his salary was reduced accordingly.

[2] The salary shown is for the incumbent Marketing Director, Andy Hamment, who will retire on 30 March 2012. He will be succeeded in this role by Mark Anderson whose initial salary will be £180,000 per annum. The Remuneration Committee has set this salary at a level below Mr Hamment's, but plans to move Mr Anderson's salary towards the market median.

Annual bonus scheme

Bonus payments in 2011 were based upon the achievement of operating profit 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. Operating profit and cash flow are two of the Key Performance Indicators by which the Group is measured. Please refer to pages 12 and 13 for details. The maximum bonus for Executive Directors was 100% of base salary. In 2011 the bonus targets set by the Committee were a maximum of 25% of salary subject to the achievement of a £113.9m 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 £143.0m after capitalised development costs, capital expenditure and purchase of long-term incentive plan shares. The actual results for the year led to an aggregate bonus pay-out of 76.4%, of which 25% of salary was due to the profit before tax target being met in full and the balance was linked to achievement against the cash flow target. The pay-out was below the maximum because the cash performance did not reach the maximum level when adjusted to normalise working capital movements during the year.

The structure of the bonus schemes for 2012 will follow the same logic as for 2011 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.

The Committee has also decided that, from 2012, clawback provisions should be introduced to the annual bonus and share schemes. The circumstances in which a clawback may be triggered are (i) fraud/misconduct resulting in overpayment of a bonus to employees, or (ii) a material error resulting from fraud/wilful misconduct in the manner in which the achievement of the bonus targets has been calculated, which results in overpayments to employees. In practice, the Committee believes the targets attached to the bonus (i.e. with a majority linked to operating cash flow), mean that the likelihood of such an event occurring is extremely low.

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 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. 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 Ultra's profits and to generate excellent returns for shareholders as a result.

Relative total shareholder return ("TSR") applies to all new awards made under the 2007 LTIP going forward, as well as outstanding awards. The Committee believes 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 12 to 13 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 will be compared with that achieved by a representative comparator group of companies.

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%

The Committee reviews the comparator group annually and makes such adjustments as it sees fit (for example, to take account of companies which delist during the year).

The comparator groups for measuring relative TSR for the awards made in 2009, 2010, and 2011 were as follows:

2009 group

Alba	**Domino Printing Sciences**	**Psion**	**Spectris**
BAE Systems	**Filtronic**	**QinetiQ**	**Spirax-Sarco Engineering**
Charter	**Halma**	**Renishaw**	**TT Electronics**
Chemring Group	**Hampson Industries**	**Rolls-Royce**	**UMECO**
Chloride Group	**Laird Group**	**Rotork**	**Vitec Group**
Cobham	**Meggitt**	**Senior**	**Volex Group**
Dialight	**Oxford Instruments**	**Smiths Group**	**VT Group**

2010 group

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

2011 group

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

Charter delisted on 13th January 2012 and was removed from the comparator group for 2012. The list of remaining companies has been reviewed and it has been agreed that these are sufficient to form the comparator group for 2012:

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**

Detailed structure of TSR performance condition (continued)

In addition to the main TSR condition, an "underpin" will apply to these awards requiring average annual growth in headline EPS growth of 7% over the relevant performance period. In the event that this 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. Growth in EPS is one of the Key Performance Indicators by which the Group is measured. Please refer to pages 12 to 13 for details.

During 2011, the Committee reviewed the underpin to ensure that it remains in line with Ultra's growth plan and does not encourage excessive risk taking. It concluded that the EPS underpin continues to represent a high hurdle and remains suitable at the present time.

The extent to which awards vest will be verified independently by a third party.

The Committee exercised its discretion (as provided under the rules of the LTIP) over Mr Caster's outstanding LTIP awards when he retired from his position as Chief Executive at the 2011 AGM. The Committee decided that, in view of Mr Caster's long service and significant contribution to the building of Ultra's success over a period of many years, he should retain his LTIP awards and that they would vest at the normal time and were still subject to the defined performance conditions.

All-Employee Share Plans

The Executive Directors are also eligible to participate in the Company's Inland Revenue 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 increase the alignment of interests between senior executives and shareholders, the Committee has introduced a share ownership guideline under which all Executive Directors will be encouraged 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. 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 24 February 2012

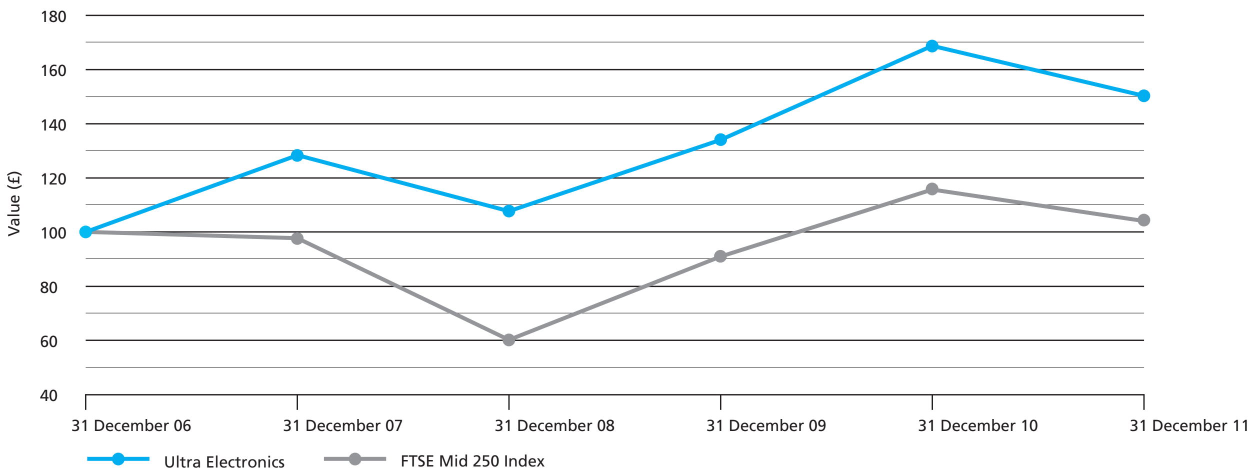
Name of Director	Direct and indirect shareholdings	LTIPs granted but not yet vested	SAYE options	Total shares plus options
P. Dean	330	55,934	316	**56,580**
A. Hamment	134,922	44,691	646	**180,259**
R. Sharma	40,271	43,455	646	**84,372**

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 2011 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
P. Dean	1 January 2009	12 months
A. Hamment	1 July 2000	12 months
R. Sharma	21 April 2011	12 months

- 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 2011 and received additional fees as a result.

Non-Executive Directors' fees have been reviewed for 2012 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 2012 will be:

	2012 Fees £'000	2011 Fees £'000
Base fee		
Chairman	**182.0**	175.0
Non-Executive Directors	**45.0**	43.0
Supplements		
Chairman of the Audit Committee	**5.5**	5.0
Chairman of the Remuneration Committee	**5.5**	5.0

Service contracts

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

Name	Date of contract	Notice period
C. Bailey	31 January 2012	Nil
D. Caster	21 April 2011	Nil
I. Griffiths	1 May 2011	Nil
Sir R. Walmsley	31 January 2012	Nil

- 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 current Executive Directors, except Paul Dean who participates in a defined contribution plan. When appointed, Mark Anderson will also participate in a defined contribution plan. 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 50. After age 58, Group consent to early retirement is not required. Pensions are reduced in the event of early retirement. Directors can elect for death-in-service cover in a range from one to six times annual earnings. 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 Director, a spouse's pension of 50% of the Director's pension is payable. Once the pension is in payment, the part of the 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.

1. Introduction
2. Strategic review
3. Performance
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AUDITED INFORMATION

Directors' pension benefits earned

The table below sets out the pension benefits earned by Executive Directors for the year ended 31 December 2011:

	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	57	121	6	105	130	1,738	2,349	590
R. Sharma	50	50	4	37	56	516	799	256

*Less Directors' contributions.

Paul Dean participates in the Group Personal Pension Plan, a defined contribution scheme. Employer contributions for the year were £52,200 (2010: £50,040).

Directors' remuneration

Directors' emoluments are detailed below:

	Basic salary	Other cash emoluments	Fees	Annual performance bonus	Benefits	2011 Total	2010 Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
C. Bailey	-	-	53	-	-	53	50
J. Blogh	-	-	54	-	-	54	166
D. Caster[1]	109	-	117	-	32	258	517
P. Dean	290	-	-	222	22	534	428
I. Griffiths	-	-	43	-	-	43	41
A. Hamment	243	12	-	186	3	444	359
R. Sharma[2]	366	-	-	280	18	664	294
Sir R. Walmsley	-	-	43	-	-	43	41
	1,008	**12**	**310**	**688**	**75**	**2,093**	1,896

[1] Douglas Caster reduced his working hours to three days per week with effect from 1 May 2010 with a proportionate reduction in his salary. From 21 April 2011 Douglas Caster became Non-Executive Chairman.

[2] Rakesh Sharma's 2010 emoluments are for the period 23 April 2010 to 31 December 2010. From 21 April 2011 Rakesh Sharma became Chief Executive.

Pension contributions to Directors of £161,521 (2010: £138,415) were paid by the Company, including £62,584 (2010: £27,750) 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

	D. Caster	A. Hamment	P. Dean	R. Sharma	Market price of shares granted	Crystallising dates of outstanding awards
2008 award	30,968	13,213	-	10,405	£12.11	March 2011
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
Interests at 1 January 2011	87,306	44,045	39,539	37,347		
2008 award lapsed during the year	(5,884)	(2,511)	-	(1,977)		
2008 award crystallised during the year	(25,084)	(10,702)	-	(8,428)		
2011 award	15,923	13,859	16,395	16,513	£16.96	March 2014
Interests at 31 December 2011	**72,261**	**44,691**	**55,934**	**43,455**		

Directors' interests under Long-Term Incentive Plans (continued)

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 24,700 shares (nominal value of £1,235) for a net £422,174 relating to the 2011 award (2010: 91,218 shares). This includes £261,598 worth of Ultra shares for the Directors (2010: £1,003,066).

The 2008 award crystallised during the year as detailed above. The actual date of the award was 7 March 2008. The market price of the shares when granted was £12.11. The market price of the shares on vesting was £16.99. The aggregate gain made by the Directors under the LTIP during the year was £751,196 (2010: £789,266). Ultra's share price on 31 December 2011 was £14.78. The range during 2011 was £13.04 to £17.96.

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 2011	**Shares acquired during year**	**Interests as at 31 December 2011**	**Partnership shares acquired from 1 January 2012 to 24 February 2012**	**Interests as at 24 February 2012**
D. Caster	2,170	**68**	**2,238**	**-**	**2,238**
P. Dean	215	**98**	**313**	**17**	**330**
A. Hamment	2,170	**142**	**2,312**	**17**	**2,329**
R. Sharma	2,170	**142**	**2,312**	**17**	**2,329**

During the year, the Share Ownership Plan Trust, established and operated in connection with the AESOP, purchased 34,267 (2010: 31,678) Ultra Electronics Holdings plc shares, with a nominal value of £1,713 (2010: £1,584) for £556,850 (2010: £493,007).

Directors' interests

Details of Directors' shareholdings are given below:

	At start of year		**At end of year**		**At 24 February 2012**
	Direct ownership	Indirect ownership	**Direct ownership**	**Indirect ownership**	**Direct ownership**
C. Bailey	-	2,500	**-**	**2,500**	**-**
D. Caster	31,798	633,522	**117,666**	**633,522**	**117,666**
P. Dean	215	-	**313**	**-**	**330**
I. Griffiths	-	-	**9,013**	**-**	**9,013**
A. Hamment	2,370	127,156	**7,749**	**127,156**	**7,766**
R. Sharma	5,110	30,516	**5,252**	**35,002**	**5,269**
Sir R. Walmsley	1,600	-	**1,600**	**-**	**1,600**

There were no changes in indirect ownership between 1 January 2012 and 24 February 2012.

This report was approved by the Board of Directors on 24 February 2012 and signed on its behalf by:

Chris Bailey, *Chairman of the Remuneration Committee*

Directors' report

For the year ended 31 December 2011

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 2011. Details in relation to health and safety, the environment, business ethics, employment practice and employee consultation and charitable donations are included in the Strategic Review on page 20 and in the Corporate Responsibility Statement on pages 40 and 41. The Corporate Governance statement on pages 45 to 56 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 and manufacture 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 2011 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 2011 on pages 24 to 34 and Management of risks and uncertainties and corporate responsibility on pages 35 to 41.

Results and dividends

Group results and dividends are as follows:

		2011 £'000
Balance on retained earnings, beginning of year		185,969
Total comprehensive income for the year		57,670
Dividends:	2010 final paid of 24.0p per share	(16,446)
	2011 interim paid of 11.7p per share	(8,023)
Equity-settled employee share schemes		979
Balance on retained earnings, end of year		**220,149**

The final 2011 dividend of 26.8p per share is proposed to be paid on 4 May 2012 to shareholders on the register at 13 April 2012. The interim dividend was paid on 23 September 2011, making a total of 35.7p (2010: 32.2p) per share paid in the year.

Future developments

A review of the activities and future developments of the Group is contained in the Chief Executive's Strategic Review on pages 10 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 £127.2 million (2010: £112.7 million) was spent on engineering development of which £85.8 million (2010: £73.0 million) was funded by customers and £41.4 million (2010: £39.7 million) by the Group.

Purchase of own shares

During the year the Company purchased 24,700 (2010: 91,218) of its ordinary shares and 48,193 (2010: 56,447) ordinary shares were distributed following vesting of awards under the Ultra Electronics Long-Term Incentive Plan. At 31 December 2011, the Group held 235,245 ordinary shares under the Ultra Electronics Long-Term Incentive Plan (representing 0.3% of the ordinary shares in issue on 31 December 2011).

Disabled employees

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

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 24 February 2012 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 24 February 2011, 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
BlackRock Inc	Indirect	4.2	2,910,296	15 April 2010
Legal and General Assurance (Pension Management) Limited	Direct	4.0	2,732,407	7 April 2010
Norges Bank	Direct	3.0	2,093,200	6 May 2011

Charitable and political contributions

The Group contributed £58,000 (2010: £70,000) to charities and made no contributions for political purposes in either 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 2011 were 63 days (2010: 65 days), based on the ratio of Group trade payables at the end of the year to the amounts invoiced during the year by suppliers. The Company had no trade payables at either year end.

Contractual arrangements

The Group contracts with a large number of customers in order to sell its wide portfolio of specialist capabilities to a broad range of customers around the world. The Group's largest customers are the US Department of Defense and UK Ministry of Defence. Contracts placed with these customers are on a wide range of separate contracts placed by different Ultra businesses through different project offices and project teams.

The Group also contracts with numerous suppliers across the world and manages these arrangements to ensure that it is not over-dependent on a single supplier. This is normally achieved through dual sourcing specialist components.

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 also 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 Combined 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 Main Board Terms of Reference, copies of which are available on request, and in the Corporate Governance Statement on page 45.

Annual General Meeting

Explanation of special business resolutions is given below:

Resolution 13

This resolution authorises the Directors to allot shares in the Company up to a maximum nominal amount of £1,149,936 representing one third of the issued share capital of the Company. The Authority expires on the earlier of the date falling 18 months after the date of the passing of this resolution or the conclusion of the next Annual General Meeting.

Resolution 14

This resolution authorises the Directors in certain circumstances to allot equity securities for cash other than in accordance with the statutory pre-emption rights (which require a company to offer all allotments for cash first to existing shareholders in proportion to their holdings). The relevant circumstances are either where the allotment takes place in connection with a rights issue or the allotment is limited to a maximum nominal amount representing approximately 5% of the total issued share capital of the Company as at 24 February 2012, being the latest practicable date before the publication of the Notice of AGM. The resolution complies with the latest issued guidelines of the Association of British Insurers, and is similar to authorities given previously. This authority, and that requested in Resolution 13, expire on the earlier of the date falling 18 months after the date of passing this resolution or the conclusion of the next Annual General Meeting of the Company. The Directors have no current intention to exercise the authorities sought by these resolutions except for employee share schemes.

Resolution 15

This resolution authorises the Directors to purchase up to a total of 3,449,810 of the Company's shares, representing 5% of the issued share capital of the Company. This authority expires on the earlier of 18 months from the date of passing this resolution or the conclusion of the next Annual General Meeting of the Company.

The Directors will use the share purchase authority with discretion. In reaching a decision to purchase shares of the Company the Directors would take account of the Company's business and any impact on earnings per share and net tangible assets per share. The Directors have no current intention to exercise the authority sought by this resolution.

The minimum price that can be paid for an ordinary share is 5p being the nominal value of an ordinary share. The maximum price that can be paid is 5% over the average of the middle market price for an ordinary share, derived from the Daily Official List of the London Stock Exchange, for the five business days immediately before the day on which the share is contracted to be purchased.

As at 24 February 2012 being the latest practicable date before publication of the Notice of AGM, there were outstanding options under the Company's discretionary share incentive plans and employee share savings schemes in respect of 1,322,172 ordinary shares of the Company, representing approximately 1.92% of the Company's issued ordinary share capital (there are no treasury shares). If the authority to purchase the Company's ordinary shares were exercised in full, such options would represent 2.02% of the Company's issued ordinary share capital.

Resolution 16

This resolution authorises a reduction in the minimum notice period for general meetings, other than annual general meetings. Whilst the Company's Articles of Association already provide for a minimum notice period of 14 days for general meetings, the Companies Act 2006 (as amended by the EU Shareholder Rights Directive) requires that the Company requests shareholders to authorise this minimum notice period at every Annual General Meeting.

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,
D. Garbett-Edwards, *Company Secretary*
24 February 2012
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 2011 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 2011 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 2011 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
24 February 2012

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 2011

	2011 £'000	2010 £'000	Change %
Revenue	**731,733**	710,043	3.1
Underlying operating profit*	**122,116**	110,346	10.7
Operating profit	**99,215**	90,015	10.2
Underlying profit before tax*	**114,901**	102,688	11.9
Profit before tax	**91,179**	91,309	(0.1)

	2011 pence	2010 pence	Change %
Underlying earnings per share*	**120.2**	107.9	11.4
Basic earnings per share	**96.2**	96.8	(0.6)
Dividend per share	**38.5**	34.6	11.3

* Ultra uses underlying figures as key performance indicators. Underlying figures are stated before amortisation charges relating to acquired intangibles, significant items that do not affect the underlying performance of the business 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 2011

	Note	2011 £'000	2010 £'000
Continuing operations			
Revenue	3	**731,733**	710,043
Cost of sales		**(514,944)**	(505,425)
Gross profit		**216,789**	204,618
Other operating income	4	**2,037**	943
Distribution costs		**(1,141)**	(1,121)
Administrative expenses		**(116,653)**	(113,781)
Share of profit from associate	16	**2,793**	2,558
Other operating expenses	5	**(4,610)**	(3,202)
Operating profit	6	**99,215**	90,015
Investment revenue	8	**296**	9,587
Finance costs	9	**(8,332)**	(8,293)
Profit before tax		**91,179**	91,309
Tax	10	**(25,015)**	(24,984)
Profit for the year from continuing operations		**66,164**	66,325
Attributable to:			
Owners of the Company		**65,884**	66,325
Non-controlling interests		**280**	-
Earnings per ordinary share (pence)			
From continuing operations			
Basic	12	**96.2**	96.8
Diluted	12	**95.8**	96.2

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

Consolidated statement of comprehensive income

For the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Profit for the year		**66,164**	66,325
Exchange differences on translation of foreign operations		**2,719**	9,868
Gain/(loss) on net investment hedges		**289**	(2,453)
Actuarial (loss)/gain on defined benefit pension schemes		**(8,312)**	4,778
Loss on cash flow hedges		**(84)**	(1,013)
Transfer from profit and loss on cash flow hedges		**1,702**	2,224
Tax relating to components of other comprehensive income	10	**98**	(2,338)
Other comprehensive income for the year		**(3,588)**	11,066
Total comprehensive income for the year	28	**62,576**	77,391
Attributable to:			
Owners of the Company		**62,296**	77,391
Non-controlling interests		**280**	-

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

Consolidated balance sheet

31 December 2011

	Note	2011 £'000	2010 £'000 As restated*
Non-current assets			
Goodwill	*13*	**278,125**	221,761
Other intangible assets	*14*	**140,333**	85,299
Property, plant and equipment	*15*	**48,587**	45,354
Interest in associate	*16*	**6,610**	3,668
Deferred tax assets	*25*	**11,911**	15,503
Derivative financial instruments	*23*	**1,948**	3,750
		487,514	375,335
Current assets			
Inventories	*17*	**47,672**	49,366
Trade and other receivables	*19*	**197,071**	158,003
Cash and cash equivalents		**41,051**	68,129
Derivative financial instruments	*23*	**2,746**	2,933
		288,540	278,431
Total assets		**776,054**	653,766
Current liabilities			
Trade and other payables	*20*	**(235,709)**	(206,093)
Tax liabilities		**(19,721)**	(18,847)
Derivative financial instruments	*23*	**(263)**	(3,411)
Obligations under finance leases	*21*	**(63)**	(129)
Borrowings	*22*	**(78,912)**	(49,992)
Short-term provisions	*26*	**(14,457)**	(17,086)
		(349,125)	(295,558)
Non-current liabilities			
Retirement benefit obligations	*31*	**(82,871)**	(78,464)
Other payables	*20*	**(27,861)**	(20,409)
Deferred tax liabilities	*25*	**(11,942)**	(11,217)
Derivative financial instruments	*23*	**(804)**	(442)
Obligations under finance leases	*21*	**(76)**	(183)
Borrowings	*22*	**(8,148)**	-
Long-term provisions	*26*	**(10,059)**	(4,358)
		(141,761)	(115,073)
Total liabilities		**(490,886)**	(410,631)
Net assets		**285,168**	243,135
Equity			
Share capital	*27*	**3,449**	3,436
Share premium account	*28*	**43,862**	41,134
Own shares	*28*	**(2,581)**	(2,653)
Hedging reserve	*28*	**(14,023)**	(15,930)
Translation reserve	*28*	**33,898**	31,179
Retained earnings	*28*	**220,149**	185,969
Total equity attributable to equity holders of the parent		**284,754**	243,135
Non-controlling interest		**414**	-
Total equity		**285,168**	243,135

The financial statements of Ultra Electronics Holdings plc, registered number 02830397, were approved by the Board of Directors and authorised for issue on 24 February 2012.

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.

* The restatement of goodwill and other intangible assets above relates to the reassessment of fair value of assets on a prior year acquisition – see note 13.

Consolidated cash flow statement

For the year ended 31 December 2011

	Note	**2011 £'000**	2010 £'000
Net cash flow from operating activities	*29*	**115,413**	99,281
Investing activities			
Interest received		**296**	635
Purchase of property, plant and equipment		**(12,099)**	(15,526)
Proceeds from disposal of property, plant and equipment		**-**	3,813
Expenditure on product development and other intangibles		**(3,055)**	(3,214)
Acquisition of subsidiary undertakings (including acquisition costs)	*32*	**(146,180)**	(13,459)
Net cash acquired with subsidiary undertakings	*32*	**4,033**	385
Net cash used in investing activities		**(157,005)**	(27,366)
Financing activities			
Issue of share capital		**2,741**	2,837
Purchase of Long-Term Incentive Plan shares		**(422)**	(1,569)
Dividends paid		**(24,469)**	(22,006)
Funding from government loans		**1,621**	-
Loan syndication costs		**(771)**	(1,388)
Increase/(decrease) in borrowings		**35,776**	(22,068)
Decrease/(increase) in loan to associate		**1,948**	(3,267)
Minority investment		**134**	-
Repayment of obligations under finance leases		**(173)**	(54)
New finance leases		**-**	361
Net cash generated from/(used in) financing activities		**16,385**	(47,154)
Net (decrease)/increase in cash and cash equivalents		**(25,207)**	24,761
Cash and cash equivalents at beginning of year		**68,129**	41,809
Effect of foreign exchange rate changes		**(1,871)**	1,559
Cash and cash equivalents at end of year		**41,051**	68,129

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 2011

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 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**
Balance at 1 January 2010	**3,420**	**38,313**	**(1,450)**	**(12,464)**	**21,311**	**134,336**	**-**	**183,466**
Profit for the year	-	-	-	-	-	66,325	-	66,325
Other comprehensive income for the year	-	-	-	(3,466)	9,868	4,664	-	11,066
Total comprehensive income for the year	**-**	**-**	**-**	**(3,466)**	**9,868**	**70,989**	**-**	**77,391**
Own shares acquired	-	-	(1,569)	-	-	-	-	(1,569)
Disposal of own shares	-	-	366	-	-	(366)	-	-
Equity-settled employee share schemes	16	2,821	-	-	-	1,850	-	4,687
Dividend to shareholders	-	-	-	-	-	(22,006)	-	(22,006)
Tax on share-based payment transactions	-	-	-	-	-	1,166	-	1,166
Balance at 31 December 2010	**3,436**	**41,134**	**(2,653)**	**(15,930)**	**31,179**	**185,969**	**-**	**243,135**

Notes to accounts – Group

31 December 2011

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.

			2011			2010
	External revenue £'000	**Inter segment £'000**	**Total £'000**	External revenue £'000	Inter segment £'000	Total £'000
Revenue						
Aircraft & Vehicle Systems	**166,061**	**21,201**	**187,262**	174,093	16,072	190,165
Information & Power Systems	**257,012**	**18,388**	**275,400**	223,999	6,072	230,071
Tactical & Sonar Systems	**308,660**	**19,703**	**328,363**	311,951	18,133	330,084
Eliminations	**-**	**(59,292)**	**(59,292)**	-	(40,277)	(40,277)
Consolidated revenue	**731,733**	**-**	**731,733**	710,043	-	710,043

All inter-segment trading is at arms' length.

				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**

				2010
	Aircraft & Vehicle Systems £'000	Information & Power Systems £'000	Tactical & Sonar Systems £'000	Total £'000
Underlying operating profit	23,420	27,533	59,393	110,346
Amortisation of intangibles arising on acquisition	(2,491)	(8,858)	(8,982)	(20,331)
Operating profit	20,929	18,675	50,411	90,015
Investment revenue				9,587
Finance costs				(8,293)
Profit before tax				91,309
Tax				(24,984)
Profit after tax				66,325

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1 Segment information (continued)

Capital expenditure, additions to intangibles, depreciation and amortisation

	Capital expenditure and additions to intangibles (excluding goodwill)		Depreciation and amortisation	
	2011 £'000	2010 £'000	**2011 £'000**	2010 £'000
Aircraft & Vehicle Systems	**2,991**	3,262	**10,673**	4,966
Information & Power Systems	**4,739**	7,867	**12,278**	12,344
Tactical & Sonar Systems	**7,424**	7,611	**15,620**	14,163
Total	**15,154**	18,740	**38,571**	31,473

The 2011 depreciation and amortisation expense includes £29,431,000 of amortisation charges (2010: £23,088,000) and £9,140,000 of property, plant and equipment depreciation charges (2010: £8,385,000).

Total assets by segment

	2011 £'000	2010 £'000
Aircraft & Vehicle Systems	**137,340**	152,083
Information & Power Systems	**311,576**	202,170
Tactical & Sonar Systems	**269,482**	209,198
	718,398	563,451
Unallocated	**57,656**	90,315
Consolidated total assets	**776,054**	653,766

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

Total liabilities by segment

	2011 £'000	2010 £'000
Aircraft & Vehicle Systems	**49,572**	68,225
Information & Power Systems	**113,620**	70,890
Tactical & Sonar Systems	**126,713**	109,143
	289,905	248,258
Unallocated	**200,981**	162,373
Consolidated total liabilities	**490,886**	410,631

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.

	2011 £'000	2010 £'000
United Kingdom	**215,227**	192,140
Continental Europe	**67,882**	67,093
Canada	**22,123**	19,429
USA	**333,266**	354,920
Rest of World	**93,235**	76,461
	731,733	710,043

During the year there was one direct customer (2010: one), that individually accounted for greater than 10% of the Group's total turnover. Sales to this customer in 2011 were £178m (2010: £203m) across all segments.

1 Segment information (continued)

Other information (by geographic location)

	Non current assets		Total assets		Additions to Property, Plant & Equipment and intangible assets (excluding acquisitions)	
	2011 £'000	2010 £'000	**2011 £'000**	2010 £'000	**2011 £'000**	2010 £'000
United Kingdom	**134,649**	117,092	**252,530**	224,925	**7,791**	10,751
USA	**273,768**	171,698	**345,790**	243,633	**5,429**	5,179
Canada	**40,081**	43,156	**56,613**	61,698	**1,321**	2,564
Rest of World	**25,157**	24,136	**63,465**	33,195	**613**	246
	473,655	356,082	**718,398**	563,451	**15,154**	18,740
Unallocated	**13,859**	19,253	**57,656**	90,315	**-**	-
	487,514	375,335	**776,054**	653,766	**15,154**	18,740

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:

	2011 £'000	2010 £'000
Operating profit	**99,215**	90,015
Amortisation of intangibles arising on acquisition	**23,133**	20,331
Adjustments to contingent consideration net of acquisition costs	**(232)**	-
Underlying operating profit	**122,116**	110,346
Profit before tax	**91,179**	91,309
Amortisation of intangibles arising on acquisition	**23,133**	20,331
Adjustments to contingent consideration net of acquisition costs	**(232)**	-
Loss/(profit) on fair value movements on derivatives	**821**	(8,952)
Underlying profit before tax	**114,901**	102,688
Cash generated by operations *(see note 29)*	**149,318**	122,847
Purchase of property, plant and equipment	**(12,099)**	(15,526)
Proceeds on disposal of property, plant and equipment	**-**	3,813
Expenditure on product development and other intangibles	**(3,055)**	(3,214)
Purchase of Long-Term Incentive Plan shares	**(422)**	(1,569)
Operating cash flow	**133,742**	106,351

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, this charge has been excluded from underlying operating profit. Underlying profit before tax and underlying earnings per share *(see note 12)* were also presented before these adjustments.

2 Additional performance measures (continued)

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:

	2011 £'000	2010 £'000
Sales of goods	**355,102**	376,788
Revenue from long term contracts	**376,631**	333,255
	731,733	710,043

4 Other operating income

Amounts included in other operating income were as follows:

	2011 £'000	2010 £'000
Foreign exchange gains	**2,037**	943
	2,037	943

5 Other operating expenses

Amounts included in other operating expenses were as follows:

	2011 £'000	2010 £'000
Amortisation of development costs	**4,572**	1,228
Foreign exchange losses	**38**	1,974
	4,610	3,202

6 Operating profit

Operating profit is stated after charging/(crediting):

	2011 £'000	2010 £'000
Raw materials and other bought in inventories expensed in the year	**268,914**	248,728
Inventories written down and recognised as an expense in the year	**3,954**	3,906
Reversals of write-downs of inventory	**(68)**	(40)
Staff costs *(see note 7)*	**212,292**	212,024
Depreciation and amounts written off property, plant and equipment	**9,140**	8,385
Amortisation of internally generated intangible assets	**4,572**	1,228
Amortisation of acquired intangible assets (including other intangibles)	**24,859**	21,860
Government grant income *(see note 24)*	**(4,872)**	(1,812)
Net foreign exchange (gain)/loss	**(627)**	1,477
Loss/(profit) on disposal of property, plant and equipment	**61**	(38)
Operating lease rentals		
– plant and machinery	**1,283**	1,121
– other	**7,900**	7,493
Research and development costs	**40,549**	38,945
Auditor's remuneration for statutory audit work (including expenses)	**592**	553

The Company only audit fee included in the Group audit fee shown above was £20,000 (2010: £20,000).

Analysis of auditor's remuneration

	2011 £'000	2010 £'000
Fees payable for the audit of the annual accounts	**157**	165
Fees payable for the audit of subsidiaries	**435**	388
Total for statutory Group audit services	**592**	553
Analysis of non-audit services:		
Audit related services	**10**	29
Tax compliance	**3**	5
Other tax advisory services	**49**	80
Corporate finance services	**192**	33
Other services	**24**	-
Total for non-audit services	**278**	147

7 Staff costs

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

	2011 £'000	2010 £'000
Wages and salaries	**183,294**	182,540
Social security costs	**17,741**	16,901
Pension costs	**11,257**	12,583
	212,292	212,024

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

	2011 Number	2010 Number
Production	**1,553**	1,533
Engineering	**1,764**	1,659
Selling	**267**	258
Support services	**622**	556
	4,206	4,006

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.

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8 Investment revenue

	2011 £'000	2010 £'000
Bank interest	**296**	635
Fair value movement on derivatives	**-**	8,952
	296	9,587

9 Finance costs

	2011 £'000	2010 £'000
Amortisation of finance costs of debt	**670**	507
Interest payable on bank loans, overdrafts and other loans	**3,137**	2,655
Interest payable on finance leases	**1**	5
Transfers to equity on cash flow hedges	**1,702**	2,224
Total borrowing costs	**5,510**	5,391
Retirement benefit scheme finance cost	**2,001**	2,902
Fair value movement on derivatives	**821**	-
	8,332	8,293

10 Tax

	2011 £'000	2010 £'000
UK taxes		
Corporation tax	**14,216**	8,553
Adjustment in respect of prior years	**(492)**	477
	13,724	9,030
Overseas taxes		
Current taxation	**16,878**	20,330
Adjustment in respect of prior years	**(288)**	(177)
	16,590	20,153
Total current tax	**30,314**	29,183
Deferred tax		
Origination and reversal of timing differences		
UK deferred tax	**(1,469)**	683
Overseas deferred tax	**(3,830)**	(4,882)
Total deferred tax credit	**(5,299)**	(4,199)
Total tax charge	**25,015**	24,984

Corporation tax in the UK is calculated at 26.5% (2010: 28%) 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:

	2011 £'000	2010 £'000
Current tax		
Net investment hedges	**(329)**	-
Deferred tax		
Arising on income and expenses recognised in other comprehensive income:		
Actuarial loss/(gains) on defined benefit pension schemes	**832**	(1,999)
Revaluation of interest rate swaps	**(405)**	(339)
Total income tax credit/(charge) recognised directly in other comprehensive income	**98**	(2,338)

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:

	2011 £'000	2010 £'000
Current tax		
Excess tax deductions related to share based payments on exercised options	**296**	684
Deferred tax		
Change in estimated excess tax deductions related to share-based payments	**(797)**	482
Total income tax recognised directly in equity	**(501)**	1,166

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:

	2011 £'000	2010 £'000
Group profit before tax	**91,179**	91,309
Tax on Group profit at standard UK corporation tax rate of 26.5% (2010: 28%)	**24,162**	25,567
Tax effects of:		
Income/expenses that are not taxable/allowable in determining taxable profits	**(1,157)**	(2,039)
Tax effect of utilisation of tax losses not previously recognised	**(169)**	-
Different tax rates of subsidiaries operating in other jurisdictions	**1,526**	1,632
Adjustments in respect of prior years	**653**	(176)
Tax expense for the year	**25,015**	24,984

11 Dividends

Amounts recognised as distributions to equity holders in the year:

	2011 £'000	2010 £'000
Final dividend for the year ended 31 December 2010 of 24.0p (2009: 21.6p) per share	**16,446**	14,755
Interim dividend for the year ended 31 December 2011 of 11.7p (2010: 10.6p) per share	**8,023**	7,251
	24,469	22,006
Proposed final dividend for the year ended 31 December 2011 of 26.8p (2010: 24.0p) per share	**18,424**	16,430

The 2011 proposed final dividend of 26.8p per share is proposed to be paid on 4 May 2012 to shareholders on the register at 13 April 2012. It was approved by the Board after 31 December 2011 and has not been included as a liability as at 31 December 2011.

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.

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12 Earnings per share

	2011 pence	2010 pence
Basic underlying *(see below)*	**120.2**	107.9
Diluted underlying *(see below)*	**119.8**	107.3
Basic	**96.2**	96.8
Diluted	**95.8**	96.2

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

	2011 £'000	2010 £'000
Earnings		
Earnings for the purposes of basic earnings per share being profit for the year from continuing operations	**66,164**	66,325
Underlying earnings		
Profit for the year from continuing operations	**66,164**	66,325
Loss/(profit) on fair value movements on derivatives (net of tax)	**524**	(6,403)
Amortisation of intangibles arising on acquisition (net of tax)	**15,896**	14,035
Acquisition-related costs net of contingent consideration (net of tax)	**129**	-
Earnings for the purposes of underlying earnings per share	**82,713**	73,957

The adjustments to profit are explained in note 2.

	2011 Number of shares	2010 Number of shares
The weighted average number of shares is given below:		
Number of shares used for basic earnings per share	**68,809,084**	68,535,805
Number of shares deemed to be issued at nil consideration following exercise of share options	**261,857**	379,546
Number of shares used for fully diluted earnings per share	**69,070,941**	68,915,351

	2011 £'000	2010 £'000
Underlying profit before tax	**114,901**	102,688
Tax rate applied for the purposes of underlying earnings per share	**28.0%**	28.0%

13 Goodwill

	2011 £'000	2010 £'000 As restated*
Cost		
At 1 January (as previously stated)	**221,761**	211,712
Restatement	**-**	(9,729)
At 1 January (as restated)	**221,761**	201,983
Exchange differences	**1,744**	4,819
Recognised on acquisition of subsidiaries	**57,485**	19,641
Transfers from other intangible assets	**-**	143
Other changes	**(2,865)**	(4,825)
At 31 December 2011	**278,125**	221,761
Accumulated impairment losses		
At 1 January 2011 and 31 December 2011	**-**	-
Carrying amount at 31 December 2011	**278,125**	**221,761**

Other changes in 2011 relate to adjustments made in respect of contingent consideration. Other changes in 2010 relate to purchase price adjustments and changes relating to the re-assessment of initial fair values.

* As the AMI acquisition occurred on 31 December 2010 it was impractical to accurately determine the split of goodwill and intangible assets. The 2010 balance sheet has been restated to reclassify £9,729,000 of goodwill to intangible assets following the completion of the valuation exercise.

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:

	2011 £'000	2010 £'000 As restated*
Blue Sky Group	**7,839**	7,731
Electrics	**9,117**	9,117
Adaptive Materials Inc	**6,666**	7,324
Other	**14,274**	14,274
Aircraft & Vehicle Systems	**37,896**	38,446
Airport Systems	**28,077**	28,028
Command & Control Systems	**16,542**	16,542
NSPI	**11,996**	11,900
ProLogic†	**49,258**	28,682
SOTECH	**8,372**	-
Other	**8,931**	7,823
Information & Power Systems	**123,176**	92,975
3eTI	**11,887**	-
AEP	**17,135**	-
Maritime Systems	**10,067**	11,886
Tactical Communication Systems (including DNE)	**37,214**	36,995
UnderSea Sensor Systems Inc	**18,533**	18,479
Other	**22,217**	22,980
Tactical & Sonar Systems	**117,053**	90,340
Total – Ultra Electronics	**278,125**	221,761

†Increase is due to the Zu Industries acquisition during 2011.

The recoverable amounts of CGUs are determined from value-in-use calculations. In determining the value-in-use for each CGU, the Group prepares cash flows derived from the most recent financial budgets and strategic plan, representing the best estimate of future performance. These plans, which have been approved by the Board, include detailed financial forecasts and market analysis covering the expected development of each CGU over the next five years. The cash flows beyond this period are then extrapolated using a growth rate of 3.5%.

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 2011 varied between 12.3% and 13.3% (2010: 8.7%). Future revenues are based on orders already received, opportunities that are known and expected at the time of setting the budget and strategic plan 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 that each CGU operates in. Longer-term growth rates, applied after the end of the strategic planning period, are set at 3.5%. Ultra operates in the 'sweet spot' of defence electronics and considers the long-term growth rate to be appropriate. Forecast gross margins reflect past experience, but also factor in expected efficiencies to counter inflationary pressures.

Sensitivity analysis has been performed on these calculations and shows that the discount rate would have to increase to 16%, with all other factors held constant, for an impairment loss to be recognised. Management therefore believes that no reasonable change in the key assumptions used would result in a significant impairment charge being recorded in the financial statements.

On 31 October 2011, the Group's DNE Technologies business (DNE) based in Connecticut, USA was integrated into the Group's Tactical Communication Systems business (TCS) based in Montreal, Canada, creating a single cash generating unit (CGU). Historically, both businesses operated within the C4ISR market with complementary products and core competencies in engineering. The integration of the two businesses provided the opportunity to derive strategic benefits based on common or complementary markets, customers, products, technologies and engineering competencies. The integration also provided the opportunity to eliminate duplicated activities. The combined CGU represents the smallest identifiable group of assets that generate cash in flows. As a result, from the date of integration, goodwill has been combined and assessed for impairment as a single CGU.

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13 Goodwill (continued)

During July 2011 and prior to the integration, the goodwill of both DNE and TCS was tested for impairment as standalone CGUs. The impairment tests were based upon the recently approved five year strategic plan forecasts that had been approved for both businesses. There was sufficient headroom within each review.

14 Other intangible assets

	Acquired intangibles						
	Customer relationships £'000	Intellectual property £'000	Profit in order book £'000	Other acquired £'000	Internally generated capitalised development costs £'000	Other intangibles £'000	Total £'000
Cost							
At 1 January 2010	83,466	29,247	17,925	-	14,919	11,023	156,580
Foreign exchange differences	2,866	908	565	-	170	253	4,762
Acquired on acquistion of subsidiary undertakings	1,624	-	620	98	-	-	2,342
Additions	-	-	-	-	779	2,435	3,214
Disposals	-	-	-	-	-	(143)	(143)
Reclassifications	16	-	(159)	-	-	207	64
At 1 January 2011 (as previously stated)	**87,972**	**30,155**	**18,951**	**98**	**15,868**	**13,775**	**166,819**
Restatement*	-	8,631	412	686	-	-	9,729
At 1 January 2011 (as restated)	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 31 December 2011	**139,358**	**65,983**	**22,511**	**1,146**	**16,826**	**16,567**	**262,391**
Accumulated amortisation							
At 1 January 2010	(25,787)	(10,342)	(16,365)	-	(7,049)	(6,901)	(66,444)
Foreign exchange differences	(771)	(314)	(448)	-	(132)	(173)	(1,838)
Disposals	-	-	-	-	-	143	143
Charge	(14,527)	(4,063)	(1,704)	(37)	(1,228)	(1,529)	(23,088)
Transfers from tangible fixed assets	-	-	-	-	-	(22)	(22)
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 31 December 2011	**(57,050)**	**(20,454)**	**(20,765)**	**(471)**	**(13,055)**	**(10,263)**	**(122,058)**
Carrying amount							
At 31 December 2011	**82,308**	**45,529**	**1,746**	**675**	**3,771**	**6,304**	**140,333**
At 31 December 2010 (as restated)	46,887	24,067	846	747	7,459	5,293	85,299

Other represents software, patents and trademarks. The amortisation of intangible assets charge is included within administrative expenses.

*See note 13.

14 Other intangible assets (continued)

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

15 Property, plant and equipment

	Land and Buildings			
	Freehold £'000	Short leasehold £'000	Plant and machinery £'000	Total £'000
Cost				
At 1 January 2010	16,260	9,522	72,944	98,726
Foreign exchange differences	582	275	2,119	2,976
Acquisitions	-	165	1,465	1,630
Additions	3,761	2,937	8,828	15,526
Disposals	(870)	(81)	(1,842)	(2,793)
Reclassifications	-	-	628	628
Transfers to intangible fixed assets	-	-	(207)	(207)
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 31 December 2011	**20,386**	**14,699**	**91,149**	**126,234**
Accumulated Depreciation				
At 1 January 2010	(2,589)	(5,267)	(54,226)	(62,082)
Foreign exchange differences	(172)	(93)	(1,632)	(1,897)
Charge	(532)	(953)	(6,900)	(8,385)
Disposals	24	80	1,734	1,838
Reclassifications	-	-	(628)	(628)
Transfers to intangible fixed assets	-	-	22	22
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 31 December 2011	**(3,833)**	**(7,235)**	**(66,579)**	**(77,647)**
Carrying amount				
At 31 December 2011	**16,553**	**7,464**	**24,570**	**48,587**
At 31 December 2010	16,464	6,585	22,305	45,354

Freehold land amounting to £2,452,000 (2010: £1,960,000) has not been depreciated. The net book value of plant and machinery held under finance leases was £158,000 (2010: £314,000). Depreciation charged in the year on assets held under finance leases was £46,000 (2010: £34,000).

16 Interest in associate

	2011 £'000	2010 £'000
The value of the Group's investment is made up as follows:		
Total assets	**59,340**	14,492
Total liabilities	**(52,730)**	(10,824)
Interest in associate	**6,610**	3,668

	2011 £'000	2010 £'000
Total revenue of associate	**56,334**	48,509
Group's share of profit recognised	**2,793**	2,558

The Group's interest in associate is represented by its 49% shareholding in Al Shaheen Adventure LLC, a Company incorporated in the UAE.

17 Inventories

	2011 £'000	2010 £'000
Raw materials and consumables	**30,045**	29,247
Work in progress	**10,053**	15,782
Finished goods and goods for resale	**7,574**	4,337
	47,672	49,366

18 Long-term contract balances

	2011 £'000	2010 £'000
Contracts in progress at the balance sheet date:		
Amounts due from contract customers included in trade and other receivables	**53,027**	44,093
Amounts due to contract customers included in trade and other payables	**(102,070)**	(53,012)
	(49,043)	(8,919)
Contract costs incurred plus recognised profits less recognised losses to date	**1,133,641**	1,028,279

Advances received from customers for contract work amounted to £77,103,000 (2010: £46,285,000).

19 Trade and other receivables

	2011 £'000	2010 £'000
Trade receivables	**124,654**	93,758
Provisions against receivables	**(1,743)**	(961)
Net trade receivables	**122,911**	92,797
Amounts due from contract customers *(note 18)*	**53,027**	44,093
Other receivables	**14,609**	16,348
Prepayments and accrued income	**6,524**	4,765
	197,071	158,003

Trade receivables do not carry interest. The average credit period on sale of goods is 42 days (2010: 40 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:

	2011 £'000	Related provision £'000	Total £'000	2010 £'000	Related provision £'000	Total £'000
1 to 3 months	**15,090**	**(850)**	**14,240**	13,723	(550)	13,173
4 to 6 months	**3,388**	**(585)**	**2,803**	4,912	(170)	4,742
7 to 9 months	**294**	**(174)**	**120**	324	(116)	208
Over 9 months	**134**	**(134)**	**-**	819	(125)	694
Total overdue	**18,906**	**(1,743)**	**17,163**	19,778	(961)	18,817

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:

	2011 £'000	2010 £'000
Balance at beginning of year	**961**	1,112
Foreign exchange differences	**1**	8
Increase in provision for trade receivables regarded as potentially uncollectable	**1,278**	586
Decrease in provision for trade receivables recovered during the year	**(497)**	(745)
Balance at end of year	**1,743**	961

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.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties 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

	2011 £'000	2010 £'000
Amounts included in current liabilities:		
Trade payables	**76,565**	70,566
Amounts due to contract customers *(note 18)*	**82,656**	50,065
Other payables	**31,160**	33,622
Accruals and deferred income	**45,328**	51,840
	235,709	206,093
Amounts included in non current liabilities:		
Amounts due to contract customers *(note 18)*	**19,414**	2,947
Other payables	**5,986**	15,403
Accruals and deferred income	**2,461**	2,059
	27,861	20,409

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

21 Finance leases

Minimum lease payments

	2011 £'000	2010 £'000
Amounts payable under finance leases:		
Within one year	**63**	136
Between one and five years	**77**	199
	140	335
Less: future finance charges	**(1)**	(23)
Present value of finance lease liabilities	**139**	312
Present value of finance lease liabilities – payments due:		
Within one year	**63**	129
Between one and five years	**76**	183
	139	312

22 Borrowings

	2011 £'000	2010 £'000
Bank loans are payable as follows:		
Less than one year	**80,202**	51,181
	80,202	51,181
Less: unamortised finance costs of debt	**(1,290)**	(1,189)
	78,912	49,992
Amounts due after more than one year:		
Unsecured loan notes	**6,468**	-
Loans from government	**1,680**	-
	8,148	-
Total borrowings:		
Amount due for settlement within 12 months	**78,912**	49,992
Amount due for settlement after 12 months	**8,148**	-
	87,060	49,992

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	**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**

	Level 2 £'000	2010 Total £'000
Financial assets at fair value		
Foreign exchange derivative financial instruments (through profit and loss)	6,683	6,683
Financial liabilities at fair value		
Foreign exchange derivative financial instruments (through profit and loss)	2,235	2,235
Interest rate derivative financial instruments (through equity)	1,618	1,618
Total liabilities	3,853	3,853

	Current assets/(liability)		**Non-current assets/(liability)**	
	2011 £'000	2010 £'000	**2011 £'000**	2010 £'000
Derivatives that are designated and effective as hedging instruments carried at fair value				
Interest rate swaps	**-**	(1,618)	**-**	-
Financial assets/(liabilities) carried at fair value through profit or loss				
Foreign exchange currency liabilities	**(263)**	(1,793)	**(804)**	(442)
	(263)	(3,411)	**(804)**	(442)
Foreign exchange currency assets	**2,746**	2,933	**1,948**	3,750

Financial assets

The financial assets of the Group were as follows:

	2011 £'000	2010 £'000
Cash and cash equivalents	**41,051**	68,129
Currency derivatives used for hedging	**4,694**	6,683
Amounts due from contract customers	**53,027**	44,093
Other receivables	**14,609**	16,348
Loans and receivables	**122,911**	92,797

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

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

23 Financial instruments and financial risk management (continued)

Financial liabilities

The financial liabilities of the Group were as follows:

	2011 £'000	2010 £'000
Currency derivatives used for hedging	**1,067**	2,235
Interest rate swaps used for hedging	**-**	1,618
Other financial liabilities:		
Bank loans and overdrafts	**78,912**	49,992
Loan notes	**6,468**	-
Finance leases	**139**	312
Government loans	**1,680**	-
Trade payables	**76,565**	70,566
Amounts due to contract customers	**102,070**	53,012
Deferred consideration	**12,178**	27,929

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 January 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.

All bank loans are unsecured. Interest was predominantly charged at 1.50% (2010: 0.85%) over base or contracted rate.

At 31 December 2011, the Group had available £129,798,000 (2010: £148,819,000) 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 July 2011 with a maturity date of July 2018; consequently as at 31 December 2011 $140 million remained available under the shelf agreement. In January 2012 a further $60 million of loan notes were issued with a maturity date of January 2019.

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**
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**
Interest rate swaps used for hedging	**-**	**-**	**-**	**-**	**-**
Accruals	**26,377**	**865**	**1,043**	**553**	**28,838**
2010					
Bank loans and overdrafts	52,895	-	-	-	52,895
Finance leases	136	22	66	111	335
Trade payables	70,566	-	-	-	70,566
Currency derivatives used for hedging	1,793	436	6	-	2,235
Deferred consideration	12,957	9,930	5,042	-	27,929
Interest rate swaps used for hedging	1,618	-	-	-	1,618
Accruals	30,152	65	29	448	30,694

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 risk. The currencies giving rise to this risk are primarily US dollars and Canadian dollars.

At 31 December 2011, the net fair value of the Group's currency derivatives is estimated to be an asset of approximately £3,627,000 (2010: £4,448,000), comprising £4,694,000 assets (2010: £6,683,000) and £1,067,000 liabilities (2010: £2,235,000). The loss on derivative financial instruments included in the Group's consolidated income statement for the period was £821,000 (2010: gain of £8,952,000).

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**
2011				
US dollars/Sterling	**39,046**	**66,669**	**-**	**105,715**
US dollars/Canadian dollars	**21,829**	**-**	**-**	**21,829**
Canadian dollars/Sterling	**2,095**	**3,148**	**-**	**5,243**
Euro/other currencies	**8,263**	**12,309**	**5,176**	**25,748**
Total	**71,233**	**82,126**	**5,176**	**158,535**
2010				
US dollars/Sterling	48,317	75,128	-	123,445
US dollars/Canadian dollars	25,936	-	-	25,936
Canadian dollars/Sterling	2,954	-	-	2,954
Euro/other currencies	7,320	6,386	-	13,706
Total	84,527	81,514	-	166,041

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

During the year the Group used interest rate swaps to manage its exposure to interest rate movements on its bank borrowings. The interest rate swaps, denominated in US dollars and Canadian dollars, had been entered into to achieve an appropriate mix of fixed and floating rate exposure reflecting the Group's policy. The swaps matured in December 2011 and had fixed swap rates, including the bank margin, ranging from 4.40% to 4.78%. The floating rates are US dollar LIBOR and Canadian dollar LIBOR. At the year end the nominal amounts of the interest rate swaps were US dollar nil (2010: US dollar 60 million) and Canadian dollar nil (2010: Canadian dollar 20 million).

The interest rate swaps were designated effective cash flow hedges and the change in fair value was charged to equity. At 31 December 2011, the net fair value of interest rate swaps was £nil (2010: liability of £1,618,000). The amount recycled from the income statement during the year was £1,702,000 and has been charged to interest cost in the year (2010: £2,224,000). The fair value was realised in the income statement on a quarterly basis during 2011 (2010: one 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
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**	**-**
2010						
Cash and cash equivalents	0.18%	68,129	68,129	-	-	-
Unsecured bank loans:						
US dollar loan	4.78%	37,434	37,434	-	-	-
Canadian dollar loan	4.40%	12,558	12,558	-	-	-
Finance lease liabilities	4.89%	312	129	82	101	-

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 £'000	Equity £'000	Profit £'000	Equity £'000	Profit £'000	Equity £'000	Profit £'000	Equity £'000
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	**(976)**	**(976)**	**(2,247)**	**(2,247)**	**(825)**	**(825)**	**2,347**	**2,347**
Total foreign exchange	**8,401**	**9,954**	**(11,624)**	**(13,177)**	**22,616**	**26,498**	**(21,094)**	**(24,976)**
2010								
Transaction	7,454	7,454	(7,454)	(7,454)	18,635	18,635	(18,635)	(18,635)
P&L translation	6,515	2,569	(6,515)	(2,569)	16,288	6,423	(16,288)	(6,423)
Foreign exchange derivatives	(5,565)	(5,565)	4,204	4,204	(14,853)	(14,853)	10,830	10,830
Total foreign exchange	8,404	4,458	(9,765)	(5,819)	20,070	10,205	(24,093)	(14,228)

23 Financial instruments and financial risk management (continued)

Interest rate risk

During 2011 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 2011. There is no significant difference between the amount recharged to the income statement and equity in the year.

	1% change Profit before tax £'000
2011	
Interest rate sensitivity	**117**
2010	
Interest rate sensitivity	280

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:

	2011 £'000	2010 £'000
Fair value of SADI loan brought forward	**-**	-
Contributions	**1,593**	-
Interest charged to finance costs	**87**	-
Fair value of SADI loan carried forward	**1,680**	-

Government grants credited to profit in the year

	2011 £'000	2010 £'000
SADI	**3,432**	-
IQ	**1,440**	1,812
	4,872	1,812

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 2010	(15,629)	1,128	2,082	21,738	(6,282)	401	3,438
Credit/(charge) to income	4,823	302	(2,484)	1,544	(1,292)	1,285	4,178
Charge to other comprehensive income	-	-	(339)	(1,268)	-	-	(1,607)
Credit direct to equity	-	503	-	-	-	-	503
Exchange differences	(282)	-	-	-	(375)	(206)	(863)
Effect of change in tax rate							
– income statement	98	(23)	(65)	(36)	2	45	21
– other comprehensive income	-	-	-	(731)	-	-	(731)
– equity	-	(21)	-	-	-	-	(21)
Arising on acquisition	(632)	-	-	-	-	-	(632)
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 31 December 2011	**(17,612)**	**577**	**(915)**	**20,873**	**(8,569)**	**5,615**	**(31)**

	2011 £'000	2010 £'000
Non current assets	**11,911**	15,503
Non current liabilities	**(11,942)**	(11,217)
	(31)	4,286

*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 £2.99 million (2010: £2.62 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 26% to 25% from 1 April 2012. The lower rate of 25% has been used to calculate the deferred tax balances at 31 December 2011 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 1% per annum to 23% by 1 April 2014. These further proposed rate reductions had not been enacted or substantively enacted at the balance sheet date and are therefore not included in the financial statements. The proposed reductions in the rate are expected to be enacted separately each year.

The main estimated impact on the balance sheet of the 1% annual reduction will be to reduce the deferred tax asset in respect of retirement benefit obligations by approximately £0.8m at each year end until 31 December 2013.

26 Provisions

	Warranties £'000	Contract related provisions £'000	Total £'000
At 1 January 2011	7,903	13,541	21,444
Created	2,128	9,475	11,603
Utilised	(1,387)	(7,110)	(8,497)
Exchange differences	6	(40)	(34)
At 31 December 2011	**8,650**	**15,866**	**24,516**
Included in current liabilities	5,089	9,368	14,457
Included in non-current liabilities	3,561	6,498	10,059
	8,650	**15,866**	**24,516**

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

	2011 No.	2011 £'000	2010 No.	2010 £'000
Authorised:				
5p ordinary shares	**90,000,000**	**4,500**	90,000,000	4,500
Allotted, called-up and fully paid:				
5p ordinary shares	**68,976,915**	**3,449**	68,715,411	3,436

261,504 ordinary shares having a nominal value of £13,075 were allotted during the year under the terms of the Group's various Share Option Schemes. The aggregate consideration received was £2,741,120.

Share options

During the year to 31 December 2011, 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 2011, share options outstanding under the Savings Related Share Option Schemes were as follows:

Options granted	Number of shares 2011	Number of shares 2010	Option price (£)	Exercise dates
2011 – US scheme	**93,081**	-	12.72	September 2013 - December 2013
2010 – US scheme	**26,564**	32,848	14.62	September 2012 - December 2012
2009 – US scheme	**-**	114,150	11.27	September 2011 - December 2011

27 Share capital and share options (continued)

1. Savings Related Share Option Schemes (continued)

Options granted	Number of shares 2011	2010	Option price (£)	Exercise dates
2011 – Canadian scheme	**4,530**	-	12.72	September 2014 - March 2015
2010 – Canadian scheme	**6,955**	8,581	14.62	September 2013 - March 2014
2009 – Canadian scheme	**50,049**	60,996	11.27	September 2012 - March 2013
2009 – Abu Dhabi scheme	**909**	2,856	11.48	December 2012 - June 2013
2007 – UK 3 year scheme	**-**	9,660	10.39	December 2010 - June 2011
2007 – UK 5 year scheme	**106,326**	112,817	10.39	December 2012 - June 2013
2008 – UK 3 year scheme	**2,834**	12,708	12.00	December 2011 - June 2012
2008 – UK 5 year scheme	**13,197**	14,479	12.00	December 2013 - June 2014
2009 – UK 3 year scheme	**11,490**	14,172	11.48	December 2012 - June 2013
2009 – UK 5 year scheme	**9,623**	10,704	11.48	December 2014 - June 2015
2010 – UK 3 year scheme	**15,507**	21,752	15.54	December 2013 - June 2014
2010 – UK 5 year scheme	**13,693**	19,605	15.54	December 2015 - June 2016
2011 – UK 3 year scheme	**23,630**	-	13.33	December 2014 - June 2015
2011 – UK 5 year scheme	**22,706**	-	13.33	December 2016 - June 2017

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 2011, share options outstanding under the Company Share Option Plan were as follows:

Options granted	Number of shares 2011	2010	Option price (£)	Exercise dates
2002	**-**	7,830	4.49	March 2005 - March 2012
2003	**1,301**	1,301	4.53	March 2006 - March 2013
2005	**6,044**	6,623	7.28	March 2008 - March 2015
2006	**5,502**	7,253	10.32	February 2009 - February 2016
2007	**19,769**	24,031	12.07	May 2010 - May 2017
2008	**18,007**	26,722	12.00	March 2011 - March 2018
2009	**45,369**	45,369	11.90	March 2012 - March 2019
2010	**24,693**	26,715	14.83	March 2013 - March 2020
2011	**32,832**	-	16.97	March 2014 - March 2021

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 2011, share options outstanding under the Executive Share Option Scheme were as follows:

Options granted	Number of shares 2011	2010	Option price (£)	Exercise dates
2004	**-**	3,367	5.97	March 2007 - March 2011
2005	**10,038**	53,262	7.28	March 2008 - March 2012
2006	**65,060**	81,022	10.32	February 2009 - February 2013
2007	**68,554**	80,876	12.07	May 2010 - May 2014
2008	**116,248**	144,601	12.00	March 2011 - March 2015
2009	**207,341**	232,653	11.90	March 2012 - March 2016
2010	**185,682**	189,683	14.83	March 2013 - March 2017
2011	**152,136**	-	16.97	March 2014 - March 2018
2011	**8,183**	-	15.70	August 2014 - August 2018

27 Share capital and share options (continued)

4. Long-Term Incentive Plan

Details in relation to the LTIP are included in the Directors' Remuneration report on pages 60 to 66.

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
	2011	**2011**	2010	2010
Beginning of year	**9.88**	**1,657,897**	9.11	1,677,092
Granted during the year	**11.74**	**446,363**	10.90	415,364
Forfeited during the year	**13.03**	**(67,461)**	11.65	(42,013)
Expired during the year	**7.11**	**(29,371)**	11.15	(12,981)
Exercised during the year	**8.80**	**(306,642)**	7.35	(379,565)
Outstanding at the end of the year	**10.49**	**1,700,786**	9.88	1,657,897
Exercisable at the end of the year	**11.37**	**313,357**	10.08	275,225

The Group recognised total expenses of £1,974,000 (2010: £1,850,000) 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 £15.81. The fair value of options granted during the year was £1,814,728 (2010: £1,856,793).

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*
				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

	Share save*	CSOP*	ESOS*	LTIP*
				2010
Weighted average share price (£)	13.39	12.58	12.76	n/a
Weighted average exercise price (£)	11.76	12.67	12.84	n/a
Expected volatility %	26.3	23.5	24.4	n/a
Expected option life (years)	3.7	6.0	5.0	n/a
Risk-free interest rate %	2.5	3.1	3.0	n/a
Expected dividends %	1.7	2.1	2.1	n/a

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

For the 2009, 2010 and 2011 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:

	2011	2010
Exercise price (£)	**n/a**	n/a
Share price at grant (£)	**13.16**	13.34
Expected option life (years)	**3.0**	3.0
Expected volatility %	**28.0**	28.3
Expected dividend yield %	**0.0**	0.0
Risk-free interest rate %	**2.1**	2.7

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

The weighted average fair value of options granted during the year was £4.53 (2010: £5.00).

The weighted average remaining contractual life of share options was 3.4 years (2010: 3.3 years).

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

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 2010	3,420	38,313	(1,450)	(12,464)	21,311	134,336	-	183,466
Total comprehensive income for the year	-	-	-	(3,466)	9,868	70,989	-	77,391
Own shares acquired	-	-	(1,569)	-	-	-	-	(1,569)
Disposal of own shares	-	-	366	-	-	(366)	-	-
Equity-settled employee share scheme	16	2,821	-	-	-	3,016	-	5,853
Dividends to shareholders	-	-	-	-	-	(22,006)	-	(22,006)
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 31 December 2011	**3,449**	**43,862**	**(2,581)**	**(14,023)**	**33,898**	**220,149**	**414**	**285,168**

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 2011, the number of own shares held was 235,245 (2010: 258,738).

29 Notes to the cash flow statement

	2011 £'000	2010 £'000
Operating profit	**99,215**	90,015
Adjustments for:		
Depreciation of property, plant and equipment	**9,140**	8,385
Amortisation of intangible assets	**29,431**	23,088
Acquisition costs and adjustments	**(232)**	-
Cost of equity-settled employee share schemes	**1,974**	1,850
Adjustment for pension funding	**(5,968)**	2,843
Loss/(profit) on disposal of property, plant and equipment	**61**	(38)
Share of profit from associate	**(2,793)**	(2,558)
Increase/(decrease) in provisions	**2,701**	(1,728)
Operating cash flow before movements in working capital	**133,529**	121,857
Decrease in inventories	**5,382**	4,232
Increase in receivables	**(26,488)**	(28,828)
Increase in payables	**36,895**	25,586
Cash generated by operations	**149,318**	122,847
Income taxes paid	**(29,134)**	(18,823)
Interest paid	**(4,771)**	(4,743)
Net cash from operating activities	**115,413**	99,281

29 Notes to the cash flow statement (continued)

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

	2011 £'000	2010 £'000
Net (decrease)/increase in cash and cash equivalents	**(25,207)**	24,761
Cash (inflow)/outflow from (increase)/decrease in debt and finance leasing	**(37,224)**	21,761
Change in net debt arising from cash flows	**(62,431)**	46,522
Loan syndication costs	**771**	1,388
Amortisation of finance costs of debt	**(670)**	(507)
Translation differences	**(1,643)**	(893)
Movement in net debt in the year	**(63,973)**	46,510
Net cash/(debt) at start of year	**17,825**	(28,685)
Net (debt)/cash at end of year	**(46,148)**	17,825

Net (debt)/cash comprised the following:

	2011 £'000	2010 £'000
Cash and cash equivalents	**41,051**	68,129
Borrowings	**(87,060)**	(49,992)
Obligations under finance leases included in current liabilities	**(63)**	(129)
Obligations under finance leases included in non-current liabilities	**(76)**	(183)
	(46,148)	17,825

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:

	2011 £'000	2010 £'000
Contracted but not provided	**1,113**	852

b) Lease commitments

At 31 December 2011, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2011 £'000	2010 £'000
Within one year	**8,960**	7,398
Between one and five years	**27,861**	21,138
After five years	**21,184**	14,030
	58,005	42,566

31 Retirement benefit schemes

Most 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. The latest full actuarial valuation of this scheme was carried out as at 6 April 2010. A new defined contribution plan was introduced for other employees and new joiners in the UK. 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 £5,076,000 (2010: £4,337,000).

Defined benefit schemes

The UK defined benefit scheme was actuarially assessed at 31 December 2011 using the 'projected unit' method. The Canadian defined benefit schemes were actuarially assessed at 31 December 2011 using the 'projected unit' method.

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

	UK 2011	**Canada 2011**	UK 2010	Canada 2010
Discount rate	**5.0%**	**5.0%**	5.5%	5.5%
Inflation rate – RPI	**3.0%**	**3.0%**	3.3%	3.3%
Inflation rate – CPI	**2.2%**	**2.2%**	n/a	n/a
Expected rate of salary increases	**3.5%**	**3.5%**	4.3%	4.3%
Future pension increases (pre 6/4/08)	**3.0%**	**2.7%**	3.2%	3.2%
Future pension increases (post 6/4/08)	**2.2%**	**n/a**	2.4%	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 2.9% and a 0.1% increase in the discount rate to 5.1% would decrease the schemes liabilities by 1.9% and 1.8% respectively. If the members were to experience the mortality of an individual one year older, the scheme liabilities would drop by 2.4%.

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:

	2011	2010
Current pensioners (at 65) – males	**22 years**	22 years
Current pensioners (at 65) – females	**24 years**	23 years
Future pensioners (at 65) – males	**24 years**	23 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 2011 £m	**Canada 2011 £m**	**Total 2011 £m**	UK 2010 £m	Canada 2010 £m	Total 2010 £m
Past service cost	**-**	**0.4**	**0.4**	2.7	-	2.7
Current service cost	**5.5**	**0.3**	**5.8**	5.4	0.2	5.6
Interest on pension scheme liabilities	**11.7**	**0.5**	**12.2**	11.4	0.5	11.9
Expected return on pension scheme assets	**(9.7)**	**(0.5)**	**(10.2)**	(8.5)	(0.5)	(9.0)
	7.5	**0.7**	**8.2**	11.0	0.2	11.2

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

Of the current service cost for the year, £4.4 million (2010: £4.2 million) has been included in cost of sales, and £1.4 million (2010: £1.4 million) has been included in administrative expenses. The past service cost charged to profit in 2010 was included in administrative expenses.

The impact of the change by the government to base inflation on CPI instead of RPI has resulted in a reduction of liabilities of £3.3m and has been accounted for as an acturial adjustment and charged to other comprehensive income.

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 2011 £m	Canada 2011 £m	Total 2011 £m	UK 2010 £m	Canada 2010 £m	Total 2010 £m
Fair value of scheme assets	**139.5**	**9.6**	**149.1**	134.2	8.9	143.1
Present value of scheme liabilities	**(220.5)**	**(11.5)**	**(232.0)**	(211.7)	(9.9)	(221.6)
Scheme deficit	**(81.0)**	**(1.9)**	**(82.9)**	(77.5)	(1.0)	(78.5)
Related deferred tax asset	**20.2**	**0.7**	**20.9**	21.0	0.3	21.3
Net pension liability	**(60.8)**	**(1.2)**	**(62.0)**	(56.5)	(0.7)	(57.2)

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

	UK 2011 £m	Canada 2011 £m	Total 2011 £m	UK 2010 £m	Canada 2010 £m	Total 2010 £m
Present value of obligation at 1 January	**(211.7)**	**(9.9)**	**(221.6)**	(196.0)	(8.7)	(204.7)
Past service cost	**-**	**(0.4)**	**(0.4)**	(2.7)	-	(2.7)
Current service cost	**(5.5)**	**(0.3)**	**(5.8)**	(5.4)	(0.2)	(5.6)
Interest cost	**(11.7)**	**(0.5)**	**(12.2)**	(11.4)	(0.5)	(11.9)
Actuarial gains and losses	**3.8**	**(0.6)**	**3.2**	(0.9)	(0.4)	(1.3)
Exchange difference	**-**	**(0.3)**	**(0.3)**	-	(0.4)	(0.4)
Benefits paid	**4.6**	**0.5**	**5.1**	4.7	0.3	5.0
Present value of obligation at 31 December	**(220.5)**	**(11.5)**	**(232.0)**	(211.7)	(9.9)	(221.6)

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

	UK 2011 £m	Canada 2011 £m	Total 2011 £m	UK 2010 £m	Canada 2010 £m	Total 2010 £m
Fair value at 1 January	**134.2**	**8.9**	**143.1**	119.3	7.9	127.2
Expected return on scheme assets	**9.7**	**0.5**	**10.2**	8.5	0.5	9.0
Actuarial gains and losses	**(10.7)**	**(0.9)**	**(11.6)**	6.1	-	6.1
Exchange differences	**-**	**0.3**	**0.3**	-	0.4	0.4
Employer contributions	**10.9**	**1.3**	**12.2**	5.0	0.4	5.4
Benefits paid	**(4.6)**	**(0.5)**	**(5.1)**	(4.7)	(0.3)	(5.0)
Fair value at 31 December	**139.5**	**9.6**	**149.1**	134.2	8.9	143.1

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

	2011	2010
Expected return:		
Equities	**7.5%**	7.5%
Bonds	**4.7%**	5.5%
Gilts	**2.5%**	4.0%
Property	**6.5%**	6.5%
Other assets	**2.5%**	4.0%
Other investment funds	**7.5%**	7.5%
Actual return on plan assets	**0.01%**	12.3%

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 2011 £m	Canada 2011 £m	Total 2011 £m	UK 2010 £m	Canada 2010 £m	Total 2010 £m
Fair value:						
Equities	**79.1**	**5.2**	**84.3**	94.0	5.0	99.0
Bonds	**29.4**	**3.5**	**32.9**	23.2	3.6	26.8
Property	**6.8**	**-**	**6.8**	6.3	-	6.3
Other assets	**1.4**	**0.9**	**2.3**	0.5	0.3	0.8
Other investment funds	**22.8**	**-**	**22.8**	10.2	-	10.2
	139.5	**9.6**	**149.1**	134.2	8.9	143.1

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

	UK 2011 £m	Canada 2011 £m	Total 2011 £m	UK 2010 £m	Canada 2010 £m	Total 2010 £m
Actual return less expected return on pension scheme assets	**(10.7)**	**(0.9)**	**(11.6)**	6.1	-	6.1
Experience gains arising on scheme liabilities	**0.2**	**0.2**	**0.4**	7.5	-	7.5
Changes in assumptions underlying the present value of the scheme liabilities	**3.5**	**(0.7)**	**2.8**	(8.5)	(0.3)	(8.8)
	(7.0)	**(1.4)**	**(8.4)**	5.1	(0.3)	4.8

Cumulative actuarial losses, net of deferred tax, recognised in the consolidated statement of comprehensive income at 31 December 2011 were £36.8 million (2010: £29.3 million).

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

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Present value of defined benefit obligations	**(232.0)**	(221.6)	(204.7)	(159.7)	(168.0)
Fair value of scheme assets	**149.1**	143.1	127.2	100.9	127.6
Scheme deficit	**(82.9)**	(78.5)	(77.5)	(58.8)	(40.4)
Experience adjustments on scheme liabilities	**0.4**	7.5	(0.5)	(0.7)	(1.8)
Percentage of scheme liabilities	**(0.2%)**	(3.4%)	0.2%	0.4%	1.0%
Experience adjustment on scheme assets	**11.6**	6.1	16.0	(38.7)	(4.7)
Percentage of scheme assets	**(7.8%)**	4.3%	12.6%	(38.3%)	(3.7%)

The amount of contributions expected to be paid to defined benefit schemes during the 2012 financial year is £12.4m. 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 £142,147,000 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	133,438
Deferred consideration on subsidiaries acquired in prior years	12,742
Cash acquired with subsidiaries	(4,033)
Net cash outflow	142,147

Aggregate assets and liabilities acquired comprised intangible assets of £80,132,000, property, plant and equipment of £749,000, cash of £4,033,000, inventories of £2,939,000, net receivables of £13,210,000 and payables of £24,976,000.

If all the acquisitions had occurred on 1 January 2011 the revenue for the Group would have been £776,116,000 and operating profit would have been £101,295,000.

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.

3e Technologies International

On 1 February 2011, the Group acquired the entire share capital of 3e Technologies International (3eTI) for cash consideration of £19.3m. A further £0.6m is payable if certain key employees remain with the business for an agreed period. This additional consideration will be expensed to the income statement over the retention period in line with the requirements of IFRS 3.

3eTI designs, develops, markets and supports military grade wireless local area network access points, mesh networks, security software and encryption technologies. Its range of products adds to Ultra's portfolio of specialist capabilities related to secure networking, communication and cyber security.

The fair values of the net assets acquired have been revised since the provisional figures stated in the post balance sheet events note of the 31 December 2010 year end accounts and are stated as follows:

	Book value	Revaluations	Fair value
	£'000	£'000	£'000
Intangible assets	79	9,927	10,006
Property, plant and equipment	232	-	232
Inventories	958	-	958
Receivables	2,353	-	2,353
Payables	(2,030)	(3,730)	(5,760)
Net assets acquired	1,592	6,197	7,789
Goodwill arising on acquisition			11,553
Purchase consideration			19,342

The revenue and operating profit contributions from 3eTI were approximately £18.2m and £2.8m respectively in the period from the date of acquisition to 31 December 2011.

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

Acquisition costs of £0.2m have been charged to the income statement.

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

AEP Networks Limited

On 28 September 2011, the Group acquired the entire share capital of AEP Networks Limited (AEP) for cash consideration of £39.4m. A further sum, estimated at the time of acquisition at £0.3m became payable based on an above expected financial performance in the period from date of acquisition to 31 December 2011. This contingent consideration lapsed on 31 December 2011.

AEP is a leading supplier of secure network communication solutions. AEP's proprietary products are accredited by CESG/GCHQ, the UK government's national technical authority for secure electronic communications. The acquisition provides Ultra with complementary technologies and products to advance the Group's strategy in the cyber security domain.

32 Acquisitions (continued)

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

	Book value	Revaluations	Provisional fair value
	£'000	£'000	£'000
Intangible assets	8	24,497	24,505
Property, plant and equipment	112	-	112
Cash	4,033	-	4,033
Inventories	1,711	-	1,711
Receivables	3,289	-	3,289
Payables	(4,927)	(6,429)	(11,356)
Net assets acquired	4,226	18,068	22,294
Goodwill arising on acquisition			17,135
Purchase consideration			39,429

The revenue and operating profit contributions from AEP were approximately £4.2m and £0.7m respectively in the period from the date of acquisition to 31 December 2011. The goodwill arising on the acquisition is attributable to the assembled workforce of AEP, the strategic premium to gain access to AEP's market niche relative to an organic entry and opportunities to develop new technologies and acquire new customers in the market.

Acquisition costs of £0.9m have been charged to the income statement.

Contingent consideration estimated at £0.3m at the time of acquisition has been included in goodwill. This amount has since lapsed and the amount credited to the income statement in line with the requirements of IFRS 3. The range of possible outcomes for deferred consideration at the time of acquisition was £nil to £11.1m. No contingent consideration payments have been paid and all potential liabilities lapsed at 31 December 2011.

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

Special Operations Technology Inc.

On 4 December 2011, the Group acquired the entire share capital of Special Operations Technology Inc. (SOTECH) for cash consideration of £24.6m.

SOTECH offers turnkey communications surveillance systems, integrating proprietary and commercial-off-the-shelf data analytic tools to manage large volumes of data from mobile, fixed line and broadband networks. Customers are government agencies that support and perform global counter-terrorism and counter-narcotic missions, the geographic spread of which is rapidly increasing.

The acquisition broadens the Group's access to the transatlantic intelligence and security markets.

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

	Book value	Revaluations	Provisional fair value
	£'000	£'000	£'000
Intangible assets	27	16,279	16,306
Property, plant and equipment	329	-	329
Receivables	7,824	-	7,824
Trade receivables reserve	(1,692)	-	(1,692)
Payables	(6,495)	-	(6,495)
Net (liabilities)/assets acquired	(7)	16,279	16,272
Goodwill arising on acquisition			8,283
Purchase consideration			24,555

The revenue and operating profit contributions from SOTECH were approximately £3.8m and £0.3m respectively in the period from the date of acquisition to 31 December 2011.

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

Acquisition costs of £0.2m have been charged to the income statement.

The total goodwill on this acquisition expected to be deductible for tax is £8.3m.

32 Acquisitions (continued)

Zu Industries Inc

On 2 December 2011, the Group acquired the entire share capital of Zu Industries Inc (Zu) for cash consideration of £48.9m. Contingent consideration of approximately £1.3m may be payable in respect of the vendor's potential tax liabilities arising as a result of the election to treat the purchase as an asset rather than a share purchase. This liability is payable in 2012.

Zu specialises in the provision of equipment for cyber surveillance systems. Based in Doral, near Miami, Florida, Zu employs over 20 staff. As part of the transaction, Ultra has also acquired the membership interests of an associated business named Bushido LLC.

This acquisition provides the Group with enhanced synergies and capabilities in cyber surveillance and cryptography.

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

	Book value	Revaluations	Provisional fair value
	£'000	£'000	£'000
Intangible assets	389	28,926	29,315
Property, plant and equipment	76	-	76
Inventories	270	-	270
Receivables	1,436	-	1,436
Payables	(1,365)	-	(1,365)
Net assets acquired	806	28,926	29,732
Goodwill arising on acquisition			20,513
Purchase consideration			50,245

The company did not make any significant external sales contribution in the period from the date of acquisition to 31 December 2011. The profit contribution during this period was breakeven.

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

Acquisition costs of £0.2m have been charged to the income statement.

The total goodwill on this acquisition expected to be deductible for tax is £20.5m.

Fair value adjustments to prior year acquisitions – Adaptive Materials Inc.

On 31 December 2010, the Group acquired the entire share capital of Adaptive Materials Inc. (AMI) for cash consideration of £17.4m. AMI designs and manufactures portable power solutions in the 50W to 300W range. Its products can be used in the defence market in a number of different applications adding a further niche capability to the Group.

The fair value of the net assets acquired have been revised since the provisional figures stated in the 31 December 2010 year end accounts and are stated as follows:

	At 31 December 2010 (as previously stated)	Revaluations	Fair value
	£'000	£'000	£'000
Intangible assets	-	9,962*	9,962
Property, plant and equipment	1,075	(23)	1,052
Inventories	58	-	58
Receivables	631	-	631
Payables	(833)	(79)	(912)
Net assets acquired	931	9,860	10,791
Goodwill arising on acquisition			6,583
Purchase consideration			17,374

*Amount restated during the year to reflect the fair value exercise undertaken during 2011 on other intangible assets.

The goodwill arising on acquisition is attributable to the acquiree's assembled workforce and access to a new market.

The total goodwill on this acquisition expected to be deductible for tax is £6.6m.

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:

	2011 £'000	2010 £'000
Short-term employee benefits	**4,193**	3,108
Post-employment benefits	**309**	266
Share-based payments	**1,635**	805
	6,137	4,179

Transactions with associate

At 31 December 2011, a loan of £1,289,000 (2010: £3,266,000) 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 25 January 2012 a further $60 million of fixed interest loan notes were issued with a maturity date of January 2019. The proceeds were used to reduce the borrowings under the Group's revolving credit facilities by $60 million.

35 Contingent liabilities

The Group has entered into a number of guarantee and performance bond arrangements in the normal course of business totalling £67.6m. Provision is made for any amounts that the directors consider may become payable under such arrangements, the provision as at 31 December 2011 and 31 December 2010 was £nil.

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 24 (Revised) Related Party Disclosures
- Amendment to IAS 32 Classification of Rights Issues
- Amendment to IFRIC 13 Customer Loyalty Programmes
- Amendment to IFRIC 14 Prepayments of a Minimum Funding Requirement
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- Amendment to IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First Time Adopters
- Amendment to IFRS 3 (revised 2008) Business Combinations

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
- Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets
- 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, but not the Group's total obligation.

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 55.

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 2011 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 2011 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 2011;
- 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 2011.

Kerr Mitchell

Kerr Mitchell, *Senior Statutory Auditor*
for and on behalf of **Deloitte LLP**
Chartered Accountants and Statutory Auditor
Reading, United Kingdom
24 February 2012

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 2011

	Note	2011 £'000	2010 £'000
Fixed assets			
Tangible assets	*37*	**1,179**	459
Investments	*38*	**392,787**	268,788
		393,966	269,247
Current assets			
Debtors: Amounts falling due within one year	*39*	**5,534**	10,545
Cash at bank and in hand		**-**	3,285
		5,534	13,830
Creditors: Amounts falling due within one year	*41*	**(168,307)**	(57,758)
Net current liabilities		**(162,773)**	(43,928)
Total assets less current liabilities		**231,193**	225,319
Creditors: Amounts falling due after more than one year	*42*	**(6,847)**	(379)
Net assets		**224,346**	224,940
Capital and reserves			
Called-up share capital	*44*	**3,449**	3,436
Share premium account	*45*	**43,862**	41,134
Profit and loss account	*45*	**179,616**	183,023
Own shares	*45*	**(2,581)**	(2,653)
Shareholders' funds		**224,346**	224,940

The financial statements of Ultra Electronics Holdings plc, registered number 02830397, were approved by the Board of Directors and authorised for issue on 24 February 2012.

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 2011

36 Staff costs

	2011 £'000	2010 £'000
Employee costs during the year amounted to:		
Wages and salaries	**4,158**	4,019
Social security costs	**575**	558
Other pension costs	**6,976**	599
	11,709	5,176

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

	2011 number	2010 number
Support services	**18**	16

37 Tangible fixed assets

	Plant and machinery £'000
Cost	
At 1 January 2010	724
Additions	343
At 1 January 2011	1,067
Additions	879
At 31 December 2011	**1,946**
Accumulated depreciation	
At 1 January 2010	525
Charge	83
At 1 January 2011	608
Charge	159
At 31 December 2011	**767**
Net book value	
At 31 December 2011	**1,179**
At 31 December 2010	459

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.

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

38 Investments (continued)

b) Investment in subsidiary undertakings

	Total £'000
At 1 January 2011	**268,788**
Foreign exchange differences	**447**
Additions	**123,552**
At 31 December 2011	**392,787**

39 Debtors

	2011 £'000	2010 £'000
Amounts falling due within one year:		
Amounts due from subsidiary undertakings	**3,885**	9,483
Deferred tax assets	**1,074**	592
Other debtors	**309**	367
Prepayments and accrued income	**266**	103
	5,534	10,545

40 Deferred tax

Movements in the deferred tax asset were as follows:

	2011 £'000	2010 £'000
Beginning of year	**592**	267
Credit to the profit and loss account	**766**	99
(Charge)/credit to equity	**(284)**	226
End of year	**1,074**	592

The deferred tax balances are analysed as follows:

	2011 £'000	2010 £'000
Timing differences relating to share schemes	**-**	582
Other timing differences relating to current assets and liabilities	**1,074**	10
Deferred tax asset	**1,074**	592

These balances are shown as follows:

	2011 £'000	2010 £'000
Debtors: Amounts falling due within one year	**1,074**	592

At the balance sheet date the Company had nil unprovided deferred tax (2010: nil).

41 Creditors: amounts falling due within one year

	2011 £'000	2010 £'000
Bank loans and overdraft	**90,018**	49,992
Amounts owed to subsidiary undertakings	**55,417**	1
Other creditors:		
– VAT	**285**	239
– social security and PAYE	**249**	249
– other creditors	**19,807**	4,820
Accruals and deferred income	**2,531**	2,457
	168,307	57,758

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

42 Creditors: amounts falling due after more than one year

	2011 £'000	2010 £'000
Amounts owed to subsidiary undertakings	**379**	379
Loan notes	**6,468**	-
	6,847	379

43 Borrowings

Borrowings fall due as analysed below:

	2011 £'000	2010 £'000
Bank loans and overdraft		
In one year or less, or on demand	**91,308**	51,181
	91,308	51,181
Less: unamortised finance costs of debt	**(1,290)**	(1,189)
	90,018	49,992
Less: included in creditors: amounts falling due within one year	**(90,018)**	(49,992)
Loan notes		
Due after more than five years	**6,468**	-

The loan notes are unsecured and due for repayment in 2018. Interest was charged at 4.09%.

44 Called-up share capital

	2011		2010	
	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	**68,976,915**	**3,449**	68,715,411	3,436

261,504 ordinary shares having a nominal value of £13,075 were allotted during the year under the terms of the Group's various Share Option Schemes. The aggregate consideration received by the Company was £2,741,120.

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	2011 £'000	2010 £'000
Balance at 1 January	3,436	41,134	183,023	(2,653)	**224,940**	162,770
Share based payments	-	-	3,885	-	**3,885**	1,407
Retained profit for the year	-	-	17,671	-	**17,671**	81,501
Dividends paid	-	-	(24,469)	-	**(24,469)**	(22,006)
Long-Term Incentive Plan – additions	-	-	-	(422)	**(422)**	(1,569)
Long-Term Incentive Plan – disposals	-	-	(494)	494	**-**	-
Issue of new shares	13	2,728	-	-	**2,741**	2,837
Balance at 31 December	**3,449**	**43,862**	**179,616**	**(2,581)**	**224,346**	**224,940**

The profit and loss account includes £65,400,000 which is not distributable. 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 (2010: 258,738).

46 Guarantees and other financial commitments

Lease commitments

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

	Plant and machinery 2011 £'000	Plant and machinery 2010 £'000
Operating lease rentals which expire		
– within one year	**37**	32
– between two to five years	**27**	27
	64	59

47 Post balance sheet events

On 25 January 2012 a further $60 million of fixed interest loan notes were issued with a maturity date of January 2019. The proceeds were used to reduce by $60 million the borrowings under the Group's revolving credit facilities.

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. Timing 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 2011 was £81.0 million (2010: £77.5 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.

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.

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

	2007 £m	2008 £m	2009 £m	2010 £m	**2011 £m**
Revenue					
Aircraft & Vehicle Systems	120.0	150.3	180.0	174.1	**166.1**
Information & Power Systems	106.6	141.3	193.5	224.0	**257.0**
Tactical & Sonar Systems	186.3	223.7	277.5	311.9	**308.6**
Total revenue	412.9	515.3	651.0	710.0	**731.7**
Underlying operating profit[1]					
Aircraft & Vehicle Systems	19.0	22.0	22.6	23.4	**31.1**
Information & Power Systems	16.7	19.9	23.6	27.5	**30.5**
Tactical & Sonar Systems	27.2	35.2	51.1	59.4	**60.5**
Total underlying operating profit[1]	62.9	77.1	97.3	110.3	**122.1**
Margin[1]	15.2%	15.0%	15.0%	15.5%	**16.7%**
Profit/(loss) before tax	56.6	(2.9)	107.9	91.3	**91.2**
Profit after tax	41.2	1.8	78.5	66.3	**66.2**
Operating cash flow[2]	52.2	79.0	111.6	106.4	**133.7**
Free cash flow before dividends, acquisitions and financing[3]	36.3	54.7	93.3	83.4	**100.1**
Net (debt)/cash at year-end[4]	(14.2)	(63.9)	(28.7)	17.8	**(46.1)**
Underlying earnings per share (p)[5]	65.4	80.1	96.4	107.9	**120.2**
Dividends per share (p)	21.2	26.0	31.2	34.6	**38.5**
Average employee numbers	3,054	3,582	3,961	4,006	**4,206**

[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, 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 and loss on closing out foreign currency hedging contracts.

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