Ultra Electronics Holdings plc
Annual Report and Accounts **2010**

specialist solutions…
…maintaining momentum

Ultra
ELECTRONICS

Ultra enhances shareholder value through the successful execution of its strategies for growth that drive resilient financial performance. Ultra constantly innovates to extend its portfolio of specialist solutions to customer requirements. The Group's growth momentum is underpinned by its broad range of market positions in the defence, security, transport and energy sectors.

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Cautionary Statement

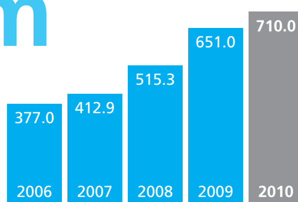
This document contains forward looking statements that are subject to risk factors associated with, amongst other things, the economic and business circumstances occurring from time to time in the countries and sectors in which the Group operates. It is believed that the expectations reflected in these 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.

Financial highlights

Revenue £m

£710.0m

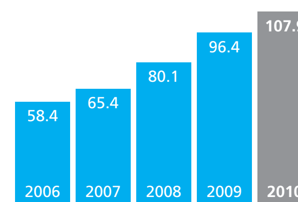
+9%
(2009: £651.0m)



Headline earnings per share (pence)

107.9p

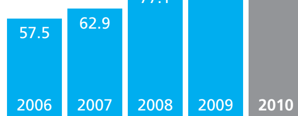
+12%
(2009: 96.4p)



Headline operating profit £m

£110.3m

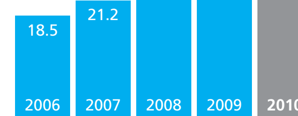
+13%
(2009: £97.3m)



Dividend per share (pence)

34.6p

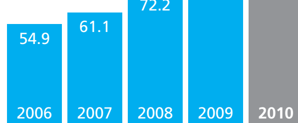
+11%
(2009: 31.2p)



Headline profit before tax £m

£102.7m

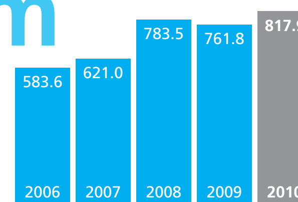
+15%
(2009: £89.5m)



Group order book £m

£817.9m

+7%
(2009: £761.8m)



Dividend

The proposed final dividend is 24.0p, bringing the total dividend for the year to 34.6p (2009: 31.2p). This represents an annual increase of 11%, with the dividend being covered 3.1 times (2009: 3.1 times) by headline earnings per share. If approved, the dividend will be paid on 4 May 2011 to shareholders on the register on 8 April 2011.

Footnote

headline operating profit is before amortisation of intangibles arising on acquisition and profit on disposal of property, plant and equipment net of property-related provisions. IFRS profit from operations £90.0m (2009: £76.0m). **headline profit before tax** and **headline earnings per share** are before amortisation of intangibles arising on acquisition, fair value movements on derivatives, profit on disposal of property, plant and equipment net of property-related provisions and loss on closing out foreign currency hedging contracts. Basic EPS 96.8p (2009: 115.1p). **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 profit from operations before amortisation of intangibles arising on acquisition and profit on disposal of property, plant and equipment net of property-related provisions. **net debt** comprises bank overdrafts and loans 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.

at a glance

The Group

Why Ultra is different

Ultra Electronics is an internationally successful defence, security, transport and energy company with a long, consistent record of development and growth, **achieving 17% compound annual growth** of total shareholder return since flotation in 1996. The Group maintains a programme of reinvestment of funds to strengthen its positions in its specialist markets.

Ultra businesses constantly innovate to create solutions to customer requirements that are different from and better than those of the Group's competitors. By applying these differentiated solutions to a wide range of international platforms and programmes, Ultra has built an exceptionally broad range of niche market positions. This spread gives resilience to the Group's financial performance.

Ultra offers support to its customers through the design, delivery and support phases of a programme. Ultra businesses have a high degree of operational autonomy so that they may provide exceptionally agile and responsive support to customers and partners.

Markets

Defence

Ultra supplies advanced electronic and electrical systems and equipment to coalition defence forces around the world. The Group innovates to provide specialist capabilities that are superior to those available to the opponents. By focusing on delivering comparative military advantage, Ultra can gain market share and exploit the headroom for growth that is available in defence budgets worldwide.

Transport

Ultra provides specialist software, systems and equipment for use in mass passenger transport systems. This includes high integrity real-time controls for civil aircraft, advanced IT solutions for modern airports and trackside power equipment for transit rail systems. Demand in all areas is driven by rising populations in affluent regions of the world.

Security

Ultra provides highly differentiated systems and capabilities to the broad security and intelligence market. Driven by the actions of rogue states, terrorist groups, organised crime and state-sponsored cyber activity, governments worldwide are focusing expenditure preferentially on addressing these threats. Ultra has highly specialised capabilities in cryptology for information assurance.

Energy

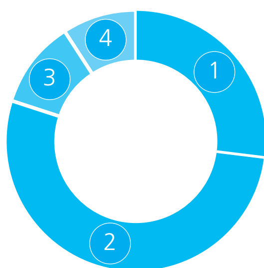
Countries around the world are addressing the strategic need to have secure access to increasing amounts of low carbon energy. Ultra has a range of safety critical sensors and controls that are used in existing and new build nuclear reactors. The Group also has innovative portable energy sources powered by readily available propane gas.

>MORE on pages 18 and 19

Geographic reach

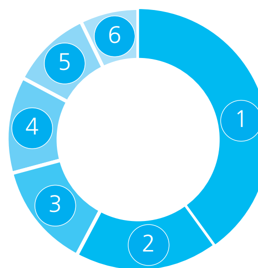
Ultra has expanded and developed a transatlantic capability and derives over half its revenue from the US and Canada. The Middle East and Asia Pacific regions are capable of similar expansion.

Revenue by region



	Region	%
1	United Kingdom	27%
2	North America	53%
3	Middle East & Asia Pacific	11%
4	Mainland Europe	9%

Revenue by capability



	Capability	%
1	Battlespace IT	40%
2	Sonar	18%
3	Civil equipment	13%
4	Specialist defence equipment	12%
5	Military aircraft equipment	10%
6	Civil aircraft equipment	7%

Ultra's capabilities within market sectors

	Defence	Security	Transport	Energy
Battlespace IT systems and equipment	●	●		
Sonar systems	●			
Civil equipment		●	●	●
Specialist equipment for defence and security applications	●	●		
Military aircraft equipment	●		●	
Civil aircraft equipment			●	

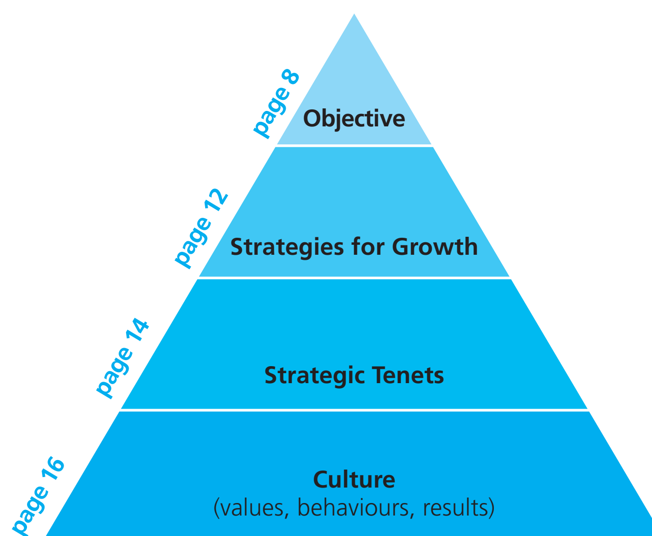
Ultra's strategic framework

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 described on **page 8**.

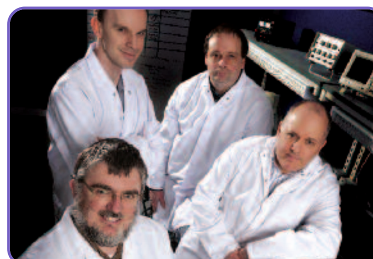
The Group's four **strategies for growth** are outlined on **pages 12** and **13**.

Underpinning these growth strategies are the eight **strategic tenets** described on **pages 14** and **15**.

These **strategic tenets** help shape the **culture**, defined as values and behaviours, that drive Group results, thereby driving the achievement of the Group's prime **objective**.



at a glance
Ultra's divisions
How the Group operates



Locations in:
United Kingdom and North America

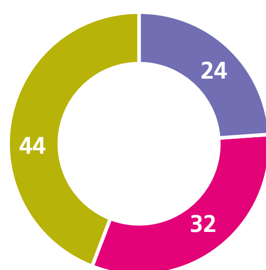
Devolved authority and responsibility
A differentiator for Ultra is the agility that businesses in the Group exhibit in their dealings with customers. This agility is underpinned by Ultra's structure and its management processes.

With over 4,100 employees in its 25 businesses, the number of staff at Ultra's head office is fewer than 20. This gives a clear signal about how it wants the Group to run. As much authority and responsibility as possible is devolved to the Managing Directors, 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.

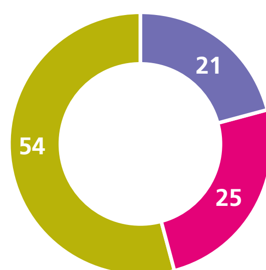
Agile behaviour within Ultra businesses is vital. Flat management structures are therefore encouraged within the 25 businesses to facilitate this. As a result, across the Group, there are normally no more than seven levels of seniority from shop-floor operator or newly qualified engineer up to Chief Executive.

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

Revenue % of Group



Profit* % of Group



Ultra's capabilities across the divisions

Battlespace IT systems and equipment

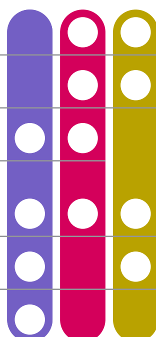
Sonar systems

Civil equipment

Specialist equipment for defence and security applications

Military aircraft equipment

Civil aircraft equipment



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 2010
- US Department of Defense • EADS
- UK Ministry of Defence • ACMA • Kongsberg

Major successes this year
- Qualification of the Boeing 787 wing ice protection system
- Full flight test clearance of the F-35 engine ice protection system
- Winning, with Raytheon, the multi-purpose bomb rack development contract
- First contract for *asis*, Ultra's innovative acoustic crack detection system

Revenue
£174.1m **-3%**
2009 £180.0m

Headline operating profit*
£23.4m **+4%**
2009 £22.6m

Order book
£210.9m **=**
2009 £210.3m

Number of employees
1,008

>MORE on pages 22 and 23

*see footnote on page 01

Locations in:
United Kingdom
and North America

Information & Power Systems

Capabilities
Ultra supplies advanced command and control systems for battlespace visualisation, 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 supplier of airport and airline management and information systems.

Major customers in 2010
- US Department of Defense • Rolls-Royce • BAE Systems
- General Dynamics • UK Ministry of Defence

Major successes this year
- Contracts for nuclear sensors and controls, both military and civil
- Initial contracts for battery monitoring equipment for US armoured vehicles
- Further contracts for protection systems for British Army operating bases
- Selection as IT integrator at John Wayne Airport, Orange County, California

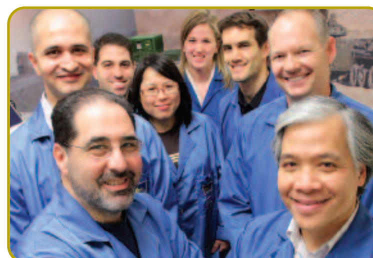
Revenue
£224.0m **+16%**
2009 £193.5m

Headline operating profit*
£27.5m **+17%**
2009 £23.6m

Order book
£204.7m **-3%**
2009 £211.0m

Number of employees
1,560

>MORE on pages 24 and 25



Locations in:
United Kingdom,
North America and
Australia

Tactical & Sonar Systems

Capabilities
Ultra supplies advanced 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 2010
- US Department of Defense • UK Ministry of Defence
- Raytheon • Lockheed Martin • BAE Systems

Major successes this year
- Development and initial production order for UK cryptographic equipment
- Multi-year US contract for Ultra's advanced high-capacity tactical radios
- Winning an advanced sonar systems contract for Royal Netherlands Navy
- Strong customer demand for Ultra's innovative acoustic hailing devices

Revenue
£311.9m **+12%**
2009 £277.5m

Headline operating profit*
£59.4m **+16%**
2009 £51.1m

Order book
£402.3m **+18%**
2009 £340.5

Number of employees
1,580

>MORE on pages 26 and 27

*see footnote on page 01

The continuity of Ultra's management team ensures that the expertise is retained **to maintain the growth momentum** of the Group and to continue its development.

Pictured above, clockwise from bottom left:
Dr Julian Blogh, Chairman; **Rakesh Sharma**, Chief Operating Officer;
Paul Dean, Finance Director and **Douglas Caster**, Chief Executive.

Chairman's statement

Dear shareholder

I am pleased to report that 2010, my last full year as Chairman, has been another good year for Ultra with headline earnings per share exceeding £1.00 for the first time. The Group has maintained its focus on winning new business in its specialist sectors of the defence, security, transport and energy markets. Ultra has extended its range of specialist electronic and software solutions specified on long-term platforms and programmes. This broad portfolio underpins Ultra's growth momentum.

Ultra's market capitalisation in 2010 rose to about £1.2bn, a pleasing increase from the £19m of equity with which we started Ultra at the time of the management buy-out in 1993. We borrowed £19m back then and the Group ended 2010 with net cash of about £17m and all 41 acquisitions made along the way have been with self-generated funds. With total shareholder return averaging around 17% per annum since Ultra's flotation in 1996, all members of the team at Ultra can rightly be proud of this long record of delivering exceptional shareholder value.

It is planned that Douglas Caster takes over from me as Chairman, having served as Chief Executive since 2005. I have worked with Douglas for over 20 years and I am confident that he is the best successor that Ultra could have. The Group is complex and has a distinctive culture and way of operating, a summary of which is explained in this report. Ultra needs key staff that have an innate understanding of Ultra and who will provide continuity of direction while being able to provide informed and constructive challenges to Ultra's strategies for continued growth. When I explained the logic behind the succession plan to major shareholders, it received broad and enthusiastic support.

Exactly the same logic applies to Rakesh Sharma's planned step up from Chief Operating Officer to Chief Executive in April. Douglas, in his report, gives some detail of Rakesh's background with Ultra. Rakesh's broad experience and proven capabilities with the Group make him the ideal candidate in my view.

This report contains specific sections devoted to governance and the management of risk. It reflects the Group's commitment to maintaining high standards of corporate governance, including ensuring that the appropriate governance and risk management frameworks and processes are in place to support growth. Further detail about how the Board provides effective leadership and minimises risk can be found in the risk management section (pages 31 to 33) and the governance section (pages 36 to 48) of this document.

At the centre of Ultra's success are its employees and, on behalf of the Board, I thank our people for their hard work and dedication. With so much professionalism, commitment and enthusiasm in the Group, talent management is a topic on which we place great emphasis in order to recruit, retain and develop the skills of staff at all levels of the organisation. The investment that we make in our people is vital to equip Ultra to meet the challenges of the future, to ensure that we capitalise on the many opportunities before us to win new business and to continue the development of the Group.

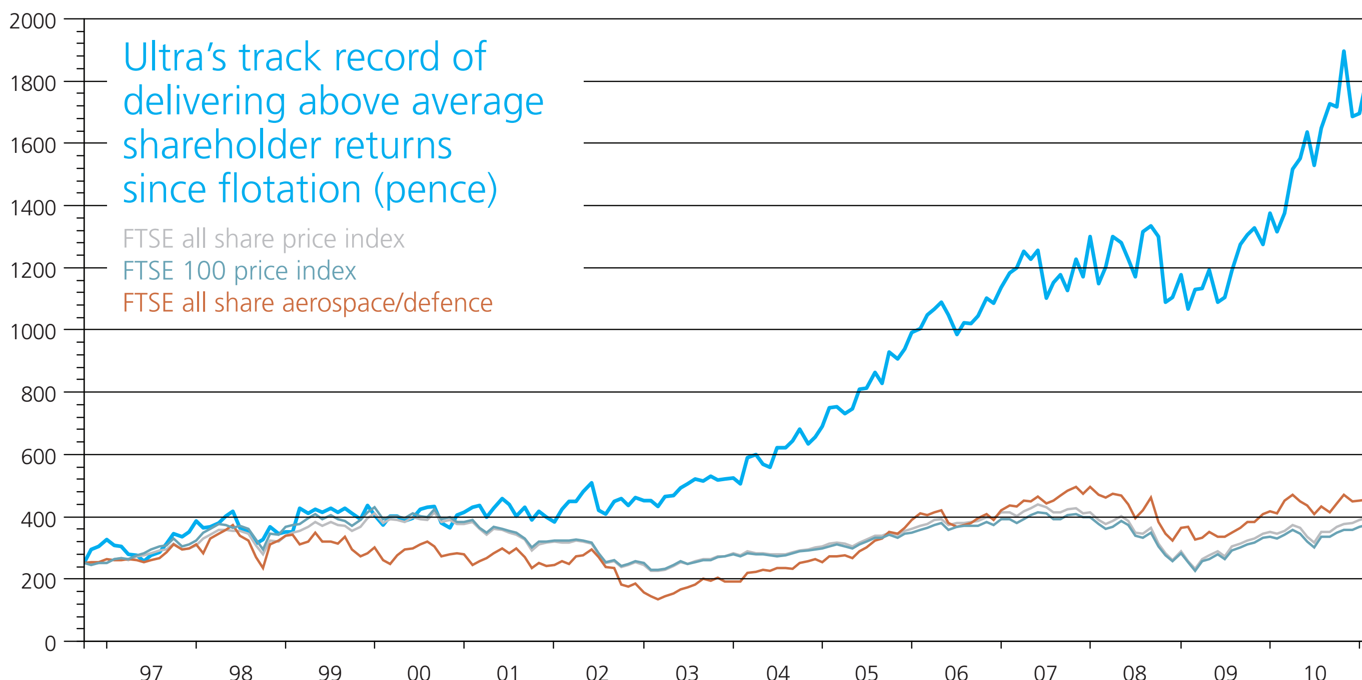
I have thoroughly enjoyed my involvement with Ultra over the years as it has grown and developed into the respected Group that it is today. I am confident that Ultra will maintain its growth momentum under its new leadership. Finally, I would like to thank Ultra's shareholders for having given me the opportunity for such a great experience.

Dr Julian Blogh, Chairman

Growth in dividend per share

34.6p

+11% (2009: 31.2p)



Strategic review
Ultra's objective

Douglas Caster, 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. The Group's success in this regard since flotation in 1996 is shown in the graph on the previous page.

In order to outperform the market, Ultra must add shareholder value and increase its market capitalisation more rapidly than other companies. Ultra constantly strives 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

Pages 12 and 13 expand on these growth strategies. They are underpinned by the eight strategic tenets which are described on pages 14 and 15. These tenets help determine the culture of the Group.

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, are implemented by each of Ultra's businesses and focus on winning new business in the niche market sectors in which the Group has positioned itself. The 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 25 businesses, within which the Group has about 150 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.

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. When, as planned, I become the Group's Chairman in April 2011, Rakesh Sharma will take over from me as Chief Executive, having been Chief Operating Officer since January 2010.

Rakesh has been with the Group since 1989 and has worked in the US as well as in the UK. He has run a number of Ultra's businesses and divisions and his focus has always been on driving growth in the Group. He understands what makes Ultra different and how to focus Group businesses on maintaining competitive advantage in the various specialist market sectors in which Ultra operates. I am confident that Ultra will continue to develop and grow under Rakesh's leadership.

Growth in headline earnings per share*

+12%

107.9p (2009: 96.4p)

*see footnote on page 01

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

"Ultra has achieved world-leading positions with many of its specialist capabilities and, as an independent, non-threatening partner, is able to support the world's platform prime contractors"

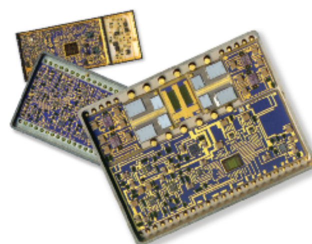
Acquisitions

One indicator of the success of Ultra's growth strategies is the acquisitions that the Group makes. Since the start of 2010, Ultra has bought four specialist businesses.

In July 2010 Ultra made two 'bolt-in' acquisitions; **Extec** and **Transmag** in the UK. Transmag augments the transit power system offering of Ultra's PMES business in the Information & Power Systems division. Extec designs and manufactures thick-film hybrid electronic microcircuits and is part of the Manufacturing & Card Systems business in the Aircraft & Vehicle Systems division. Extec will have a significant role in the production phase of the nuclear reactor control programme for the Royal Navy's submarines.

At the end of the year, Ultra acquired **Adaptive Materials Inc.** ('AMI') in Michigan, USA, which is now part of the Aircraft & Vehicle Systems division. AMI has developed fuel cells that provide more electrical power in less space than competing technologies and run on propane, a fuel that is readily available worldwide.

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 now part of Ultra's Tactical & Sonar Systems division.



Extec
supplies high reliability microcircuits for use in hostile environments

Transmag
supplies large, specialist electrical transformers

AMI
supplies innovative fuel cells that are more energy-efficient than batteries

3eTI
supplies secure, 'on-the-move' communication equipment

42nd

3eTI was Ultra's 42nd acquisition

Strategic review
Key Performance Indicators

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** Revenue growth	KPI **2** Profit growth	KPI **3** Growth in earnings per share over a three year period
Definition	Growth in total Group revenue compared to the prior year.	Growth in Group headline profit before tax* compared to the prior year.	Annual growth in headline earnings per share* calculated over a rolling three year period.
2010 result	**9%**	**15%**	**16%**
2009 result	26%	24%	18%
2008 result	25%	18%	16%

Revenue growth gives a quantified indication of the rate at which the Group's business activity is expanding.

A satisfactory **headline 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 **headline 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.

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. Finally, it remains the overriding objective of the Board to provide shareholders with a long-term return on their investment in Ultra that exceeds that of other potential equity investments with a similar risk profile.

Total shareholder return is a suitable measure, as compared to the overall population of FTSE 250 companies.

*see footnote on page 01

KPI 4 **Cash conversion**	KPI 5 **Interest cover**	KPI 6 **Relative shareholder return**
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 profit from operations*.	The ratio of profit from operations* to finance costs associated with bank 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.
96%	**23 times**	**+5% per annum**
115%	20 times	+8% per annum
102%	19 times	+14% per annum

Non-financial performance indicators

Ultra's four strategies for growth are described on pages 12 & 13 of this report. Performance indicators relating to the Group's success in these four dimensions are shown on those pages.

The Group's 'right' people are its most important asset. Performance indicators that relate to the recruitment, retention and development of Ultra's staff are included on pages 16 and 17 of this report.

Note: In 2009 and prior years, Ultra used a KPI relating to order book visibility. This is not included in 2010 as it is becoming a less useful measure for the Group. Over half of Ultra's revenue is derived from North America where order book visibility at the end of 2010 was less than 50% while outside North America it was over 70%. A single KPI that combines these essentially dissimilar numbers is of reducing utility as the pattern of Group revenue evolves.

*see footnote on page 01

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 150 of these specialist capability areas. These are shown as the columns in the matrix shown in the graphic.

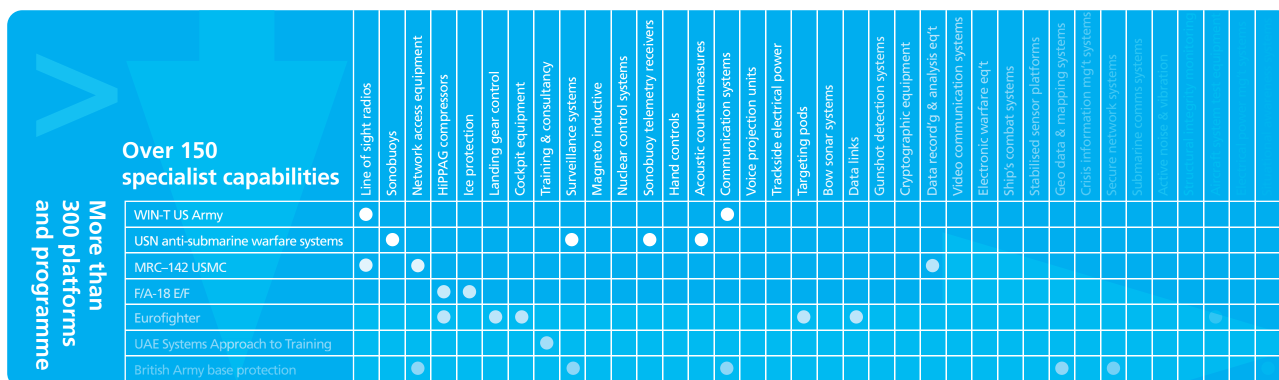
In 2010…
Ultra added **13 new specialist capability areas** to its portfolio.

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. These are shown as the rows in the matrix on the graphic. 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 300 such platforms and programmes of which none contributes more than 5% of Ultra's revenue in any year.

In 2010…
the Group's specialist capabilities were specified on **12 new platforms and programmes**.



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

60%
opening firm order cover compared to analysts' consensus forecast for 2011 revenue

11%
increase in sales to the Middle East & Asia Pacific
£76.5m (2009: £68.9m)

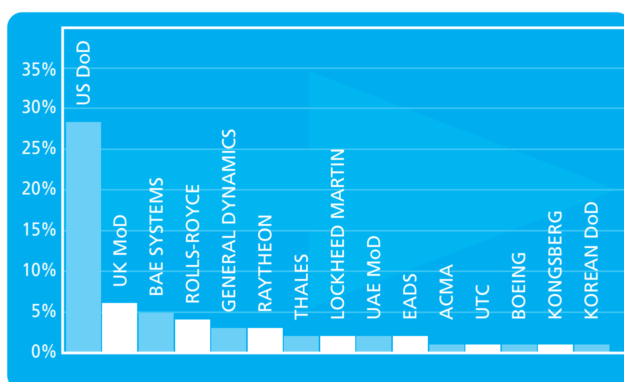
3

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. The graphic shows the major customers for the Group's 2010 revenue.

Within the top three customers, US DoD, UK MoD and BAE Systems, Ultra actually supplies to a wide range of different project offices, integrated project teams and platform teams. Ultra therefore deals with a larger number of different customers than the graphic might first suggest.

In 2010…
Ultra won business with
17 new customers.



4

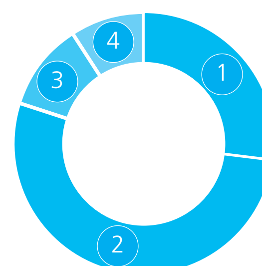
Widen Ultra's geographic footprint

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 the coalition 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 2010…
the Group was successful in
7 new geographic areas.

Revenue by region



	Region	%
1	United Kingdom	27%
2	North America	53%
3	Middle East & Asia Pacific	11%
4	Mainland Europe	9%

Strategic review

Strategic tenets

Ultra's growth momentum has been maintained in 2010, 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 25 businesses, about 150 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 wide 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 organic growth is achieved, 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.

96%
retention of key staff in 2010

8%
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.

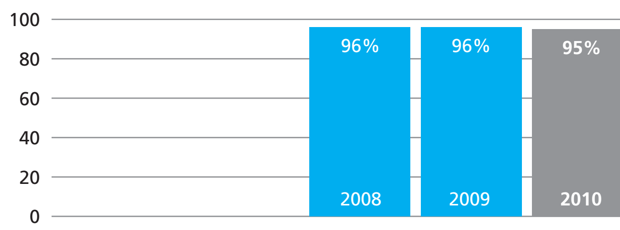
Strategic review
Developing Ultra's people

five

To have an efficient organisation with committed and competent people

see all eight of the strategic tenets on pages 14 & 15

Fig 1. Retention rate within green zone



What people mean to Ultra

Ultra's fifth strategic tenet calls for an efficient organisation with committed and competent people. The individual and team contributions made by Ultra's employees ensure that the strategies for growth translate from well intentioned ideals to tangible results. 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 and that the right behaviours are encouraged. 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.

The structure of Ultra is characterised by a lean head office function – fewer than twenty staff work at the head office in London – and a high degree of authority and responsibility is delegated to the 25 businesses. Supported by their divisional Managing Directors or Presidents, the management team of each business is required to focus on three key outcomes:

- developing and delivering the strategy
- meeting or beating the budget
- developing the people in the business

Each business is required to maintain a constant focus on growing the capabilities of the team and the individuals in the team.

Developing Ultra's people

- **succession planning and retention**

  All businesses in Ultra utilise an organically developed 'organisation, succession and development planning' process. 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 right (Fig 2). It recognises that any role in the business will become more challenging as the business grows.

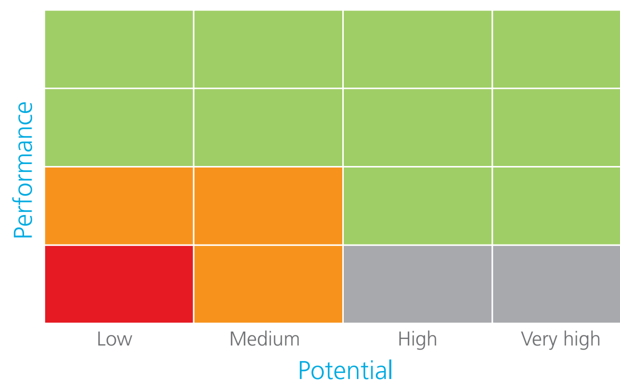
  Equal attention is given to enhancing the performance of and retaining the individuals in the green zone of the grid and to addressing the challenges of the people in the amber and red zones. This does not always mean that those individuals in the red and amber areas must leave Ultra. Often they need 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 that 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 3). 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.

Fig 2.



- **training & 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 2010 over 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

Fig 3. Internal appointments at Executive Team, MD/President level

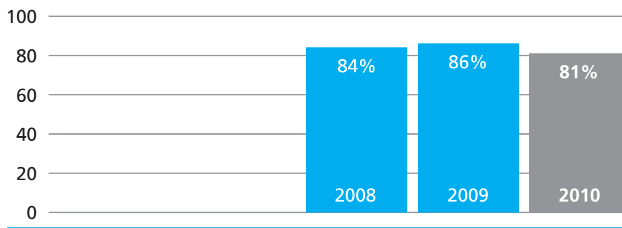
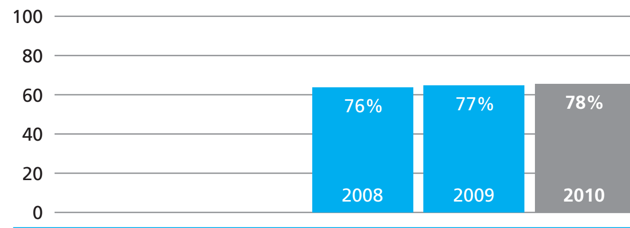


Fig 4. Employee engagement across the Group



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. Moreover, in recent years Ultra has organised annual conferences for its business, engineering, marketing, finance and human resources leaders respectively. In this way, that which makes Ultra different and special is spread more broadly across the Group. In addition, there is always value from networking across different businesses. The cross fertilisation of ideas often spawns ideas for innovative solutions to fulfill real customer requirements through internal teaming.

- securing the talent pipeline
  Individual businesses provide a wide variety of training and development opportunities. As well as tuition reimbursement for shorter programmes, Ultra also provides a range of support including apprenticeship programmes, graduate training, work experience as well as sponsorships at bachelor, master and doctorate level. Ultra also has very strong links with a large number of universities.

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 2010, over 55% of eligible US and Canadian employees opted to participate.

Ultra offers retirement benefits to its employees around the world. Further details are provided on pages 29 and 30.

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.

Culture

As noted above 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 culture of the Group supports the objective and strategies as illustrated in the pyramid on page 3. Ultra defines culture as a set of influences (such as leadership styles and values) which drive behaviours and in turn produce the desired results.

The four cultural behaviours of its people that are highly valued and encouraged by Ultra are:

- Leadership
- Entrepreneurship
- Audacity
- Paranoia

Together these make LEAP.

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 by 1 to 2% per year over the last three years (Fig 4).

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 growing market sectors to maintain growth momentum

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

Defence and security

The level of international tension remains high, driven by the actions of rogue states, terrorist groups, organised crime and state-sponsored cyber activity. This underpins continuing expenditure worldwide in Ultra's main markets, defence and security.

In the US, the President's budget requests for the near to medium term are for the core defence budget to grow slowly in real terms with substantial additional funds for continuing operations in Afghanistan and Iraq. The focus of expenditure is on improving information superiority, command & control, unmanned sensors & systems and secure communications. These are all areas where Ultra has strong market positions. The current delay in authorising expenditure against the FY11 defence budget is slowing the flow of new contracts but it is anticipated that the situation will be resolved in the coming months.

In the UK, defence budgets will be reduced, though, for Ultra, UK defence represents only about 12% of Group revenue. As a consequence of the squeeze, fewer new platforms will be built so the military capability of existing platforms is likely to be upgraded. This typically drives demand for advanced electronic solutions. In the short term, the imperative for change and reorganisation within the MoD is likely to restrict or delay 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.

The broader security and intelligence markets for Ultra continue to grow, driven by an undiminished level of terrorist activity globally. Covert surveillance and legal intercept of electronic communications continue to be effective ways of identifying and negating the threat. The additional funding announced in the UK for addressing the cyber threat emphasises the increasing focus on this element of security concerns. Ultra's highly specialised capabilities in cryptology for information assurance are well positioned in this regard.

>300

Ultra's specialist capabilities are specified on over 300 international platforms and programmes

£818m

order book value at the end of 2010

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

one

To concentrate on defence, security, transport and energy

see all eight of the strategic tenets on pages 14 & 15

Transport

Population growth is driving demand for civil aircraft and infrastructure investment in mass passenger transport systems. 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, when it enters airline service, 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 strong capability and the Group continues to win new business around the world. Ground transport systems also require continuing investment in regions of high population density, a trend from which Ultra should benefit.

Energy

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, in extending the life of existing plant as well as building new reactors. Ultra has niche capabilities in the supply of high integrity control systems and associated specialist sensors. The Group is therefore well placed to benefit as market opportunities develop globally.

$150,000

the value of Ultra equipment on each Boeing 787 aircraft

60

the number of nuclear power stations currently under construction around the world

Performance
Ultra's 2010 results

Paul Dean, Finance Director

The Group's order book at the end of 2010 was £817.9m compared with £761.8m (£776.2m at constant currencies) at the end of 2009. Within the order book total, opening firm order cover for trading in 2011, defined as firm order cover compared with analysts' consensus revenue forecast, has been maintained at about 60%.

Revenue

Revenue increased by 9.1% to £710.0m, an increase of £59.0m. Organic growth, currency benefits and acquisitions all contributed to this increase.

Constant currency organic revenue growth* was 5.7%. Information & Power Systems grew very strongly, particularly in both the military and civil nuclear markets. Tactical & Sonar Systems also performed well; in North America, there were strong export sales of radios and domestic sonobuoys while the UK benefited from a series of high potential projects, including the first phase of the End Cryptographic Unit (ECU) programme. Favourable currency boosted revenue by 2.1% and arose primarily due to the relative weakness of sterling to the US and Canadian dollars. Acquisitions contributed just 1.7% and consisted of the full year effect of 2009 acquisitions and the part year benefits of TransMag and Extec.

Operating profit and margin

Headline operating profit increased by £13.0m (13.4%) to reach £110.3m and the margin increased from 15.0% in 2009 to 15.5%. As with the turnover, currency benefits and acquisitions contributed to the rise, but the major factor was the underlying organic growth.

Constant currency organic growth* was 8.2%, well ahead of the equivalent turnover increase and was driven by a particularly strong profit performance in North America. Currency translation benefits represented a further 3.0% growth, whilst acquisitions contributed £2.1m (2.2%). At the same time as increasing the margin, the Group reinvested 5.6% of Group revenue in research & development. The total investment was £40.2m, an increase of £5.1m on the 2009 total of £35.1m. This reinvestment of Ultra's funds was supplemented by customer's contributions to dedicated product development activities. In 2010, this amounted to £72.9m (2009: £77.0m) and so in total, spending on new product and business development was equivalent to 15.9% of Group revenue.

Reporting changes for 2010

There are two reporting changes reflected in the 2010 Annual Report and Accounts and, for comparison, the 2009 figures have been restated:

1. The Group's Manufacturing & Card Systems business has been moved from the Information & Power Systems division to the Aircraft & Vehicle Systems division where the internal synergies are greater. In 2010, external sales in this business were £27.4m (2009: £22.4m) and operating profit was £5.2m (2009: £1.8m).
2. In order to enhance its market position within the UAE, Dascam's major activities have become part of Al Shaheen, a joint venture with Emirates Advanced Investments, with a focus on training and performance development. Ultra owns 49% of this enlarged joint venture and so has reported its interest in UAE as 'an associated undertaking' with effect from 1 August 2010. The turnover for the first seven months of 2010 was £14.9m and for the full year 2009 was £17.7m.

Interest and profit before tax

Net financing charges, excluding fair value adjustments on derivatives and the loss on the closing out of currency hedges, were £7.7m (2009: £7.8m). The finance cost of the bank debt was little changed at £4.8m (2009: £4.9m) despite a slight increase in the amortisation of bank fees. The finance cost of the pension scheme was also unchanged at £2.9m (2009: £2.9m); a small increase in the liabilities was offset by a lower discount rate. The interest on the bank debt was covered around 23 times by headline operating profit*. Headline profit before tax* was £102.7m (2009: £89.5m) an increase of 14.7%.

Non-headline items

Non-headline items included in the income statement are as follows:

	2010 £m	2009 £m
Headline profit before tax*	**102.7**	89.5
Amortisation of intangibles arising on acquisition	**(20.3)**	(26.3)
Profit on fair value movements on derivatives	**8.9**	55.6
Profit on disposal of property, plant and equipment, net of property related provisions	**-**	5.0
Loss on closing out foreign currency hedging contracts	**-**	(15.9)
Reported profit before tax	**91.3**	107.9

*see footnote on page 01

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

The amortisation charge for intangibles arising on acquisitions was £20.3m (2009: £26.3m). The main reason behind this reduction was the full amortisation of certain intangibles acquired in previous years and the relative low level of acquisition spend in 2009/10.

The total 'fair value' of foreign exchange derivatives contracts increased by £8.9m (2009: £55.6m). This increase arose primarily due to the improved hedging position; for 2012, for example, there are receipts of US$ of $59.2m hedged at an average rate of 1.47 compared with a year end closing rate of 1.57.

During 2009, the Group completed the sale of the old Rugeley site and also undertook a review of the level of its provisions for dilapidations at certain UK leasehold properties. The net property related profit was £5.0m. Also in 2009, the process of matching foreign exchange hedging cover to the net expected inflow of US dollars incurred one-off costs of £15.9m. Neither of these items recurred in 2010.

After the inclusion of these non-headline items, the statutory profit before tax was £91.3m (2009: £107.9m).

Tax, EPS and dividends

The headline tax rate rose from 26.5% (2009) to 28.0% in 2010. The increase in the rate arose predominantly due to the non-recurrence in 2010 of one-off benefits recorded in previous tax years, mostly relating to research & development allowances.

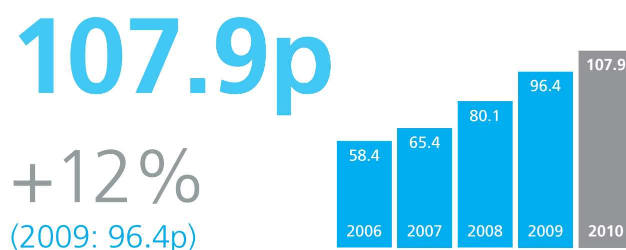
Headline earnings per share* rose to 107.9p (2009: 96.4p), an increase of 11.9%. A final dividend of 24.0p (2009: 21.6p) is proposed. If this is approved at the Annual General meeting, this will give a full year dividend of 34.6p (2009: 31.2p) and will be covered 3.1 times.

four

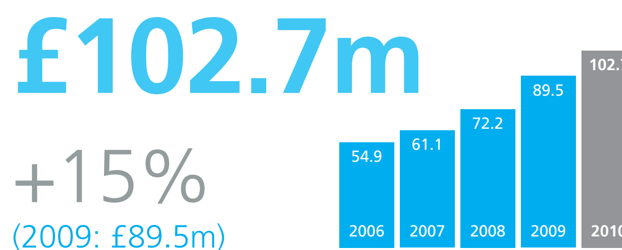
To grow organically and by acquisition

see all eight of the strategic tenets on pages 14 & 15

Headline earnings per share (pence)*



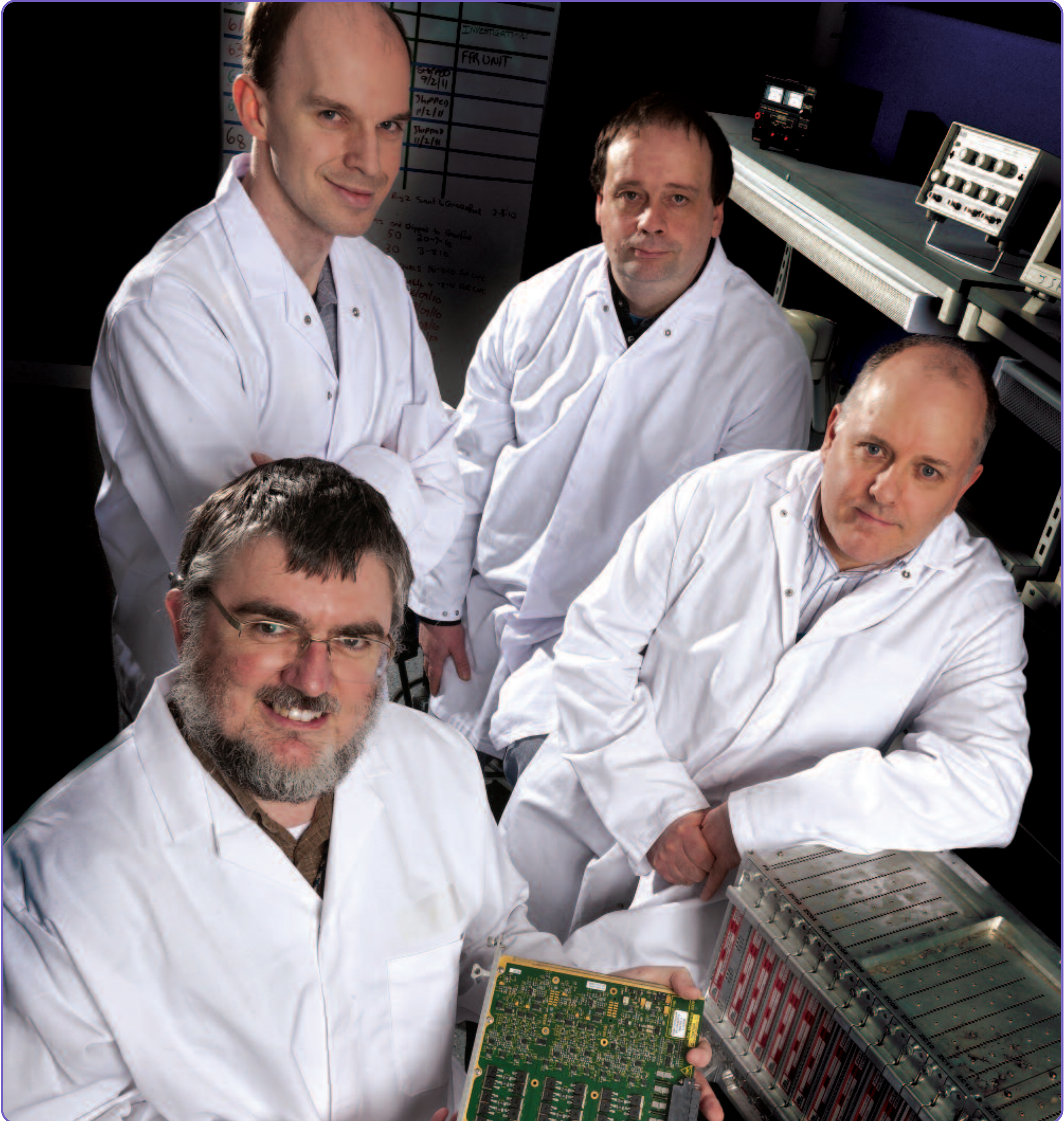
Headline profit before tax £m*



*see footnote on page 01

Performance

Aircraft & Vehicle Systems



In 2010, Ultra's **Controls** business achieved major qualification milestones for its aircraft ice protection systems. The Wing Ice Protection System (WIPS) for the Boeing 787 is a key enabler of the advanced wing design that will contribute to the aircraft's high fuel efficiency. The WIPS system is now fully certified and Boeing intends to deliver the first 'Dreamliner' in 2011. The qualification success of the Controls business also extends to the ice protection systems for both 'conventional' and 'short take off vertical landing' variants of the F-35's Pratt & Whitney engines. The F-35 is currently in a flight test support phase pending a ramp up towards production.

Pictured above, clockwise from bottom left: Paul Warren, Senior Software Engineer, WIPS; Phil Coverdale, Software Engineer; Ian Stothers, Technology Director; Andy Dargle, Engineering Manager, Systems.

Revenue in Aircraft & Vehicle Systems reduced by **3%** to **£174.1m** (2009: £180.0m) while headline operating profit increased by **4%** to **£23.4m** (2009: £22.6m). There was a part-year contribution from Extec, acquired in July. The division's order book was maintained at **£210.9m** (2009: £210.3m), despite trading multi-year orders for aircraft equipment during 2010.

There was solid demand across the division's businesses for equipment and systems fitted to aircraft, both military and civil, and to armoured vehicles. There was a reduced level of customer-funded activity in the division associated with creating high integrity aircraft systems, primarily associated with the Boeing 787 and F-35 Joint Strike Fighter aircraft programmes. The anticipated improvement in the division's headline operating margin was constrained by the continued investment in new aircraft systems for which the bulk of the development effort has now concluded.

Highlights of activities in the year that will underpin continuing growth included:

- winning, with Raytheon in the USA, a contract to develop a multi-purpose bomb rack intended for use on a wide range of aircraft types
- incorporating Ultra's Dascam business into Al-Shaheen, an enlarged joint-venture with Emirates Advanced Investments with a focus on training and performance development within the UAE
- the achievement of major qualification and certification milestones for both F-35 and Boeing 787 aircraft ice protection systems

$180,000

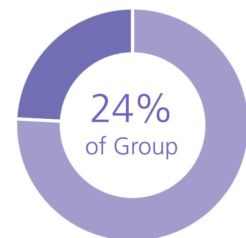
The value of Ultra equipment on each F-35 Joint Strike Fighter aircraft is $180,000

Revenue

£174.1m

2009 £180.0m

-3%

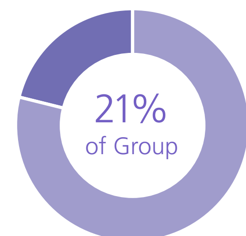


Operating profit*

£23.4m

2009 £22.6m

+4%

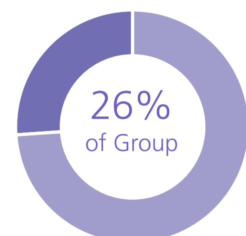


Order book

£210.9m

2009 £210.3m

=



Number of employees

1,008

24%
of Group

Capabilities

Airframe ice protection systems; Active noise and vibration control; Aircraft system electronics; Aircraft system test equipment; Consultancy and training solutions; High integrity data bus network nodes; Armoured vehicle electronic systems; Fuel cells; High integrity software and systems; HiPPAG airborne compressors; Human/machine interface equipment; ID card printers; Manned and unmanned vehicle control equipment; Performance consultancy; Portable oxygen generating equipment; Power management equipment; Remote weapon station control equipment; Rugged aircraft harness systems; Specialist pneumatic sub-systems; Specialist sensors; Structural health monitoring systems; Training solutions

*see footnote on page 01

Performance
Information & Power Systems

Ultra's **Command & Control Systems** business provides solutions for protecting the Forward Operating Bases (FOBs) of countries in operational theatres and in 2010 continued to win business in this area. In order to alert the FOB to enemy activity, sensors are placed within the base and the surrounding area. Ultra's Situational Awareness Management System (SAMS) processes the sensor data and can then automatically track several hundred individual targets at once, at rapid update rates. SAMS manages the individual sensors, allowing it, for example, to use a camera to follow a specific target which has been identified by the system, utilising data received from a radar unit. The system limits the ability of the enemy to launch a surprise attack on the base.

Pictured above, back row L to R: Ben Allen, Project Engineer; Steve McNamara, Senior Software Engineer; James Scrymgeour, Project Manager. **Centre row L to R:** Russell Unsworth, Senior Software Engineer; Jon Thompson, Head of Programmes; Andy Russell, Business Unit Director; John Drummond, Chief Engineer; Chris Roberts, Business Development Manager. **Front row L to R:** Mark Stillman, Project Engineer; Ambrose Sherlock, Project Engineer; Ben Dixon, Engineering and Service Manager.

Revenue in Information & Power Systems grew by **16%** to **£224.0m** compared to £193.5m in the previous year. Headline operating profit increased by **17%** to **£27.5m** (2009: £23.6m). These results included full-year contributions from Scytale and Tisys, acquired in 2009, and a part-year contribution from Transmag, acquired in July. The order book at the end of the year was **£204.7m** (2009: £211.0m), reflecting delays in contract awards, especially in the US.

Revenue and profit growth reflected strong demand for Ultra's nuclear sensors and systems, both for defence and civil applications, and for specialist power equipment for mass transit systems and naval vessels. Demand for airport IT systems rose throughout the year though profit was impacted by high bid costs for substantial overseas opportunities.

Features of the division's performance in the year that will support continuing growth included:

- qualification for flight of the integrated tactical communications system for the new Global Observer long endurance UAV ahead of its first flight early in 2011
- orders to supply trackside power for Network Rail, London Underground and the Manchester tram system extension
- a contract to supply an advanced passenger processing solution at Orange County airport, California

39

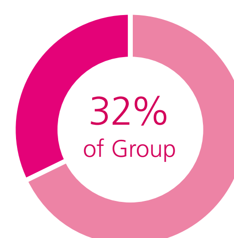
Ultra delivered 39 trackside transformer rectifier units in 2010 for use on rail and tram systems in the UK

Revenue

£224.0m

2009 £193.5m

+16%

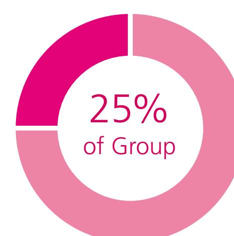


Operating profit*

£27.5m

2009 £23.6m

+17%

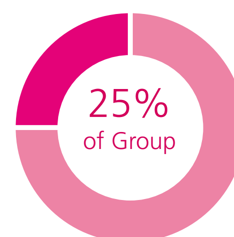


Order book

£204.7m

2009 £211.0m

-3%



Number of employees

1,560

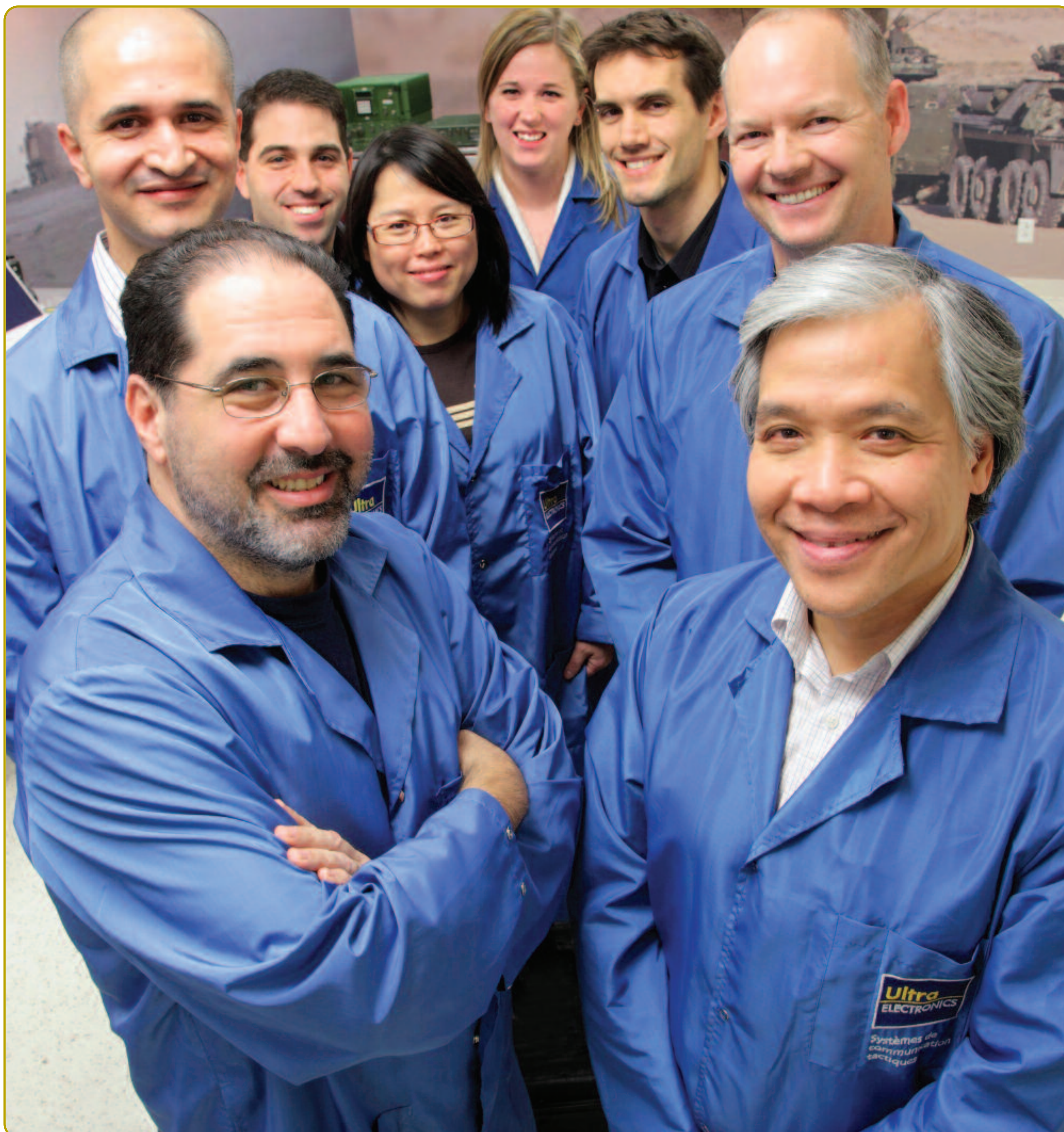
37%
of Group

Capabilities

Airport information management systems; Airport-wide systems integration; Combat systems; Command, control and information systems; Command information management systems; Enterprise IT solutions; Intelligence processing infrastructures; IT consultancy; Nuclear reactor control and instrumentation; Nucleonic sensors; Data fusion systems; Local situational awareness systems; Radar and electro-optic systems; Surveillance and tracking systems; Naval power conversion; Gas turbine electric start and regeneration systems; Signature measurement and control systems for naval vessels; Transformers and rectifiers; Transit system power conversion and controls

*see footnote on page 01

Performance
Tactical & Sonar Systems



Ultra's **Tactical Communication Systems** business supplies dependable, reliable and powerful communication equipment for tactical military and defence system applications and is a world leader in high capacity radio communication systems. In 2010, Ultra was awarded a contract worth up to US$650m over seven years by the US Department of Defense to supply upgraded versions of its High Capacity Line-of-Sight (HCLOS) radios. These form the core of the wideband tactical radio systems used by US armed forces engaged in land operations. Ultra's HCLOS radios and associated equipment are key elements of the transformation of the US armed forces' battlespace information management systems.

Pictured above, clockwise from bottom left: Roldan Perez Morales, Design Specialist (RF); Karim Chebil Manager, RF & Physical Design; François Choquette, Design Specialist (FPGA); XueMei Ma, IS Specialist; Ariane Boudreau-Tanghe, Continuous Improvement Facilitator; Simon Germain, Design Specialist (RF); Patrick Guenole, Technical Leader, Operations; Chinh Nguyen Thuong, Design Specialist (Analog/Digital).

Revenue in Tactical & Sonar Systems increased by **12%** to **£311.9m** (2009: £277.5m) and headline operating profit rose **16%** to **£59.4m** (2009: £51.1m). These results include full-year contributions from Xerion and Avalon, acquired in 2009. The closing order book was **£402.3m** (2009: £340.5m), reflecting the success in winning the large UK contract for cryptographic equipment.

Revenue and profit growth reflected strong demand for Ultra's tactical communication products, including radios to the US, South Korea and the Middle East. Initial revenue from the UK cryptographic contract was supplemented by international sales of airborne encrypted data link equipment. Demand for Ultra's anti-submarine warfare systems and equipment remained strong, especially in the US.

Growth in future years will be underpinned by the following developments in 2010:

- successful flight demonstrations of Ultra's innovative high integrity data link on Watchkeeper and Fireshadow UAVs and initial development of a version suitable for land-based uninhabited vehicles
- the release of significant full development and initial production options, following successful early development and risk reduction activities, relating to new UK cryptographic equipment
- contracts to incorporate the latest technology in the Group's underwater acoustic transducers and to extend the operational capability of Ultra's sonar-based sea mine countermeasure system

160dB

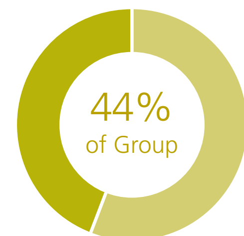
Ultra's innovative HyperSpike® acoustic hailing device can deliver up to 160dB of acoustic energy

Revenue

£311.9m

2009 £277.5m

+12%

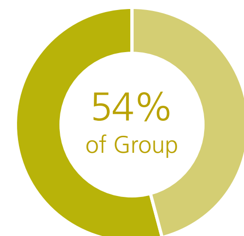


Operating profit*

£59.4m

2009 £51.1m

+16%

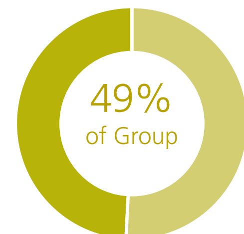


Order book

£402.3m

2009 £340.5m

+18%



Number of employees

1,580

38%
of Group

Capabilities

Acoustic countermeasure systems; Airborne anti-submarine warfare systems; Autonomous underwater surveillance systems; Airborne targeting pods; Communications network interfacing equipment; Data recording and analysis solutions; Cryptographic equipment; Data link communication systems; Gunfire location systems; Loitering munition systems; Radio communication systems; Sea mine disposal systems; Secure video communication systems; Sonar transducers and systems; Sonobuoys; Submarine tactical communication systems; Tactical radio systems; Torpedo defence systems; Underwater acoustic countermeasures; Video, voice and data communication systems; Wireless network equipment

Performance
Financial review

operating cash conversion*

96%

(2009: 115%)

Operating cashflow

The Group extended its strong record of cash generation again in 2010. Operating cashflow*, after capital expenditure, capitalised development costs and LTIP share purchases, was £106.4m (2009: £111.6m). The ratio of cash to operating profit* was 96%; the rolling five year average is 100%.

Capital expenditure on property, plant and equipment increased to £15.5m (2009: £10.0m). The largest purchase in 2010 was the acquisition of a new building in Fort Wayne, Indiana, for £3.7m for USSI. Aside from that expenditure, major projects in 2010 included the fitting out of a new site at Wimborne to accommodate a number of UK nuclear businesses and the provision of a new facility for the ATS business in Austin, Texas. The remaining expenditure was mostly incurred on upgrading Ultra's IT systems and on various airport IT projects.

Proceeds from the disposal of property, plant and equipment (including assets held for sale) amounted to £3.8m (2009: £3.8m). The major inflows related to the final payment for the Rugeley site of £2.8m and the proceeds from the sale and leaseback of the Avalon facility in Australia where the landlord is developing the site to support Ultra's medium-term ambitions. Depreciation of fixed assets rose to £8.4m (2009: £7.7m), due primarily to the translation effect of sterling being relatively weak.

Following the decision in 2008 to cease capitalising A400M development costs, the cash expenditure on capitalised product development was £0.8m (2009: £0.4m). This is lower than the amortisation of previously capitalised product development costs of £1.2m (2009: £0.9m).

The cash impact of working capital movements was an overall inflow of £1.0m (2009: £11.9m). Despite the growth of the business, there was a modest inflow from inventories of £4.2m (2009: nil). However, the most significant flows related to receivables and payables. The receivables outflow was £28.8m (2009: £2.5m); the average credit period on sale of goods improved to 40 days (2009: 43 days) but there was an increase in amounts due from contract customers. The inflow from payables was £25.6m (2009: £14.3m). The average credit period on trade purchases actually increased to 65 days (2009: 63 days) and there was a significant increase in advance payments from contract customers, notably a series of receipts relating to the ECU programme totalling £10.8m.

Non-operating cashflow

From the operating cashflow of £106.4m (2009: £111.6m) the Group funded various non-operating items to arrive at the reduction in net debt of £46.5m (2009: £35.2m). The major non-operating items were:

- Net interest paid fell by £0.7m to £4.1m (2009: £4.8m) due to a lower average level of debt.
- The cash cost of tax increased to £18.8m (2009: £13.5m). The previous year benefited from prior year tax claims and from lower payments on account due to the tax credit relating to the closing out of the currency hedges.
- Acquisition spend at £13.1m was below the equivalent for 2009 (£30.8m). The 2010 spend included £9.0m for the three acquisitions made in the year (net of cash acquired) and £4.1m relating to deferred payments and earn-outs on deals done in previous years. It should be noted that a further £11.2m relating to AMI was paid on 3 January 2011.
- After the payment of the dividends of £22.0m (2009: £18.7m); a short term loan to Al Shaheen Adventures LLC of £3.3m (2009: nil) and other minor flows, there was a reduction in net debt of £46.5m (2009: £35.2m). At the end of the year, there was net cash on the balance sheet of £17.8m (2009: net debt of £28.7m).

TREASURY AND BALANCE SHEET MATTERS

Effect of acquisitions

The three acquisitions undertaken in the year (AMI, Transmag and Extec) were made at a total purchase consideration of £24.2m, of which £9.4m was paid in the year (including £0.4m for cash) and the balance of £14.7m was deferred to future years, though £11.2m relating to AMI was paid on 3 January 2011. Total net assets acquired amounted to £4.1m, including liabilities of £3.9m and excluding cash acquired of £0.4m. The balance of £19.6m was provisionally allocated to goodwill and other intangibles.

*see footnote on page 01

headline operating profit* margin

15.5%

(2009: 15.0%)

net cash at end of 2010

£17.8m

(2009: net debt of £28.7m)

Banking facilities

Ultra's current banking facilities amount to £210m in total plus a £15m overdraft. They are provided by a small group of banks led by the Royal Bank of Scotland and comprise of two tranches. The first tranche comprises £120m of 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 £51.2m (2009: £70.8m) giving headroom of £148.8m (2009: £129.2m) plus the £15m overdraft. At the year end, the Group also held £68.1m of cash. Of this total £6.3m was held in escrow as part of the old pension funding arrangements (see explanation of pensions below) and the balance was held for working capital purposes and to fund acquisitions: £11.2m was paid to fund the majority of the purchase of AMI on 3 January and £18.6m to fund 3eTI on 1 February 2011.

Interest rate management

Much of the Group's current bank financing has been taken on to fund acquisitions in North America. In order 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 dollar borrowings for one year; a principal value which reduced by $20m in December 2009 and by a further $20m in December 2010; it will expire in December 2011. The second interest rate hedging contract was put in place for the $20m of Canadian dollar debt and also expires in December 2011. As a result, the total gross borrowings of £51.2m at year end comprised 100% fixed rate debt. The effective interest rates paid during the year were 4.8% for the US dollar debt, 4.4% for Canadian dollars and 1.75% for sterling. The fixed rate debt at year-end was denominated 75% in US dollars and 25% in Canadian dollars. The interest rate on the fixed amount for the debt for 2011 is 4.7%.

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 2010, when the scheme deficit (net of deferred tax) calculated in accordance with IAS19 was £56.5m, compared with £55.2m in 2009. The present value of the liabilities rose by £15.7m in the year, mainly because the interest rate used to discount future liabilities back to present value fell by 0.3% to 5.5% and also due to a change in the cash commutation actuarial assumptions. The increase in the scheme's liabilities was partly offset by an increase in the value of the scheme's assets of £14.9m due to the recovery of bond and equity prices in the year.

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, the employer reached agreement with the pension scheme trustee board to eliminate the deficit by making additional annual payments of £7.2m 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.

*see footnote on page 01

Performance
Financial review (cont'd)

Pension management and governance is undertaken by the pension trustees on behalf of the members. The trustees include both company-nominated and employee-elected representatives.

All staff that 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. Under the terms of this defined contribution scheme, company payments are supplemented by contributions from the employees.

Certain employees at Tactical Communication Systems in Canada participate in a defined benefit scheme. This scheme is closed to new entrants and had an IAS19 deficit of £0.7m at the end of the year (2009: deficit of £0.5m). Regular payments continue to be made, with both the company and employees making contributions, in order 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. Scytale, which had their own 401(k) plan in place when they became part of Ultra during 2009, were consolidated into the main Ultra scheme during 2010. Adaptive Materials, Inc., which had its own 401(k) plan in place when it became part of Ultra during 2010, will consolidate its plan into the main Ultra scheme during 2011. Wells Fargo provides administrative support 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 reducing 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. Traditionally, forward cover has been established for 18 to 24 months worth of net US dollar flows into the UK. A small amount of hedging (less than $20m per annum) was also put in place at historically favourable rates for 2013 to 2015. Exposure to other currencies is hedged as it arises on specific contracts.

50

Ultra sells its products and services in over 50 countries worldwide

The lag between when foreign exchange contracts are taken out and the dates they mature also leads to annual fluctuations. However, in 2010 the effective hedge rate for selling US dollars was little changed on 2009 so that the impact on operating profit* was a small decrease of £1.2m. For 2011 and beyond, the outlook is for a gradual strengthening in Ultra's effective hedged position, taking existing contracts into account and assuming current spot rates remain unchanged.

Tactical Communication Systems, based in Montreal, Canada, will be a US dollar-denominated business, thereby reducing the Group's transactional foreign exchange exposure to USD:CAD rate movements.

*see footnote on page 01

Performance
Risk management

$553bn

Total value of the US President's request for the FY12 defence budget

Management of risks and uncertainties

Ultra's confidence in its ability to continue to deliver growth is underpinned by a number of key factors. The Group has a track record of year-on-year success despite significant volatility in foreign exchange rates and whilst experiencing full market cycles in both the defence and civil sectors. These risks will continue to be mitigated through robust business strategies.

All of Ultra's managers are responsible for identifying the risks facing the Group's businesses and for putting procedures in place to recognise and mitigate such risks. 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. Operational risks, including those associated with execution of development contracts, are monitored as part of the Group's monthly business performance review process. Business units are required to report on all key areas of risk, highlighting situations where normal controls have failed to be fully effective and explaining what remedial actions have been taken. Such situations are then monitored regularly until a satisfactory conclusion is reached. The Chief Executive reports all significant deviations twice a year to the Board.

Market factors

About 80% of Ultra's revenue is from the defence sector. 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.

In the UK defence budgets, which represent only about 12% of Group revenue (direct and indirect), will be reduced. The coalition government published its National Security Strategy (NSS) and announced the results of its Strategic Defence and Security Review (SDSR) in October 2010. As a result of the SDSR, a number of military procurement projects have been cancelled or delayed, although none of these have had a material effect on Ultra. On the contrary, the announcement in the NSS that cyber attack has been ranked as one of the top four highest risks to the UK should benefit Ultra in the future.

In the US the President's budget requests for the near to medium-term are for core defence spending to grow slowly. Whilst the Deficit Reduction Panel, implemented by the newly elected Republican controlled House of Representatives, is looking to make savings, the parts of the defence budget addressable by Ultra remain sufficiently large to give the Group headroom for further growth. Perhaps of greater short-term concern to Ultra is the delay in authorising expenditure against the FY11 defence budget which is slowing the flow of new contracts. However, Congress is coming under increasing pressure, both from the Department of Defense and industry, to pass the budget and it is anticipated that the situation will be resolved in the coming months.

The scaling back of the current 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.

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.

Ultra 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. Similarly, Ultra is represented on a significant range of major international programmes and platforms. However, no single programme represents more than 5% of Ultra's revenue in any year, meaning the cancellation or curtailment of any single programme is unlikely to have a significant adverse impact on the Group.

Performance
Risk management (cont'd)

Furthermore, Ultra's strategic positioning means that it has a broad customer base, providing an element of risk mitigation. Ultra supplies all elements of the armed forces, i.e. the army, navy, air force and marines together with first responders such as police, medical staff and fire-fighters. The Group has also broadened its geographic footprint and now sells its products and services in over 50 countries worldwide. Ultra also has a transatlantic capability, with 14 of its 25 businesses being in North America. As such, the Group is operating as a domestic entity on both sides of the Atlantic, thereby providing sovereign operational independence of the respective armed forces.

Ultra has significant business in the civil sector and this provides useful diversification, offering an adjacent market in which to exploit complementary skills and technologies. This spread gives further resilience to Ultra's performance.

Protecting market access

In order to optimise Ultra's customer relationships and maximise access to customer funding, the Group takes a pragmatic view of routes to market. In the US, this pragmatism has manifested itself in the creation of the Proxy Board structure to allow the relevant Ultra businesses to be able to access highly classified programmes. The Proxy Board is staffed by US nationals who look after the national interests of the USA in this regard. Similarly, in the UAE it has been determined that the best approach to the growing specialist training and consultancy market is through an enlarged joint venture with Emirates Advanced Investments. Ultra owns 49% of this joint venture.

Execution of contracts

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 differentiates between engineering and technical risk:

- Engineering risk is the development of a technical solution where the solution, or something very similar to it, has been developed before. There is therefore, a very high degree of confidence that the pursuit of Ultra's defined engineering and programme management procedures will lead to a solution to meet the customer requirement, however cost may become a key differentiator for the customer.
- Technical risk is where the route to the final solution is not completely clear. Some research is needed; a technical or other breakthrough may be required. Technical risk is best constrained to a contract or defined package of work in which failure to find an appropriate solution is an acceptable outcome. Examples of this would be study contracts, part or fully funded by the potential customer and with an appropriate contribution from Ultra that ensures intellectual property in the outcome is retained. Ultra will not enter into a fixed, firm priced solution with a firm timetable if there is embedded technical risk – Ultra will only commit to delivering what it knows it can deliver. Ultra places great pride in meeting its commitments.

Staff retention

The Group's success in innovating to meet customer needs is based on the broad range of skills and capabilities of employees, meaning Ultra's performance is fundamentally driven by the individual and team contributions made by its people. The availability of appropriately skilled engineers and other specialist staff is finite. In this competitive market, Ultra pursues a number of initiatives to give it an advantage over competing employers in order to attract, retain and develop the best people. These are described more fully on pages 16 and 17 of this document.

Exchange rates

An explanation of how Ultra manages its foreign exchange risks is provided in the financial review section on pages 29 and 30 of this document.

Industry restructuring

The industries in which the Group operates continue to experience restructuring, which sometimes results in Ultra's customers themselves becoming more vertically integrated. This may increase the incidence of the Group's customers having capabilities that overlap with Ultra's. The threat that this otherwise might pose is offset by Ultra's strategy of operating in specific market niches where it has some sustainable differentiation. Whilst there have been some large acquisition deals in the surveillance and cyber market sectors over the past year, Ultra still retains a solid list of potential acquisitions and the Group is confident that it can make acquisitions that will help Ultra pursue its strategies for growth in 2011 and beyond. 'Organisation transforming' acquisitions are unlikely owing to the risk profile of such transactions.

78%

Employee engagement has improved year-on-year to 78% across the Ultra businesses in 2010

six

To be an excellent and strategic supplier to our customers

see all eight of the strategic tenets on pages 14 & 15

Pricing pressure

Ultra's customers aspire to stable or reducing prices for the goods and services that they procure. This inevitably leads to cost pressures to which the Group must respond. As part of its efforts to cut costs, the UK MoD is seeking to renegotiate contracts that were let on a single source and/or cost-plus basis. Ultra has no materially significant contracts let in this way from the UK MoD and so no major impact is anticipated. 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 headline operating margins.

Relationships

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.

Ultra has established a reputation for fulfilling its commitments and strives to build strong relationships with customers, teaming partners and suppliers. The Group's approach to these relationships is discussed in more detail on the following page.

"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"

Corporate responsibility

eight

To meet our commitments

see all eight of the strategic tenets on pages 14 & 15

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. To meet the sixth strategic tenet, it is intended that Ultra becomes a strategic supplier to its customers over time. 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.

  Ultra's Command & Control Systems business regularly seeks feedback from its customers either through formal collaborative meetings such as the Major Equipment Supplier programme run by BAE Systems or through informal communications including unsolicited direct contact.

  Individual Ultra businesses work very hard to promote excellent relationships with customers and receive feedback in the form of metrics as well as recognition of exceptional performance. There were outstanding results again during 2010. For example, DNE was recognised by both Lockheed Martin and Northrop Grumman for scoring 100% against both delivery and quality metrics. Most businesses conduct regular formal customer surveys.

- 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.

Business ethics

Ultra has adopted a Group-wide Ethics Policy to ensure it maintains a consistently high ethical standard in all countries where the Group operates. All employees are required to comply with the Ethics Policy and with any business-specific procedures. In the UK, the new Bribery Act has been passed by Parliament but will not come into force until the Government has issued guidelines on 'adequate procedures' to prevent bribery and corruption. Ultra is in the process of enhancing its procedures in order to be able to demonstrate compliance with the expected contents of these guidelines. Outside the UK, Ultra complies with all country-specific bribery and corruption legislation.

To assist the Board and the Chief Executive in ensuring that Ultra operates to the highest ethical standards, the role of the Ethical Overview Committee has been expanded to encompass all Group operations. The committee comprises three independent members with outstanding records of public service. The members are:

- David Shattock (Chairman, and former Chief Constable of Dyfed-Powys and latterly Avon and Somerset)
- Major-General Tim Cross CBE (former Commander of British Army forces in Iraq)
- Martin Bell (retired MP and former BBC correspondent)

The committee's remit is to receive reports of the Group's operations, to review and comment on its policies, procedures and conduct and to provide advice to the Board. Ultra businesses produce a monthly compliance report which is reviewed every six months by the Board. Any instances of ethical non-compliances will also be referred to the Ethical Overview Committee for investigation.

During 2010 the Group introduced a new whistle blowing hotline through which employees can file anonymous

Fig 1. Reportable/recordable accidents per employee

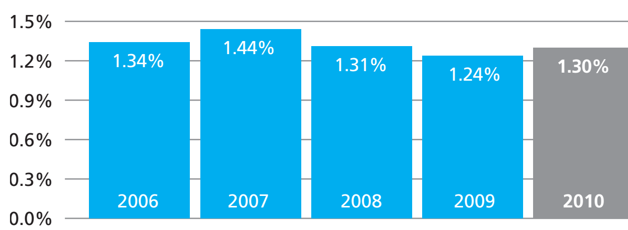
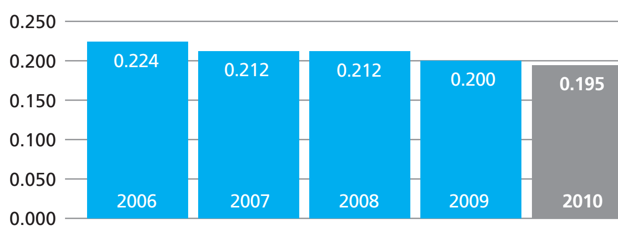


Fig 2. Packaging waste (t/3m sale) – UK businesses



reports by telephone or via the internet if they have any concerns that ethical or any other Group policies are not being complied with. Such reports are routed to the Chairman of the Audit Committee, or, in the case of the US businesses under the Special Security Arrangement or the Proxy Board, they are routed to the Chairman of the respective Security Committee. Any reports are fully investigated and remedial action taken if appropriate, with feedback via the hotline made available to the reporter. Since the hotline was launched there have been four reports filed, none of which related to allegations of any unethical behaviour.

Ultra's Directors and employees are required to avoid conflicts of interest. Any conflicts identified by the Directors are reported to the Board for it to consider how to deal with them. The Group operates a strict policy for the control of inside information and maintains a list of those with access to such information. All businesses must comply with the relevant national export control legislation. Ultra operates a strict policy of no political donations. All Ultra businesses respect and comply with national human rights legislation.

Health and safety

Ultra's eighth strategic tenet is to meet its commitments. 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. Ultra therefore 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 main 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 next audit cycle will take place 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).

Lost time accident data has been recorded for the UK businesses for a number of years and this has been extended to all businesses from 2010. The lost time accident rate per 200,000 hours was 0.55 for 2010.

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 next audits will take 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 2010, continuing the track record of the previous two 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 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 2010

Julian Blogh† CBE PhD CEng (Chairman)
Dr Julian Blogh created Ultra Electronics by leading the management buy-out in 1993. Since then he has adapted and developed as the Group has grown whilst retaining the high level of intellectual challenge that tests and strengthens Ultra's growth strategies.

Biographical details
Dr Blogh, age 67, worked for Ferranti Radar and Plessey Radar before joining Dowty Electronic Systems where he was Managing Director of Sonar & Communication Systems from 1987 to 1992, when he was appointed Managing Director of Dowty Avionics. He led the management buy-out of seven defence and aerospace electronics businesses from the Dowty Group to form Ultra Electronics and became Chief Executive when it began trading in October 1993. Dr Blogh was also appointed Deputy Chairman in April 2004 and became Chairman in April 2005. Dr Blogh is also the non-executive Chairman of Gooch & Housego.

Douglas Caster† CBE BSc MIET (Chief Executive)
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, age 57, 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.

Sir Robert Walmsley*† KCB, FREng (Non-Executive Director)
Sir Robert Walmsley brings to Ultra's Board a wealth of valuable 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, age 69, 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.

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, age 64, was appointed to the board in January 2005. Mr Bailey 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.

*Audit and Remuneration Committee member
†Nominations Committee member

Rakesh Sharma BSc MBA CPhys MInstP (Chief Operating Officer)
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, age 49, 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 and was appointed to the Board in April 2010.

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, age 60, was appointed to the Board in April 2003. From February 2006 until May 2007 Mr Griffiths 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.

Paul Dean MA FCMA (Finance Director)
Paul Dean is an excellent and very 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, age 50, 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.

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, age 56, 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 to his current position in July 2000 and joined the Board at that time.

Note: All details correct as at 31st December 2010

*Audit and Remuneration Committee member
†Nominations Committee member

Executives and advisors

Executive Team members

Douglas Caster
Chief Executive

Paul Dean
Group Finance Director

Andy Hamment
Group Marketing Director

Rakesh Sharma
Chief Operating Officer

Alan Barker
President
Tactical Systems

Phil Evans
Managing Director
Aircraft & Vehicle Systems

Carlos Santiago
President
Sonar & Undersea Systems

Graeme Stacey
Managing Director
Information & Power Systems

Keith Thomson
Group Human Resources Director

Bob Henry
Mergers & Acquisitions Director

David Garbett-Edwards
Company Secretary

The members of Ultra's Executive Team have an average of 26 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

Aidan Douglas
Managing Director
Airport Systems

Aaron Crumm
President
AMI

Kevin Hurst
Managing Director
AudioSoft

Doug Burd
Managing Director
Avalon Systems
& Ultra Electronics Australia

Mike Clayton
Managing Director
Command & Control Systems

Mike Baptist
Managing Director
Communication & Integrated Systems

Kim Wrighton
Managing Director
Controls

Bill Sapp
President
Criticom

Andy Yates
Managing Director
Electrics and
Precision Air Systems

Jon Everett
Managing Director
Middle East

Bill Gill
President
DNE Technologies

Pete Crawford
President
EMS

Paul Fardellone
President
Flightline Systems

Ray Coles
Managing Director
Manufacturing & Card Systems

Jim Hanlon
President
Maritime Systems

Ken Tasch
President
Measurement Systems Inc.

Dan Upp
President
Nuclear Sensors & Process Instrumentation

Rusty Kollmorgen
President
Ocean Systems

David Sammons
Managing Director
PMES

Paul Maguire
President
ProLogic

Mark Merrifield
Managing Director
Sonar Systems

Iwan Jemczyk
President
Tactical Communication Systems

Roland Fritts
President
USSI

External auditors

Deloitte LLP
Abbots House
Abbey Street
Reading RG1 3BD

Principal bankers

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

Solicitors

Slaughter & May
One Bunhill Row
London EC1Y 8YY

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

Financial advisors

Citigroup Global Markets Limited
Citigroup Centre
33 Canada Square, Canary Wharf
London E14 5LB

Stockbrokers

JPMorgan Cazenove Limited
20 Moorgate
London EC2R 6DA

Registrars

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

Corporate governance

Chairman's introduction

At Ultra Electronics we are committed to maintaining a strong corporate governance culture. This involves the Board, through the Executive Team, setting a governance framework within which the Ultra businesses operate. The central functions are mainly focused on policy and strategy whilst the operational implementation is devolved to the operating businesses. These are overseen by Divisional Managing Directors and Presidents who report back to the Executive Team, which, in turn, reports to the Board through the Chief Executive.

The Board is focused on following the principles laid down in the Combined Code and notes the key changes which have been embodied in the UK Corporate Governance Code. These first impact on Ultra during the 2011 financial year. Ultra already follows best practice in key areas so the impact of the UK Corporate Governance Code will not require significant changes to Ultra's governance framework.

The Board's role is to provide effective leadership and guidance for the Group, whilst ensuring that a strong culture of internal control and prudent risk management is maintained. During my time as Chairman I have ensured that the Board has had the correct balance of skills and experience needed to deliver this. The Board also ensures that the ethical standards of conduct of the Group's employees and businesses remain at the highest level. In this task the Board is assisted by an independent Ethics Committee whose function is being broadened to encompass all of Ultra's operations with a remit to investigate any areas which the Committee believes might be vulnerable. The activities of the Ethics Committee are discussed in more detail on page 34. I believe that our existing processes and controls are robust but recognise that constant vigilance is needed to ensure that they remain so.

I am confident that Ultra Electronics will continue its strong record of growth whilst maintaining good governance, a clear corporate strategy, and excellent management of all our businesses through a highly capable and experienced management team. This will enable us to continue to deliver consistent and reliable shareholder returns. As I have said in my Chairman's statement on page 7, I am pleased to be leaving Ultra in a strong position. I am confident that my proposed successor, Douglas Caster, and his colleagues on the Board, are committed to continuing the strong governance culture that has served Ultra so well.

Dr. J. Blogh, *Chairman*
25 February 2011

Compliance statement

During 2010 Ultra has been subject to the requirements of the 2008 Financial Reporting Council Combined Code on Corporate Governance ("the Code"). It is recognised that the new 2010 UK Corporate Governance Code will apply from Ultra's 2011 financial year onwards.

Ultra has complied with all the requirements set out in section 1 of the Code except in relation to the composition of the Board (Code Provision A.3.2) and in the succession plan for the Chairman (Code Provision A.2.2). These matters are fully explained, as required by the Code, on page 41.

The Group has applied the principles set out in section 1 of the Code, including both the main principles and the supporting principles, by complying with the Code as reported above. Further explanation of how the main principles have been applied is set out below and in the Directors' remuneration report and Audit Committee report.

Roles 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. 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.

Matters reserved for the Board

The Board maintains a list of specific matters for which it retains full responsibility and authority. The full list is publicly available on the Group's website. Key items include:

- Approval of interim and full year financial statements.
- Approval of the Group's annual operating budget and its longer term strategic plans.
- Approval of acquisitions strategy and of all individual acquisitions or disposals.
- Approval of capital expenditure requests and leases in excess of £500,000.
- Monitoring Group financial performance and endorsing updated forecasts.
- Major changes to the Group's management and control structure.
- Financing plans and banking arrangements.
- Terms of reference of the Chairman, the Chief Executive and other executive Directors.
- Terms of reference and membership of Board committees.
- Reviewing operation and effectiveness of internal control arrangements.

Roles of the Board (continued)

Roles of the Chairman and Chief Executive

The roles of the Chairman and of the Chief Executive are well defined and separate. The role of the Chairman is to run the Board, whilst the Chief Executive runs the Group.

The focus of the Chairman is on the smooth running of the Board, but at the same time ensuring that key issues are actively debated at Board meetings with the right amount of challenge from the non-executive Directors. Ultra has been fortunate to have had Julian Blogh as Chairman since 2005. His prior experience of running Ultra as Chief Executive has provided him with a comprehensive understanding of the way that the Group functions with its largely self-contained operating businesses. This successful model will be continued when Douglas Caster succeeds him as Chairman with effect from the April 2011 AGM. Whilst the Chairman and the Chief Executive work closely as members of the Board, the independent checks and balances function of the Chairman remains a vital part of his role. The Chairman meets at least annually with the non-executive Directors, without the executive Directors being present, to discuss the performance of the executive Directors.

The Chief Executive is focused on the operation of the Group's businesses. He is responsible for developing the long term strategy and for converting this into shorter term operational targets for the businesses. He must ensure that the businesses are adequately resourced with the right people with the right skills to deliver their objectives. In these tasks he works with his Executive Team through which he devolves the detailed management of the businesses via the Divisional Managing Directors and Presidents and the businesses' Senior Management Teams. The Chief Executive reports to the Board on a monthly basis, providing updates on operational performance and on the future opportunities for growth that have been identified.

Senior Independent Director

Chris Bailey performs the function of Senior Independent Director. In this role he is available for shareholders, employees, customers, suppliers or other stakeholders to approach with any concerns that they feel unable to raise with the Chairman. In addition he deals with any reports made by employees via the independently hosted reporting hotline and ensures that these are fully investigated and that appropriate corrective action is taken

Non-executive Directors

Chris Bailey, Ian Griffiths and Sir Robert Walmsley are Ultra's independent non-executive Directors. Their key role is to instigate constructive debate and provide the necessary challenge to the executive Directors. They are required to remain independent of mind and to provide a sounding board in response to investment proposals from their colleagues on the Board.

Insurance

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

Key activities during 2010

The key activities undertaken by the Board during 2010 were:

- Review of Group Strategic Plan – this was a full day review with the Executive Team who presented a comprehensive summary of the Plan to the non-executive Directors for discussion and critique.
- Review of 2011 Budget.
- Review of acquisition opportunities.
- Additional meetings to review high value bid opportunities.
- Board evaluation – this operates on a two year cycle. In 2010 the Board reviewed its performance as a team. The key points which emerged from the process are outlined on page 43.
- Review of Interim and Full Year Results and approval of associated announcements.
- Six monthly reviews of Operational Compliance Reports.
- Reviews of Health & Safety and Environmental Annual Reports.
- Approval of new banking facilities.
- Review of Corporate Governance developments.

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

Meeting attendance 2010

	Main Board	Audit Committee	Nominations Committee	Remuneration Committee
Number of meetings	**10**	**4**	**1**	**3**
Chris Bailey	**9**	**4**	**1**	**3**
Julian Blogh	**10**	**-**	**1**	**-**
Douglas Caster	**10**	**-**	**1**	**-**
Paul Dean	**10**	**-**	**-**	**-**
Ian Griffiths	**10**	**4**	**1**	**3**
Andy Hamment	**10**	**-**	**-**	**-**
Rakesh Sharma[1]	**7**	**-**	**-**	**-**
Sir Robert Walmsley	**10**	**4**	**1**	**3**

[1] Rakesh Sharma was appointed as a Director at the AGM held on 23 April 2010

Board composition

Current Board of Directors

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

Board of Directors post 2011 AGM

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

Chairman; Executive Directors; Non-executive Directors

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). Julian Blogh has announced his decision to retire from Ultra at the 2011 AGM. He will be succeeded by Douglas Caster. In turn, Douglas Caster will be succeeded as Chief Executive by Rakesh Sharma. The Board structure after the 2011 AGM will therefore consist of the new Chairman and a balance of three non-executive and three executive Directors.

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 have all indicated their support for such a move. The proposal has been explained in detail in the 2009 Annual Report. The Chairman's statement on Page 7 and the Chief Executive's Report on page 8 give further insight on the particular qualities that Douglas Caster will bring to the role of Chairman and those which Rakesh Sharma will bring to the role of Chief Executive. 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 current Chairman, Julian Blogh, is also non-executive Chairman of Gooch and Housego plc. Douglas Caster does not hold any other directorships with listed companies. He has been Chief Executive since April 2005. None of the other executive Directors hold appointments as directors of any other listed companies.

Chris Bailey is the Senior Independent Director. The Senior Independent Director has particular responsibility, on behalf of the Board, for safeguarding the provisions of the Code on corporate governance and is available to shareholders if they have concerns that contact through the normal channels of Chairman, Chief Executive or Company Secretary has failed to resolve, or for which such contact is inappropriate. Ian Griffiths and Sir Robert Walmsley were the other independent non-executive Directors during 2010.

Balance of skills and experience

Details of the specific skills and experience of the Directors are shown in their biographies on pages 36 and 37.

Board expertise

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

Executive Directors

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

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

Non-executive Directors

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

Director re-election

Although the new UK Corporate Governance code does not come into force for Ultra until the 2011 financial year, the Board has decided to follow the guidance given in the new Code with regard to the re-election of Directors. With the exception of Julian Blogh, who will retire at the 2011 AGM, all of Ultra's other Directors will be proposed for re-election at the April 2011 AGM. Full biographical details of the Directors are given on pages 36 and 37, together with outlines of the particular skills and experience that each Director brings to the Board. The Board believes that Ultra's continuing track record of success provides shareholders with the strongest possible reasons to re-elect those standing.

Conflicts of interest

Each Director is aware of his responsibility to bring any situational or transactional conflicts to the attention of the Board for its consideration and authorisation as soon as they arise. An annual review of the Conflicts Register is undertaken through a questionnaire designed to identify any conflicts of interest which is completed by all Directors. The same process applies to new Directors who are required to complete a conflicts questionnaire in order that any identified conflicts can be dealt with by the Board. No new conflicts were identified by the review that took place in 2010.

Information flow

The primary source of information for the Board is the comprehensive set of papers that are prepared for each Board Meeting. These include a detailed monthly operational report giving key financial performance data for the Group as a whole, for the Divisions, and for each operating business, together with a narrative commentary. Summary information of the major shareholdings in the Group is also provided together with an analysis of any significant changes and a comparison of the Group's share price performance against its peers and relevant stock market indices.

Subject briefing papers are produced for other Agenda items to ensure that the Directors are well prepared in advance of any Board Meeting so that an informed discussion is possible.

Generally new acquisition opportunities are presented to the Board in person by those senior managers with responsibility for managing the acquisition process. Other important but less frequent topics, such as changes to the Group's Pension Schemes, are also presented to the Directors by a subject matter expert.

The Board receive presentations from the Managing Directors and Presidents of those businesses that they visit. There is a focus on recent business performance and on future forecasts and key opportunities. These presentations are normally followed by a tour of the business with an opportunity to meet employees and witness demonstrations of new products and systems. The executive Directors make frequent visits to all of the operating businesses. The non-executive Directors visit the operating businesses as the Board Meetings rotate around the various UK locations and, in addition, visit a number of the overseas businesses each year. This ensures that all of the Directors develop an in-depth understanding of the Group's businesses, products and markets.

Information flow (continued)

The non-executive Directors participate in an annual full day review of the Group's strategy presented by the Executive Team (which includes all of the executive Directors). There is detailed discussion of points raised by the non-executive Directors and amendments made to the future strategy when a consensus is reached during those discussions.

The Board recognises the importance of having a comprehensive view and review of the Group's performance and believe that the existing arrangements are successful in providing the overview and the detail required.

Directors' induction and training

A formal induction programme is arranged for any new Directors covering the Group's products, services and markets as well as the principal risks that it faces and its governance and reporting structures. Ultra has a diverse range of products and services produced by operating businesses which have unique characteristics. It is important that new Directors become familiar with each business and to this end Directors are encouraged to visit the businesses and to meet local management teams. As mentioned above, Board meetings are rotated between different Ultra UK sites to give Directors as much exposure as possible to each business. Whilst the executive Directors travel frequently to Ultra's overseas businesses, specific opportunities are arranged for the non-executive Directors to visit a number of overseas businesses each year in the lead-up to an annual overseas Board Meeting.

Rakesh Sharma, who was appointed as a Director at the 2010 AGM, already had an extensive knowledge and understanding of the Group's businesses and methods of operation. There were no new non-executive Directors appointments during 2010 so there was no requirement for a specific induction programme. However, training and familiarisation with Ultra's operations is a continuing process, even for very experienced Directors.

Should there be any requirement for specialist training on any particular topics, for example changes in legislation covering areas such as pensions or company law, the Chairman is responsible for ensuring that this is arranged, through the Company Secretary, whilst other technical areas are addressed when required.

Directors are provided with access to independent professional advice at the Group's expense should this be necessary to help them discharge their duties. The Company Secretary provides advice and services to the Board to ensure that Board procedures are complied with.

Board evaluation

The Board operates an evaluation process in which the performance and effectiveness of the Board, its sub-committees and each individual Director are assessed over a rolling two-year period. The Chairman is responsible, on behalf of the Board, for overseeing this process, which is carried out by an independent external consultant. He is supported in this regard by the Company Secretary. In 2009 the contribution of each individual Director was assessed by the rest of the Board. This stage was based upon a questionnaire that was completed by each individual Director and also by each of the remaining Board members. In 2010 the main Board and its Committees were reviewed, using a questionnaire that was completed independently by all members of the Board. The scope of the review covered the Board structure, processes and administration, together with the distribution of information. The results of this survey were processed and fed back in detail to the Chairman. The Chairman then briefed the Board on the key findings of the exercise. This review cycle is repeated every two years.

For the 2010 evaluation the key findings were very positive

Amongst points raised for discussion were:

1. The question of geographical representation at a senior level within Ultra was debated. It was agreed that the input of the North American members of the Executive Team had proved to be valuable.
2. It was agreed that every opportunity should be taken for the non-executive Directors to interact with Executive Team members.
3. The overall administration of Board Meetings was agreed to be good.
4. The Nominations Committee process was transparent and had worked successfully for the identification of the new Chairman and the new Chief Executive.

The current process exceeds the requirements of the Combined Code and of the new UK Corporate Governance Code since an externally facilitated evaluation is conducted annually as described above.

Internal controls

In accordance with the Combined Code, the Directors carry out an annual review of the effectiveness of the Group's entire system of internal controls, covering business risks associated with strategic, operational and financial matters, together with those associated with Ultra's information technology infrastructure.

Ultra's internal controls are designed to meet the Group's particular needs and the risks to which it is exposed. In this context 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 organisational structure has clearly defined lines of responsibility and delegated authorities, which are reviewed regularly by the Board to ensure that they are still relevant given the Group's current size and structure. Appropriate ethical values and the need to maintain effective controls are communicated to managers and staff in specially designed development and training programmes.

All businesses are required to maintain written operating procedure manuals that are consistent with the control principles and policies set out in Ultra's Group Operating Manual. This Manual was fully reviewed during 2010 and approved by the Audit Committee. A revised and updated version was issued to all business Managing Directors and Presidents, and Heads of Finance. This is also made available to all employees through the Group Intranet. Acquisitions, major capital investments and contract bids above a defined value require main Board approval, with smaller investment decisions delegated to the Chief Executive.

Risk management

The Executive Team and the Senior Management Teams of each operating business are responsible for identifying the risks facing Ultra's businesses. The Executive Team is responsible for putting procedures in place to recognise and mitigate such risks. 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. Operational risks are monitored as part of the Group's monthly business performance review process. Business units produce monthly Compliance Reports which cover all key areas of risk, highlighting situations where normal controls have failed to be fully effective and explaining what remedial actions have been taken. Such situations are then monitored regularly until a satisfactory conclusion is reached. During 2010 the Chief Executive and the Chief Operating Officer presented summaries of these Compliance Reports to the Board, in January and July respectively.

The Board maintains an Internal Audit process, carried out by Ernst & Young LLP, to review financial and information systems control procedures throughout the Group. The level of risk posed by each business unit is assessed annually. Businesses with higher levels of risk are audited once every 2 years while other businesses are audited on a 3 year cycle. In addition, all newly acquired free-standing businesses are audited within a year of their acquisition date. The lead partner 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.

The executive Directors and the Divisional Managing Directors and Presidents take an active role in identifying and assessing potential risks inherent in all aspects of Ultra's activities. This is achieved both through the normal monthly business review process and also through day-to-day management contact. The Managing Directors or Presidents and Heads of Finance of all business units are required to give a formal written representation to the Board every 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 businesses, either in their monthly internal compliance statements or separately if appropriate.

In summary, the Board accepts overall responsibility for reviewing the operation and effectiveness of the Group's internal control framework on a regular basis. The Board has performed a specific assessment for the purpose of this annual report. This assessment considered all significant aspects of internal control arising during the period covered by the report, including the work of Internal Audit. As a result internal procedures were reviewed and updated where necessary. The Audit Committee assists the Board in discharging its review responsibilities.

Financial reporting systems

The Group has a comprehensive system of financial reporting covering key performance indicators such as order cover, revenue, profit and cash flow. The five year strategic plan and annual budget for each business are approved by the executive Directors. The Board approves the Group's consolidated plan and budget. The actual performance of the Group and the key variances against budget are reported monthly to the Board, normally during the fourth week of the following month. Revised forecasts for the half-year and full-year are prepared monthly for each business unit, and for the Group as a whole, and presented to the Board.

Shareholder communication

The Group encourages two-way communications with both institutional and private investors and endeavours to respond promptly to queries received. Ultra's website provides detailed financial and business information about the Group. Meetings between the executive Directors, institutional shareholders, analysts and other market professionals are held regularly as a part of Ultra's investor relations programme. Shareholders are invited to attend the Annual General Meeting, to ask questions during the meeting and to meet individual Directors after the formal proceedings have ended. Documentation relevant to Ultra's governance framework is available for inspection before the Meeting, including the terms of reference of the Board and its sub-committees and the Directors' individual contracts of employment. The terms of reference can also be found on the Group's website at www.ultra-electronics.com.

Shareholder analysis by category of shareholder as at 31 December 2010

Fund	Shares held	
	Number '000	% share capital
Unit trusts	32,427	47
Pension funds	15,002	22
Insurance companies	4,149	6
Foreign governments	2,417	4
Private investors	2,398	3
Investment trusts and other funds	1,564	2
Charities	438	1
Below threshold	2,717	4
Other	7,603	11
	68,715	100

Shareholder analysis by size of holding as at 31 December 2010

	Holders		Shares held	
	Number	% of holders	Number '000	% share capital
1-100	159	10	8	-
101-500	593	38	161	-
501-1,000	229	15	167	-
1,001-5,000	260	17	530	1
5,001-10,000	39	2	260	1
10,001-50,000	123	8	2,758	4
50,001-100,000	50	3	3,607	5
100,001 and over	111	7	61,224	89
	1,564	100	68,715	100

Financial calendar

29 March 2011	Annual Report and Accounts posted to shareholders
6 April 2011	Ex-dividend date
8 April 2011	Record date
21 April 2011	Annual General Meeting
4 May 2011	Final dividend payment date
1 August 2011	Interim results announced
September 2011	Interim dividend paid

Board Committees

The Board has established Audit, Nominations and Remuneration Committees, to which certain key responsibilities are delegated. These responsibilities, which are in line with the recommendations of the Code, are set out below.

Audit Committee

The Board has overall responsibility for reviewing the effectiveness of internal control procedures that are in place throughout Ultra's operations. The Board is supported in this capacity by the Audit Committee, which monitors the internal financial control procedures that are operated by the Group. The members of the Audit Committee are all non-executive Directors of the Group. The Audit Committee's terms of reference include all matters indicated by Disclosure and Transparency Rule 7.1 and the Code.

Audit Committee (continued)

During 2010 the Audit Committee was chaired by Chris Bailey, who has been a member of the Audit Committee since he joined the Board in January 2005. Sir Robert Walmsley and Ian Griffiths were the other members of the Audit Committee throughout 2010. Chris Bailey has recent and relevant experience in a senior financial executive role. He was Group Finance Director of Aggregate Industries plc until 2004, and was Chairman of the Audit Committee at Rok plc until December 2010.

The Committee met four times during the year. The main topics considered during the meetings were:

(a) monitoring the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance and reviewing significant financial reporting judgements contained therein;

(b) reviewing the Group's internal financial controls and the Group's internal control and risk management systems;

(c) monitoring and reviewing the effectiveness of the Group's internal audit function;

(d) making recommendations to the Board for resolutions to be put to the shareholders for their approval in general meeting on the appointment, reappointment and removal of the external auditors and the approval of the remuneration and terms of engagement of the external auditors;

(e) reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements; and

(f) developing and implementing a policy on the engagement of the external auditors to supply non-audit services, taking into account relevant guidance regarding the provision of non-audit services by the external audit firm.

During 2010 actions taken by the Audit Committee to discharge its duties included:

- Received and reviewed the Internal Audit Reports prepared by Ernst and Young and received the reports on the responses by the Group's management to the findings in those Internal Audit Reports.
- Reviewed the Policy on the engagement of the external Auditors and considered the extent to which the external auditors had performed non-audit services for the company.
- Received representations from management on their knowledge of any fraud with the Company and made representations to the external Auditors of the Committee's knowledge of any fraud within the Company.
- Evaluated the performance of the external Auditors and considered whether the external Auditors should be reappointed.
- Reviewed the Annual Report and Accounts for 2009 and recommended to the Board that these should be approved.
- Reviewed the financial status of the Group as at 26 February 2010 and recommended to the Board that the Group should be treated as a Going Concern for the purposes of preparation of the Annual Report and Accounts for 2009.
- Received the report of the external Auditors of the audit of the Annual Report and Accounts for 2009.
- Received the letter to management prepared by the external auditors containing recommendations for the Group to consider following the 2009 Audit together with management's responses to those recommendations.
- Received and approved a plan from the external auditors for the scope of the external audit of the Group's accounts for the 2010 financial year.
- Received and approved a plan from the internal Auditors for a programme of visits to selected operating businesses during 2011, together with a scope of the work to be covered during those audit visits.
- Received from the Group Finance Director a draft revised version of the Group Operating Manual containing detailed financial operating policies, procedures and authorisation limits. This was approved for issue to all the Group's businesses for them to implement immediately.
- Agreed the level of fees to be paid to the external Auditors for their work on the Interim and Final Accounts for 2010.

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.

The Committee has reviewed the public interest disclosure process which was strengthened during 2010 through the engagement of an independent party to provide a point of contact for employees. 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. Since the hotline was launched there have been four reports submitted (three in 2010). These were fully investigated and appropriate action taken when required.

It is the policy of the Group that non-audit services provided by Deloitte LLP, Ultra's external Auditors, are restricted to regulatory reporting, consultancy services associated with financial restructuring, responding to new reporting requirements, due diligence assessments of potential acquisitions and minor tax 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 due diligence work and tax consultancy, 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.

Audit Committee (continued)

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. Mark Mullins, currently the Deloitte Lead Client Service and Audit Partner, will hand over his responsibility for Ultra at the conclusion of the 2010 Audit. He will be succeeded by Kerr Mitchell.

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 consideration of whether a tender process is appropriate.

The Committee, following its annual review, is satisfied that Deloitte, who were last re-appointed on 23 April 2010, continue to provide an effective audit service and has recommended to the Board that they be re-appointed. Accordingly, a resolution to re-appoint 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

The Nominations Committee comprises the non-executive Directors and the Chief Executive. During 2010 the majority of members of the Committee were independent non-executive Directors. Julian Blogh was the Chairman of the Committee. This constitution will change with effect from the April 2011 AGM when the Chairman and the Chief Executive will cease to be members of the Committee, which will then comprise solely non-executive Directors. The key responsibility of the Committee is to review all main Board and Committee appointments.

Ultra operates a well established succession planning process. This year it has been renamed the Organisation, Succession and Development Plan, with the addition of "Development" to stress Ultra's commitment to equip its people with the key skills and knowledge that they need to progress. Succession planning starts within the operating businesses where key individuals are identified by Managing Directors and Presidents with the assistance of their HR teams. These plans are consolidated at Divisional level and are further reviewed by Divisional Managing Directors and Presidents. Finally there is an overall review by the Chief Executive assisted by the Group Human Resources Director. Through this process successors for key individuals are identified, with "high flyers" being identified for management development programmes. The plans identify where no suitable successor exists in which cases specific development or recruitment actions are initiated.

At Board level successors are identified for each of the executive Director positions. During 2010 the Committee met once to consider the succession plan for the positions of Chairman and Chief Executive. As is consistent with the Combined Code, the meeting was not chaired by the Group Chairman, but was instead chaired by Chris Bailey, Senior Independent Director. The Committee agreed to recommend to the Board at the February 2011 Board Meeting that Douglas Caster should succeed Julian Blogh as Chairman with effect from the April 2011 AGM and that Rakesh Sharma should be appointed as Chief Executive from the same date.

Remuneration Committee

During 2010 Chris Bailey was Chairman of the Remuneration Committee. Sir Robert Walmsley and Ian Griffiths were the other Committee members during the year. The Committee met three 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. The Directors' remuneration report is included on page 49, 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, Canadian dollars, Australian dollars and Euros. This facility was signed in February 2010 and expires in September 2013. The facility is provided by a club 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 January 2016. Both facilities have the same covenants.

As well as being used to fund acquisitions, the banking facilities are also used for other balance sheet and operational needs, including the funding of day-to-day working capital requirements. The US and Canadian dollar borrowings also represent natural hedges against assets denominated in these currencies. The Group's banking covenants have all been met during the past year with a comfortable margin. The approved Group budget for 2011 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.

Statement of going concern (continued)

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. At the beginning of 2011 Ultra had firm orders in place for about 60% of analysts' consensus forecast sales in the year. 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; 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,
D. Caster, *Chief Executive*
P. Dean, *Finance Director*
25 February 2011

Remuneration report

Introduction

The approach to remuneration policy has been similar to that taken in previous years. The objective has been to keep remuneration at a sufficient level to retain 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 mix between fixed and variable remuneration for executive Directors has not been materially changed from 2009 since the existing mix is felt by the Remuneration Committee to offer sufficient incentive to continue to deliver the excellent financial performances that the Group has achieved since flotation while neither encouraging nor rewarding inappropriate risk-taking.

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 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 auditors 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.

UNAUDITED INFORMATION

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 Group's website.

Composition

Chris Bailey was the Chairman of the Remuneration Committee during 2010. 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. Julian Blogh and Douglas Caster also normally attend Committee meetings except where matters directly relating to their own remuneration are discussed, although they are not formal Committee members.

Advice

Wholly independent advice on executive remuneration and share schemes is received from Hewitt New Bridge Street, a trading name of Aon Hewitt Ltd whose ultimate parent company is Aon Corporation. Pensions advisory services were also provided to the Committee and the Group by Aon Hewitt Ltd. During 2010 insurance broking services were provided to the Group by other subsidiaries of Aon Corporation which the Committee believes in no way prejudices Hewitt New Bridge Street's position as the Committee's independent advisers. Hewitt 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 and with remuneration benchmarking services.

In addition, the Committee consults Douglas Caster, Chief Executive, with regard to the remuneration and benefits packages offered to executive Directors and senior executives 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 2010

During 2010 the Remuneration Committee met three times. The key activities of the Committee have been:

- Confirmation of the level of the Chairman's fees for 2010.
- Approval of the 2009 Remuneration Report.
- Confirmation of the 2009 Executive Bonus awards.
- Setting Executive Bonus Targets for 2010.
- Confirmation of the level at which the 2007 LTIP grants had vested.
- Setting the level of LTIP grants for 2010.
- Agreement of the list of recipients for Executive Share Options.
- Setting the level of remuneration for Chief Operating Officer after his appointment to the Board.
- Setting the levels of remuneration for executive Directors and the Executive Team for 2011.
- Consideration of response to changes in Pension tax legislation.

Executive Directors

Linkage between remuneration, corporate objectives and shareholder interests

The Group's remuneration policy is to reward senior management competitively, enabling the Group 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 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 below:

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	3 years	Relative Total Shareholder Returns based on a representative comparator group from the FTSE 350

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 this effect.

Salaries

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

(1) A business-specific group comprising 15 companies drawn from Ultra's 2010 LTIP comparator group (which is shown on page 52), with similar market capitalisations to that of Ultra; and

(2) A general group comprising 40 companies from across all market sectors with similar market capitalisation and turnover to that of Ultra.

In addition to the analysis presented by Hewitt New Bridge Street, the Committee uses published salary surveys and information available in the annual reports of similar companies as sources of salary information.

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 the benchmark comparator groups outlined above;
- 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 2011:

	2011 Salary	2010 Salary	% Increase
	£'000	£'000	%
Chief Executive	**279**	270[1]	3.5
Chief Operating Officer	**290**	280[2]	3.5
Finance Director	**290**	278	4.3
Marketing Director	**243**	235	3.5

[1] Douglas Caster reduced his working hours to the equivalent of a three day week with effect from 1 May 2010. The salary shown is an annual equivalent on this basis.

[2] Rakesh Sharma's salary was increased from £260,000 per annum to £280,000 per annum with effect from 1 May 2010 following his appointment to the Board.

These salary increase rates are reflective of the salary increases made to high performing Group employees.

Annual bonus scheme

Bonus payments in 2010 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 managed. Please refer to pages 10 to 11 for details. The maximum bonus for executive Directors was 100% of base salary. In 2010 the bonus targets set by the Committee were a maximum of 25% of salary subject to the achievement of a £99.6m profit before tax and profit 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 £144.8m after capitalised development costs, capital expenditure and purchase of long-term incentive plan shares. The maximum cash target was set at a level significantly ahead of both the internal budget and historical profit to cash conversion rates. This was to incentivise management to focus on the tight management of working capital in order to optimise the conversion of operating profit into operating cash flow. The actual results for the year led to an aggregate bonus pay-out of 46.3%, of which 25% of salary was due to the profit before tax target being met in full and the balance was linked to part 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 recognise the uneven phasing of the monthly cash flows during the year.

The structure of the bonus schemes for 2011 will follow the same structure as for 2010 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.

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

The Group 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 over 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.

At the 2008 Annual General Meeting shareholders approved a change to the methodology for all awards made under the 2007 LTIP. As explained in previous Annual Reports, this change was made for technical reasons (due to the problems with measuring relative EPS performance in the transition to IFRS), permitting the Group to replace its relative EPS target with a relative total shareholder return ("TSR") condition. It is currently intended that relative TSR will now apply to all new awards made under the 2007 LTIP going forward, as well as to the 2007 awards made under the 2007 LTIP.

The Committee believes that the use of relative TSR has a number of advantages. The most significant of these is that it provides a clear measure of the Group's share price performance plus dividend yield, when compared to the performance of similar companies. Therefore relative TSR provides a clear indication of the Group's performance with reference to its key corporate objective of delivering above market average increases in shareholder value. Other advantages 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.

Detailed structure of TSR performance condition

Under the TSR performance condition, TSR is based upon a comparison of the Group'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 2008, 2009 and 2010 were as follows:

2008 group

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

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**	

During 2010 Chloride Group and VT Group delisted and were removed from the comparator group for the awards that are to be made in 2011. The list of remaining companies has been reviewed and it has been agreed that these are sufficient to form the comparator group for 2011:

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**	

Detailed structure of TSR performance condition (continued)

In addition to the main TSR condition, an "underpin" will apply to LTIP 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.

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

All-Employee Share Plans

The executive Directors are also eligible to participate in the Group'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 Group. Under the Savings Related Share Option Scheme, reintroduced during 2007, 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 25 February 2011

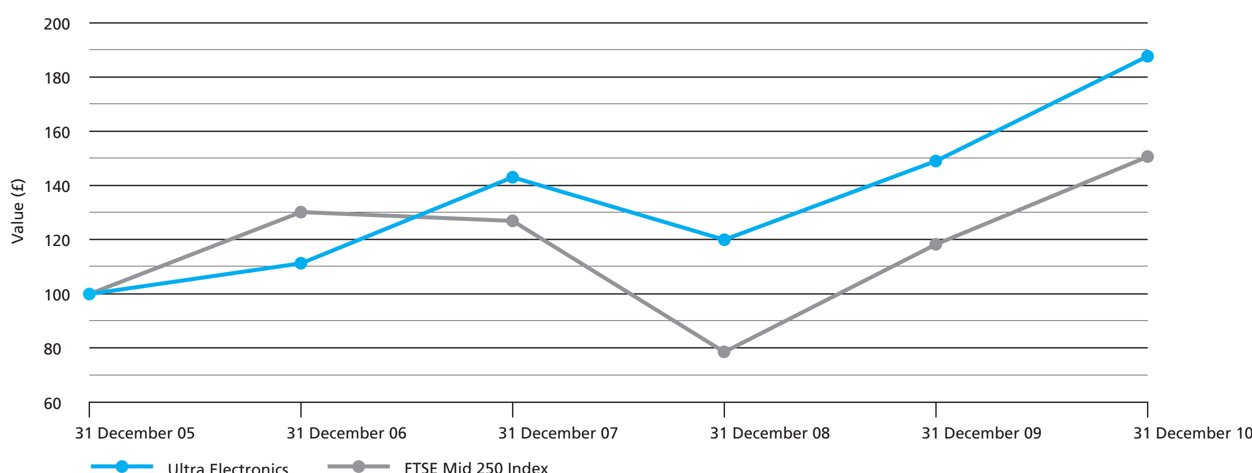
Name of Director	Direct and indirect shareholdings	LTIPS granted but not yet vested	SAYE options	Total shares plus options
D. Caster	665,335	87,306	-	**752,641**
P. Dean	229	39,539	316	**40,084**
A. Hamment	129,541	44,045	646	**174,232**
R. Sharma	35,641	37,347	646	**73,634**

Total shareholder return performance graph

The graph below shows the Total Shareholder Return ("TSR") performance of the Group in comparison with the FTSE 250 Index over the past five years. The graph shows the value at the end of 2010 of £100 invested at the start of the evaluation period, in the Group and in the Index. The Committee considers the FTSE 250 a relevant index for the TSR comparison as the Group 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 no fixed term and a notice period of one year, which the Committee considers appropriately reflects both current market practice and the balance between the interests of the Group and each executive Director. 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 executive Director's service contract:

Name	Date of contract	Notice period
D. Caster	25 September 1996	12 months
P. Dean	1 January 2009	12 months
A. Hamment	1 July 2000	12 months
R. Sharma[1]	1 May 1999	6 months

[1] Rakesh Sharma will receive a new service contract on his appointment to the position of Chief Executive, the terms of which will reflect the approach outlined above.

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. 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 surveys, taking account of individual responsibilities. Chris Bailey was Chairman of the Audit and Remuneration Committees during 2010 and received additional fees as a result.

Non-executive Directors' fees have been reviewed for 2011 with reference to data regarding fee levels currently earned by the Directors of similar companies, selected on the basis of turnover and market capitalisation. It has been determined that the non-executive Directors' fees for 2011 will be:

	2011 Fees £'000	2010 Fees £'000
Base fee		
Chairman	**175**	166
Non-executive Directors	**43**	41
Supplements		
Chairman of the Audit Committee	**5**	5
Chairman of the Remuneration Committee	**5**	5

Service contracts

Details of service contracts for non-executive Directors are as follows:

Name	Date of contract	Notice period
C. Bailey	31 January 2011	Nil
J. Blogh	23 April 2010	Nil
I. Griffiths	23 April 2010	Nil
Sir R. Walmsley	31 January 2011	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. 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.

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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 2010:

	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
D. Caster[1]	57	222	7	178	229	3,131	4,863	1,719
A. Hamment	56	110	7	88	121	1,426	1,738	292
R. Sharma	49	48	1	(2)	50	436	516	69

*Less Directors' contributions.

[1] D. Caster's contributions were to the date of his early retirement on 30 April 2010.

Paul Dean participates in the Group Personal Pension Plan, a defined contribution scheme. Employer contributions for the year were £50,040 (2009: period from 24 April 2009 to 31 December 2009 of £35,775).

Directors' remuneration

Directors' emoluments are detailed below:

	Basic salary	Other cash emoluments	Fees	Annual performance bonus	Benefits	2010 Total	2009 Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
C. Bailey[1]	-	-	50	-	-	50	45
J. Blogh	-	-	166	-	-	166	158
D. Caster[2]	330	-	-	153	34	517	754
P. Dean[3]	278	-	-	129	21	428	320
I. Griffiths	-	-	41	-	-	41	39
A. Hamment	235	12	-	109	3	359	390
R. Sharma[4]	192	-	-	89	13	294	-
Sir R. Walmsley[5]	-	-	41	-	-	41	37
	1,035	12	298	480	71	1,896	1,743

[1] Chris Bailey received additional fees as Chairman of the Audit and Remuneration Committees with effect from 1 May 2009.

[2] Douglas Caster reduced his working hours to three days per week with effect from 1 May 2010 with a proportionate reduction in his salary.

[3] Paul Dean's 2009 emoluments are for the period 24 April 2009 to 31 December 2009.

[4] Rakesh Sharma's 2010 emoluments are for the period 23 April 2010 to 31 December 2010.

[5] Sir Robert Walmsley's 2009 emoluments are for the period 22 January 2009 to 31 December 2009.

Pension contributions to Directors of £138,415 (2009: £177,915) were paid by the Company, including £27,750 (2009: £79,550) 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
2007 award	29,259	12,874	-	9,453	£11.11	April 2010
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
Interest at 1 January 2010	93,749	41,363	21,217	32,142		
2007 award crystallised during the year	(29,259)	(12,874)	-	(9,453)		
2010 award	22,816	15,556	18,322	14,658	£14.46	March 2013
Interests at 31 December 2010	**87,306**	**44,045**	**39,539**	**37,347**		

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 91,218 shares (nominal value of £4,561) for a net £1,567,761 relating to the 2010 award (2009: £nil shares). This includes £1,003,066 worth of Ultra shares for the Directors (2009: £nil).

The 2007 award crystallised during the year as detailed above. The actual date of the award was 3 August 2007. The market price of the shares when granted was £11.11. The market price of the shares on vesting was £15.30. The aggregate gain made by the Directors under the LTIP during the year was £789,266 (2009: £651,043). Ultra's share price on 31 December 2010 was £16.96. The range during 2010 was £12.68 to £18.95.

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 2010	Shares acquired during year	Interests as at 31 December 2010	Partnership shares acquired from 1 January 2011 to 25 February 2011	Interests as at 25 February 2011
D. Caster	2,033	**137**	**2,170**	**15**	**2,185**
P. Dean	115	**100**	**215**	**14**	**229**
A. Hamment	2,033	**137**	**2,170**	**15**	**2,185**
R. Sharma	2,033	**137**	**2,170**	**15**	**2,185**

During the year, the Share Ownership Plan Trust, established and operated in connection with the AESOP, purchased 31,678 (2009: 43,167) Ultra Electronics Holdings plc shares (nominal value £1,584) for £493,007 (2009: £513,748).

Directors' interests

Details of Directors' shareholdings are given below:

	At start of year		At end of year		At 25 February 2011
	Direct ownership	Indirect ownership	Direct ownership	Indirect ownership	Direct ownership
C. Bailey	-	2,500	**-**	**2,500**	**-**
J. Blogh	-	1,190,869	**-**	**1,190,869**	**-**
D. Caster	2,033	633,522	**31,798**	**633,522**	**31,813**
P. Dean	115	-	**215**	**-**	**229**
I. Griffiths	-	-	**-**	**-**	**-**
A. Hamment	72,980	43,535	**2,370**	**127,156**	**2,385**
R. Sharma[1]	4,973	21,063	**5,110**	**30,516**	**5,125**
Sir R. Walmsley	1,000	-	**1,600**	**-**	**1,600**

[1] R. Sharma was appointed a Director on 23 April 2010. At that date his shareholdings were 14,462 shares directly owned, 21,063 shares indirectly owned.

There were no changes in indirect ownership between 1 January 2011 and 25 February 2011.

This report was approved by the Board of Directors on 25 February 2011 and signed on its behalf by:

Chris Bailey, *Chairman of the Remuneration Committee*

Directors' report

For the year ended 31 December 2010

The Directors present their annual report on the affairs of the Group, together with the accounts and independent auditors' report, for the year ended 31 December 2010. Details in relation to health and safety, the environment, business ethics, employment practice and employee consultation and charitable donations are included in the Corporate Responsibility Statement on pages 34 and 35. The Corporate Governance statement on pages 39 to 48 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 2010 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 2010 on pages 20 to 30 and Management of risks and uncertainties and corporate responsibility on pages 31 to 35.

Results and dividends

Group results and dividends are as follows:

		2010 £'000
Balance on retained earnings, beginning of year		**133,731**
Total comprehensive income for the year		**69,976**
Dividends:	2009 final paid of 21.6p per share	**(14,755)**
	2010 interim paid of 10.6p per share	**(7,251)**
	Equity-settled employee share schemes	**2,650**
Balance on retained earnings, end of year		**184,351**

The final 2010 dividend of 24.0p per share is proposed to be paid on 4 May 2011 to shareholders on the register at 8 April 2011. The interim dividend was paid on 24 September 2010, making a total of 32.2p (2009: 27.6p) 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 8 to 19.

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 £112.7 million (2009: £111.5 million) was spent on engineering development of which £73.0 million (2009: £77.0 million) was funded by customers and £39.7 million (2009: £34.5 million) by the Group.

Purchase of own shares

During the year the Company purchased 91,218 (2009: nil) of its ordinary shares and 56,447 (2009: 80,831) ordinary shares were distributed following vesting of awards under the Ultra Electronics Long-Term Incentive Plan. At 31 December 2010, the Group held 258,738 ordinary shares under the Ultra Electronics Long-Term Incentive Plan (representing 0.4% of the ordinary shares in issue on 31 December 2010).

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 25 February 2011 are listed on page 56.

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 25 February 2011, the Company had been notified, in accordance with Chapter 5 of the Disclosure and Transparency rules, of the following voting rights as a shareholder 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
Ignis Investment Services Limited	Indirect	4.0	2,729,250	26 May 2010
Liverpool Victoria Friendly Society Limited	Direct	3.9	2,714,010	23 November 2010

Charitable and political contributions

The Group contributed £70,000 (2009: £60,000) 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 2010 were 65 days (2009: 63 days), based on the ratio of Group trade payables at the end of the year to the amounts invoiced during the year by suppliers. The Company had no trade payables at either year end.

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 26. 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 26. 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 39.

Post balance sheet events

Banking facilities

On 28 January 2011 the Group entered into a new £90m banking facility which is provided by a small club led by the Royal Bank of Scotland. This facility provides revolving credit over a five year period and is denominated in Sterling, Australian dollars, Canadian dollars, Euros or US dollars and is used for balance sheet and operational needs. The facility is provided in equal proportions by the Royal Bank of Scotland, Bank of America, Barclays, Royal Bank of Canada, Australia and New Zealand Banking Group and Santander. This facility is in addition to the Groups existing £120m Revolving Credit Facility and a £15m overdraft facility for funding short-term working capital requirements.

Acquisition of 3e Technologies International

On 10 January 2011, the Group announced that it had agreed to acquire the entire share capital of 3e Technologies International (3eTI) for a cash consideration of £18.6m. The acquisition was completed on 1 February 2011.

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Annual General Meeting

Explanation of special business resolutions is given below:

Resolution 13

The resolution authorises the Directors to allot shares in the Company up to a maximum nominal amount of £1,145,380 representing one third of issued share capital of the Company. In addition to this, the Company has followed the guidelines of the Association of British Insurers and requested authority to allot further shares up to an additional nominal amount of £1,145,380. This additional allotment of shares would be applied to rights issues which are fully pre-emptive (subject to certain customary exemptions). If the Company relied on this additional authority in connection with a rights issue, the entire Board of Directors of the Company would stand for re-election at the following 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 25 February 2011, 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 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 3,436,140 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 25 February 2011 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 1,356,271 ordinary shares of the Company, representing approximately 1.97% 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 2.08% 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.

Auditors

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 auditors are 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 auditors are aware of that information.

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

By order of the Board,
D. Garbett-Edwards, *Company Secretary*
25 February 2011
Registered Office: 417 Bridport Road, Greenford, Middlesex UB6 8UA Registered Number: 02830397

Independent auditors' 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 2010 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 34. 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 auditors' 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.

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 2010 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 June 2008 Combined 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 2010 and on the information in the Directors' Remuneration Report that is described as having been audited.

Mark Mullins, *Senior Statutory Auditor*
for and on behalf of **Deloitte LLP**
Chartered Accountants and Statutory Auditor
Reading, United Kingdom
25 February 2011

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.

Consolidated income statement

For the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
Continuing operations			
Revenue	*3*	**710,043**	651,036
Cost of sales		**(505,425)**	(462,524)
Gross profit		**204,618**	188,512
Other operating income	*4*	**943**	5,112
Distribution costs		**(1,121)**	(1,038)
Administrative expenses		**(113,781)**	(109,527)
Share of profit from associate		**2,558**	-
Other operating expenses	*5*	**(3,202)**	(7,023)
Profit from operations	*6*	**90,015**	76,036
Headline operating profit	*2*	**110,346**	97,330
Amortisation of intangibles arising on acquisition		**(20,331)**	(26,303)
Profit on disposal of property, plant and equipment net of property-related provisions		**-**	5,009
Profit from operations		**90,015**	76,036
Investment revenue	*8*	**9,587**	56,212
Finance costs	*9*	**(8,293)**	(24,350)
Profit before tax		**91,309**	107,898
Headline profit before tax		**102,688**	89,486
Amortisation of intangibles arising on acquisition		**(20,331)**	(26,303)
Profit on fair value movements on derivatives		**8,952**	55,630
Profit on disposal of property, plant and equipment net of property-related provisions		**-**	5,009
Loss on closing out foreign currency hedging contracts		**-**	(15,924)
Profit before tax		**91,309**	107,898
Tax	*10*	**(24,984)**	(29,418)
Profit for the year from continuing operations attributable to equity holders of the parent		**66,325**	78,480
Earnings per ordinary share (pence)			
From continuing operations			
Basic	*12*	**96.8**	115.1
Diluted	*12*	**96.2**	114.8

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

Consolidated statement of comprehensive income

For the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
Profit for the year		**66,325**	78,480
Exchange differences on translation of foreign operations		**9,868**	(18,810)
(Loss)/gain on net investment hedges		**(2,453)**	7,128
Actuarial gain/(loss) on defined benefit pension schemes		**4,778**	(16,706)
Loss on cash flow hedges		**(1,013)**	(116)
Transfer from profit and loss on cash flow hedges		**2,224**	1,759
Tax relating to components of other comprehensive income	*10*	**(2,338)**	2,728
Other comprehensive income for the year		**11,066**	(24,017)
Total comprehensive income for the year	*27*	**77,391**	54,463

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

Consolidated balance sheet

31 December 2010

	Note	**2010 £'000**	2009 £'000
Non-current assets			
Goodwill	*13*	**231,490**	211,712
Other intangible assets	*14*	**75,570**	90,136
Property, plant and equipment	*15*	**45,354**	36,644
Interest in associate	*16*	**3,668**	1,107
Deferred tax assets	*24*	**15,503**	18,159
Derivative financial instruments	*23*	**3,750**	4,908
		375,335	362,666
Current assets			
Inventories	*17*	**49,366**	50,612
Trade and other receivables	*19*	**158,003**	122,442
Cash and cash equivalents		**68,129**	41,809
Derivative financial instruments	*23*	**2,933**	994
		278,431	215,857
Total assets		**653,766**	578,523
Current liabilities			
Trade and other payables	*20*	**(206,093)**	(169,553)
Tax liabilities		**(18,847)**	(9,020)
Derivative financial instruments	*23*	**(3,411)**	(9,164)
Obligations under finance leases	*21*	**(129)**	(5)
Bank loans	*22*	**(49,992)**	(70,489)
Short-term provisions	*25*	**(17,086)**	(15,591)
		(295,558)	(273,822)
Non-current liabilities			
Retirement benefit obligations	*30*	**(78,464)**	(77,497)
Other payables	*20*	**(20,409)**	(18,023)
Deferred tax liabilities	*24*	**(11,217)**	(14,721)
Derivative financial instruments	*23*	**(442)**	(4,071)
Obligations under finance leases	*21*	**(183)**	-
Long-term provisions	*25*	**(4,358)**	(6,923)
		(115,073)	(121,235)
Total liabilities		**(410,631)**	(395,057)
Net assets		**243,135**	183,466
Equity			
Share capital	*26*	**3,436**	3,420
Share premium account	*27*	**41,134**	38,313
Own shares	*27*	**(2,653)**	(1,450)
Hedging and translation reserve	*27*	**16,867**	9,452
Retained earnings	*27*	**184,351**	133,731
Total equity attributable to equity holders of the parent		**243,135**	183,466

The financial statements of Ultra Electronics Holdings plc, registered number 02830397, were approved by the Board of Directors and authorised for issue on 25 February 2011.

On behalf of the Board
D. Caster, *Chief Executive*
P. Dean, *Finance Director*

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

Consolidated cash flow statement

For the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
Net cash flow from operating activities	*28*	**99,281**	102,056
Investing activities			
Interest received		**635**	582
Purchase of property, plant and equipment		**(15,526)**	(10,042)
Proceeds from disposal of property, plant and equipment		**3,813**	3,062
Expenditure on product development and other intangibles		**(3,214)**	(2,352)
Acquisition of subsidiary undertakings	*31*	**(13,459)**	(31,601)
Net cash acquired with subsidiary undertakings	*31*	**385**	843
Net cash used in investing activities		**(27,366)**	(39,508)
Financing activities			
Issue of share capital		**2,837**	1,899
Purchase of Long-Term Incentive Plan shares		**(1,569)**	-
Dividends paid		**(22,006)**	(18,749)
Loan syndication costs		**(1,388)**	-
Decrease in borrowings		**(22,068)**	(29,051)
Loan to associate		**(3,267)**	-
Repayment of obligations under finance leases		**(54)**	(104)
New finance leases		**361**	-
Loss on closing out foreign currency hedging contracts		**-**	(15,924)
Net cash used in financing activities		**(47,154)**	(61,929)
Net increase in cash and cash equivalents		**24,761**	619
Cash and cash equivalents at beginning of year		**41,809**	43,385
Effect of foreign exchange rate changes		**1,559**	(2,195)
Cash and cash equivalents at end of year		**68,129**	41,809

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 2010

Equity attributable to equity holders of the parent

	Share capital £'000	Share premium account £'000	Reserve for own shares £'000	Hedging and translation reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2010	**3,420**	**38,313**	**(1,450)**	**9,452**	**133,731**	**183,466**
Profit for the year	-	-	-	-	66,325	66,325
Other comprehensive income for the year	-	-	-	7,415	3,651	11,066
Total comprehensive income for the year	**-**	**-**	**-**	**7,415**	**69,976**	**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)**	**16,867**	**184,351**	**243,135**
Balance at 1 January 2009	**3,407**	**36,427**	**(1,974)**	**22,615**	**83,594**	**144,069**
Profit for the year	-	-	-	-	78,480	78,480
Other comprehensive income for the year	-	-	-	(13,163)	(10,854)	(24,017)
Total comprehensive income for the year	**-**	**-**	**-**	**(13,163)**	**67,626**	**54,463**
Disposal of own shares	-	-	524	-	(524)	-
Equity settled employee share schemes	13	1,886	-	-	1,490	3,389
Dividend to shareholders	-	-	-	-	(18,749)	(18,749)
Tax on share-based payment transactions	-	-	-	-	294	294
Balance at 31 December 2009	**3,420**	**38,313**	**(1,450)**	**9,452**	**133,731**	**183,466**

Notes to accounts – Group

31 December 2010

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.

	2010			2009*		
	External revenue £'000	**Inter segment £'000**	**Total £'000**	External revenue £'000	Inter segment £'000	Total £'000
Revenue						
Aircraft & Vehicle Systems	**174,093**	**16,072**	**190,165**	180,059	8,517	188,576
Information & Power Systems	**223,999**	**6,072**	**230,071**	193,476	1,316	194,792
Tactical & Sonar Systems	**311,951**	**18,133**	**330,084**	277,501	13,982	291,483
Eliminations	**-**	**(40,277)**	**(40,277)**	-	(23,815)	(23,815)
Consolidated revenue	**710,043**	**-**	**710,043**	651,036	-	651,036

All inter-group trading is at arms' length.

				2010
	Aircraft & Vehicle Systems £'000	**Information & Power Systems £'000**	**Tactical & Sonar Systems £'000**	**Total £'000**
Headline operating profit	**23,420**	**27,533**	**59,393**	**110,346**
Amortisation of intangibles arising on acquisition	**(2,491)**	**(8,858)**	**(8,982)**	**(20,331)**
Profit from operations	**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**

				2009*
	Aircraft & Vehicle Systems £'000	Information & Power Systems £'000	Tactical & Sonar Systems £'000	Total £'000
Headline operating profit	22,625	23,640	51,065	97,330
Amortisation of intangibles arising on acquisition	(4,715)	(10,828)	(10,760)	(26,303)
Profit on disposal of property, plant & equipment net of property related provisions	(1,380)	7,489	(1,100)	5,009
Profit from operations	16,530	20,301	39,205	76,036
Investment revenue				56,212
Finance costs				(24,350)
Profit before tax				107,898
Tax				(29,418)
Profit after tax				78,480

1 Segment information (continued)

Capital expenditure, additions to intangibles, depreciation and amortisation

	Capital expenditure and additions to intangibles (excluding goodwill)		Depreciation and amortisation	
	2010 £'000	2009* £'000	**2010 £'000**	2009* £'000
Aircraft & Vehicle Systems	**3,262**	2,686	**4,966**	7,084
Information & Power Systems	**7,867**	4,161	**12,344**	14,388
Tactical & Sonar Systems	**7,611**	5,547	**14,163**	14,824
Total	**18,740**	12,394	**31,473**	36,296

The 2010 depreciation and amortisation expense includes £23,088,000 of amortisation charges (2009: £28,574,000) and £8,385,000 of property, plant and equipment depreciation charges (2009: £7,722,000).

Total assets by segment

	2010 £'000	2009* £'000
Aircraft & Vehicle Systems	**152,083**	114,388
Information & Power Systems	**202,170**	192,345
Tactical & Sonar Systems	**209,198**	205,920
	563,451	512,653
Unallocated	**90,315**	65,870
Consolidated total assets	**653,766**	578,523

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

Total liabilities by segment

	2010 £'000	2009* £'000
Aircraft & Vehicle Systems	**68,225**	57,207
Information & Power Systems	**70,890**	62,815
Tactical & Sonar Systems	**109,143**	90,073
	248,258	210,095
Unallocated	**162,373**	184,962
Consolidated total liabilities	**410,631**	395,057

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

Revenue by destination

The following table provides an analysis of the Group's sales by geographical market.

	2010 £'000	2009 £'000
United Kingdom	**192,140**	173,042
Continental Europe	**67,093**	59,453
Canada	**19,429**	13,415
USA	**354,920**	336,236
Rest of World	**76,461**	68,890
	710,043	651,036

During the year there was 1 direct customer (2009: 1), that individually accounted for greater than 10% of the Group's total turnover. Sales to this customer in 2010 were £203m (2009: £198m).

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

1 Segment information (continued)

Other Information (by geographic location)

	Non current assets		Total assets		Additions to Property, Plant & Equipment and intangible assets (excluding acquisitions)	
	2010 £'000	2009 £'000	**2010 £'000**	2009 £'000	**2010 £'000**	2009 £'000
United Kingdom	**117,092**	112,204	**224,925**	204,089	**10,751**	6,442
USA	**171,698**	158,529	**243,633**	220,413	**5,179**	3,519
Canada	**43,156**	44,531	**61,698**	59,447	**2,564**	2,330
Rest of World	**24,136**	24,335	**33,195**	28,704	**246**	103
	356,082	339,599	**563,451**	512,653	**18,740**	12,394
Unallocated	**19,253**	23,067	**90,315**	65,870	**-**	-
	375,335	362,666	**653,766**	578,523	**18,740**	12,394

*During 2010, the Manufacturing & Card Systems business was moved from the Group's Information & Power Systems division into the Group's Aircraft & Vehicle Systems division. The prior year segmented analysis has therefore been re-stated to reflect this change and to ensure that the presentation is on a consistent basis.

2 Additional performance measures

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

	2010 £'000	2009 £'000
Profit from operations	**90,015**	76,036
Amortisation of intangibles arising on acquisition	**20,331**	26,303
Profit on disposal of property, plant and equipment net of property-related provisions	**-**	(5,009)
Headline operating profit	**110,346**	97,330
Profit before tax	**91,309**	107,898
Amortisation of intangibles arising on acquisition	**20,331**	26,303
Profit on fair value movements on derivatives	**(8,952)**	(55,630)
Profit on disposal of property, plant and equipment net of property-related provisions	**-**	(5,009)
Loss on closing out foreign currency hedging contracts	**-**	15,924
Headline profit before tax	**102,688**	89,486
Cash generated by operations *(see note 28)*	**122,847**	120,944
Purchase of property, plant and equipment	**(15,526)**	(10,042)
Proceeds on disposal of property, plant and equipment	**3,813**	3,062
Expenditure on product development and other intangibles	**(3,214)**	(2,352)
Purchase of Long-Term Incentive Plan shares	**(1,569)**	-
Operating cash flow	**106,351**	111,612

Headline operating profit has been shown before 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 headline operating profit. In addition during 2009, headline operating profit was stated before the profit on the disposal of property, plant and equipment net of property-related provisions, which included the net profit recognised on the disposal of the Armitage Road, Rugeley property and was after deducting a dilapidations provision relating to a number of properties. Headline profit before tax and headline 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. During 2009, the Group reviewed its level of hedging cover for the following years and reduced it to match the expected net inflow of US dollars. In doing so, during 2009, the Group incurred one-off costs of £15.9m associated with closing out the hedging contracts. These costs do not affect the underlying operating performance of the Group. Headline profit before tax and headline earnings per share *(see note 12)* are stated before changes in the valuation of foreign currency derivative instruments and the costs associated with the reduction in the level of hedging cover.

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 understatement of the true cash cost of sustaining a growing business.

3 Revenue

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

	2010 £'000	2009 £'000
Sales of goods	**376,788**	343,153
Revenue from long term contracts	**333,255**	307,883
	710,043	651,036

4 Other operating income

Amounts included in other operating income were as follows:

	2010 £'000	2009 £'000
Foreign exchange gains	**943**	103
Profit on disposal of property, net of property related provisions	**-**	5,009
	943	5,112

Profit on disposal of property, plant and equipment net of property-related provisions has been disclosed separately on the face of the consolidated income statement in the prior year.

5 Other operating expenses

Amounts included in other operating expenses were as follows:

	2010 £'000	2009 £'000
Amortisation of development costs	**1,228**	925
Foreign exchange losses	**1,974**	6,098
	3,202	7,023

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6 Profit from operations

Profit from operations is stated after charging/(crediting):

	2010 £'000	2009 £'000
Raw materials and other bought in inventories expensed in the year	**248,728**	219,723
Inventories written down and recognised as an expense in the year	**3,906**	1,441
Reversals of write-downs of inventory	**(40)**	(223)
Staff costs *(see note 7)*	**212,024**	194,348
Depreciation and amounts written off property, plant and equipment	**8,385**	7,722
Amortisation of internally generated intangible assets	**1,228**	925
Amortisation of acquired intangible assets (including other intangibles)	**21,860**	27,649
Net foreign exchange loss	**1,031**	5,995
Profit on disposal of property, plant and equipment net of property-related provisions	**(38)**	(4,977)
Operating lease rentals		
– plant and machinery	**1,121**	969
– other	**7,493**	7,123
Research and development costs	**38,945**	34,160
Auditors' remuneration for statutory audit work (including expenses)	**553**	511

The Company only audit fee included in the Group audit fee shown above was £20,000 (2009: £16,500).

Analysis of auditors' remuneration

	2010 £'000	2009 £'000
Fees payable for the audit of the annual accounts	**165**	165
Fees payable for the audit of subsidiaries	**388**	346
Total for statutory Group audit services	**553**	511
Analysis of non-audit services:		
Non-audit fees – general advisory and due diligence work	**147**	74
Total for non-audit services	**147**	74

7 Staff costs

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

	2010 £'000	2009 £'000
Wages and salaries	**182,540**	169,886
Social security costs	**16,901**	15,327
Other pension costs	**12,583**	9,135
	212,024	194,348

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

	2010 Number	2009 Number
Production	**1,533**	1,511
Engineering	**1,659**	1,651
Selling	**258**	253
Support services	**556**	546
	4,006	3,961

Information on Directors' remuneration is given in the section of the Remuneration Report described as having been audited and those elements required by the Companies Act 2006 and the Financial Services Authority form part of these accounts.

8 Investment revenue

	2010 £'000	2009 £'000
Bank interest	**635**	582
Fair value movement on derivatives	**8,952**	55,630
	9,587	56,212

9 Finance costs

	2010 £'000	2009 £'000
Amortisation of finance costs of debt	**507**	310
Interest payable on bank loans and overdrafts	**2,655**	3,463
Interest payable on finance leases	**5**	1
Transfers to equity on cash flow hedges	**2,224**	1,759
Total borrowing costs	**5,391**	5,533
Retirement benefit scheme finance cost	**2,902**	2,893
Loss on closing out foreign currency hedging contracts	**-**	15,924
	8,293	24,350

10 Tax

	2010 £'000	2009 £'000
UK taxes		
Corporation tax	**8,553**	6,482
Adjustment in respect of prior years	**477**	(3,642)
	9,030	2,840
Overseas taxes		
Current taxation	**20,330**	14,244
Adjustment in respect of prior years	**(177)**	(155)
	20,153	14,089
Total current tax	**29,183**	16,929
Deferred tax		
Origination and reversal of timing differences		
UK deferred tax	**683**	10,621
Overseas deferred tax	**(4,882)**	1,868
Total deferred tax (credit)/charge	**(4,199)**	12,489
Total tax charge	**24,984**	29,418

Corporation tax in the UK is calculated at 28% (2009: 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:

	2010 £'000	2009 £'000
Deferred tax		
Arising on income and expenses recognised in other comprehensive income:		
Actuarial (gains)/loss on defined benefit pension schemes	**(1,999)**	4,669
Revaluation of interest rate swaps	**(339)**	(460)
Translation differences on overseas subsidiaries	**-**	(1,481)
Total income tax (charge)/credit recognised directly in other comprehensive income	**(2,338)**	2,728

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:

	2010 £'000	2009 £'000
Current tax		
Excess tax deductions related to share based payments on exercised options	**684**	629
Deferred tax		
Change in estimated excess tax deductions related to share-based payments	**482**	(335)
Total income tax recognised directly in equity	**1,166**	294

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:

	2010 £'000	2009 £'000
Group profit before tax	**91,309**	107,898
Tax on Group profit at standard UK corporation tax rate of 28% (2009: 28%)	**25,567**	30,211
Tax effects of:		
Income/expenses that are not taxable/allowable in determining taxable profits	**(2,039)**	1,114
Different tax rates of subsidiaries operating in other jurisdictions	**1,632**	2,559
Adjustments in respect of prior years	**(176)**	(4,466)
Tax expense for the year	**24,984**	29,418

11 Dividends

Amounts recognised as distributions to equity holders in the year:

	2010 £'000	2009 £'000
Final dividend for the year ended 31 December 2009 of 21.6p (2008: 18.0p) per share	**14,755**	12,226
Interim dividend for the year ended 31 December 2010 of 10.6p (2009: 9.6p) per share	**7,251**	6,523
	22,006	18,749
Proposed final dividend for the year ended 31 December 2010 of 24.0p (2009: 21.6p) per share	**16,430**	14,723

The 2010 proposed final dividend of 24.0p per share is proposed to be paid on 4 May 2011 to shareholders on the register at 8 April 2011. It was approved by the Board after 31 December 2010 and has not been included as a liability as at 31 December 2010.

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

12 Earnings per share

	2010 pence	2009 pence
Basic headline *(see below)*	**107.9**	96.4
Diluted headline *(see below)*	**107.3**	96.2
Basic	**96.8**	115.1
Diluted	**96.2**	114.8

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

	2010 £'000	2009 £'000
Earnings		
Earnings for the purposes of earnings per share being profit for the year from continuing operations	**66,325**	78,480
Headline earnings		
Profit for the year from continuing operations	**66,325**	78,480
Profit on fair value movements on derivatives (net of tax)	**(6,403)**	(39,415)
Amortisation of intangibles arising on acquisition (net of tax)	**14,035**	18,854
Profit on disposal of property, plant and equipment net of property-related provisions (net of tax)	**-**	(3,625)
Loss on closing out foreign currency hedging contracts (net of tax)	**-**	11,465
Earnings for the purposes of headline earnings per share	**73,957**	65,759

The adjustments to profit are explained in note 2.

	2010 Number of shares	2009 Number of shares
The weighted average number of shares is given below:		
Number of shares used for basic earnings per share	**68,535,805**	68,200,931
Number of shares deemed to be issued at nil consideration following exercise of share options	**379,546**	166,156
Number of shares used for fully diluted earnings per share	**68,915,351**	68,367,087

	2010 £'000	2009 £'000
Headline profit before tax	**102,688**	89,486
Tax rate applied for the purposes of headline earnings per share	**28.0%**	26.5%

13 Goodwill

	2010 £'000	2009 £'000
Cost		
At 1 January 2010	**211,712**	209,562
Exchange differences	**4,819**	(9,625)
Recognised on acquisition of subsidiaries	**19,641**	10,317
Reclassifications	**143**	-
Other changes	**(4,825)**	1,458
At 31 December 2010	**231,490**	211,712
Accumulated impairment losses		
At 1 January 2010 and 31 December 2010	**-**	-
Carrying amount at 31 December 2010	**231,490**	**211,712**

Other changes in 2010 include adjustments to the fair value of consideration payable for acquisitions that were completed prior to 2010. Other changes in 2009 relate to purchase price adjustments and changes relating to the re-assessment of initial fair values.

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:

	2010 £'000	2009 £'000
Dascam	**7,731**	8,804
Electrics	**9,117**	9,117
Adaptive Materials Inc	**17,053**	-
Other	**14,274**	12,992
Aircraft & Vehicle Systems	**48,175**	30,913
Airport Systems	**28,028**	27,803
Command & Control Systems	**16,542**	16,542
NSPI	**11,900**	11,666
ProLogic	**28,682**	28,084
Other	**7,823**	6,101
Information & Power Systems	**92,975**	90,196
DNE Technologies	**17,584**	17,053
Maritime Systems	**11,886**	13,770
Tactical Communication Systems	**19,411**	19,402
UnderSea Sensor Systems Inc	**18,479**	18,353
Other	**22,980**	22,025
Tactical & Sonar Systems	**90,340**	90,603
Total – Ultra Electronics	**231,490**	211,712

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.

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 nil per cent.

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 pre-tax discount rate used for all CGU's is 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 conservatively set at nil per cent. 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 nearly double to 17%, 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.

14 Other intangible assets

	Acquired intangibles				Internally generated capitalised development costs £'000	Other intangibles £'000	Total £'000
	Customer relationships £'000	Intellectual property £'000	Profit in order book £'000	Other acquired £'000			
Cost							
At 1 January 2009	85,533	30,934	16,554	-	15,946	9,214	158,181
Foreign exchange differences	(6,957)	(2,737)	(832)	-	(668)	(158)	(11,352)
Acquired on acquistion of subsidiary undertakings	4,890	1,050	2,203	-	-	32	8,175
Additions	-	-	-	-	354	1,998	2,352
Disposals	-	-	-	-	(895)	(293)	(1,188)
Transfers from tangible fixed assets	-	-	-	-	182	230	412
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 31 December 2010	**87,972**	**30,155**	**18,951**	**98**	**15,868**	**13,775**	**166,819**
Accumulated amortisation							
At 1 January 2009	(13,531)	(7,273)	(8,162)	-	(7,336)	(5,758)	(42,060)
Foreign exchange differences	1,446	782	547	-	455	107	3,337
Disposals	-	-	-	-	895	293	1,188
Charge	(13,702)	(3,851)	(8,750)	-	(925)	(1,346)	(28,574)
Transfers from tangible fixed assets	-	-	-	-	(138)	(197)	(335)
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 31 December 2010	**(41,085)**	**(14,719)**	**(18,517)**	**(37)**	**(8,409)**	**(8,482)**	**(91,249)**
Carrying amount							
At 31 December 2010	**46,887**	**15,436**	**434**	**61**	**7,459**	**5,293**	**75,570**
At 31 December 2009	57,679	18,905	1,560	-	7,870	4,122	90,136

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

14 Other intangible assets (continued)

Intangible assets, other than goodwill, are amortised on a straight line basis over their estimated useful lives, typically as follows:

Intellectual property	5 to 10 years
Customer relationships	3 to 10 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	Assets under construction £'000	Total £'000
Cost					
At 1 January 2009	8,850	8,091	68,008	7,926	92,875
Foreign exchange differences	(9)	(125)	(896)	-	(1,030)
Acquisitions	737	27	194	-	958
Additions	320	1,529	7,479	714	10,042
Disposals	(1,101)	-	(2,606)	-	(3,707)
Transfer from assets under construction	7,463	-	1,177	(8,640)	-
Transfers to intangible fixed assets	-	-	(412)	-	(412)
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 31 December 2010	**19,733**	**12,818**	**83,935**	**-**	**116,486**
Accumulated Depreciation					
At 1 January 2009	(2,297)	(4,517)	(51,145)	-	(57,959)
Foreign exchange differences	(74)	53	627	-	606
Charge	(474)	(803)	(6,445)	-	(7,722)
Disposals	256	-	2,402	-	2,658
Transfers to intangible fixed assets	-	-	335	-	335
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 31 December 2010	**(3,269)**	**(6,233)**	**(61,630)**	**-**	**(71,132)**
Carrying amount					
At 31 December 2010	**16,464**	**6,585**	**22,305**	**-**	**45,354**
At 31 December 2009	13,671	4,255	18,718	-	36,644

Freehold land amounting to £1,960,000 (2009: £2,155,000) has not been depreciated. The net book value of plant and machinery held under finance leases was £314,000 (2009: £nil). Depreciation charged in the year on assets held under finance leases was £34,000 (2009: £25,000).

16 Interest in associate

	2010 £'000	2009 £'000
The value of the Group's investment is made up as follows:		
Total assets	**14,492**	14,678
Total liabilities	**(10,824)**	(13,571)
Interest in associate	**3,668**	1,107

	2010 £'000	2009 £'000
Total revenue of associate	**48,509**	18,294
Group's share of profit recognised	**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

	2010 £'000	2009 £'000
Raw materials and consumables	**29,247**	31,022
Work in progress	**15,782**	15,765
Finished goods and goods for resale	**4,337**	3,825
	49,366	50,612

18 Long-term contract balances

	2010 £'000	2009 £'000
Contracts in progress at the balance sheet date:		
Amounts due from contract customers included in trade and other receivables	**44,093**	26,594
Amounts due to contract customers included in trade and other payables	**(53,012)**	(41,572)
	(8,919)	(14,978)
Contract costs incurred plus recognised profits less recognised losses to date	**1,028,279**	756,241

Advances received from customers for contract work amounted to £46,285,000 (2009: £37,426,000).

19 Trade and other receivables

	2010 £'000	2009 £'000
Trade receivables	**93,758**	75,710
Provisions against receivables	**(961)**	(1,112)
Net trade receivables	**92,797**	74,598
Amounts due from contract customers *(note 18)*	**44,093**	26,594
Other receivables	**16,348**	13,993
Prepayments and accrued income	**4,765**	7,257
	158,003	122,442

Trade receivables do not carry interest. The average credit period on sale of goods is 40 days (2009: 43 days).

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

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19 Trade and other receivables (continued)

The ageing profile of unprovided overdue debtors was as follows:

	2010 £'000	2009 £'000
1 to 3 months	**13,723**	8,774
4 to 6 months	**4,912**	1,851
7 to 9 months	**324**	416
Over 9 months	**819**	257
Total overdue	**19,778**	11,298

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:

	2010 £'000	2009 £'000
Balance at beginning of year	**1,112**	1,908
Foreign exchange differences	**8**	(40)
Increase in provision for trade receivables regarded as potentially uncollectable	**586**	70
Decrease in provision for trade receivables recovered during the year	**(745)**	(826)
Balance at end of year	**961**	1,112

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 only one customer that individually accounted for greater than 10% of sales. This customer is 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

	2010 £'000	2009 £'000
Amounts included in current liabilities:		
Trade payables	**70,566**	54,877
Amounts due to contract customers *(note 18)*	**50,065**	39,105
Other payables	**33,622**	24,655
Accruals and deferred income	**51,840**	50,916
	206,093	169,553
Amounts included in non current liabilities:		
Amounts due to contract customers *(note 18)*	**2,947**	2,467
Other payables	**15,403**	11,946
Accruals and deferred income	**2,059**	3,610
	20,409	18,023

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

21 Finance leases

Minimum lease payments

	2010 £'000	2009 £'000
Amounts payable under finance leases:		
Within one year	**136**	5
Between one and five years	**199**	-
	335	5
Less: future finance charges	**(23)**	-
Present value of finance lease liabilities	**312**	5
Present value of finance lease liabilities – payments due:		
Within one year	**129**	5
Between one and five years	**183**	-
	312	5

22 Bank loans

	2010 £'000	2009 £'000
Bank loans are payable as follows:		
Less than one year	**51,181**	70,797
	51,181	70,797
Less: unamortised finance costs of debt	**(1,189)**	(308)
	49,992	70,489

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).

23 Financial instruments and financial risk management (continued)

Fair value measurements recognised in the balance sheet

	Level 1 £'000	Level 2 £'000	Level 3 £'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**

	Level 1 £'000	Level 2 £'000	Level 3 £'000	2009 Total £'000
Financial assets at fair value				
Foreign exchange derivative financial instruments (through profit and loss)	-	5,902	-	5,902
Financial liabilities at fair value				
Foreign exchange derivative financial instruments (through profit and loss)	-	10,406	-	10,406
Interest rate derivative financial instruments (through equity)	-	2,829	-	2,829
Total liabilities	-	13,235	-	13,235

	Current assets/(liability)		Non-current assets/(liability)	
	2010 £'000	2009 £'000	**2010 £'000**	2009 £'000
Derivatives that are designated and effective as hedging instruments carried at fair value				
Interest rate swaps	**(1,618)**	-	-	(2,829)
Financial assets/(liabilities) carried at fair value through profit or loss				
Foreign exchange currency liabilities	**(1,793)**	(9,164)	**(442)**	(1,242)
	(3,411)	(9,164)	**(442)**	(4,071)
Foreign exchange currency assets	**2,933**	994	**3,750**	4,908

Financial assets

The financial assets of the Group were as follows:

	2010 £'000	2009 £'000
Cash and cash equivalents	**68,129**	41,809
Currency derivatives used for hedging	**6,683**	5,902
Amounts due from contract customers	**44,093**	26,594
Loans and receivables	**92,797**	74,598

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

Financial liabilities

The financial liabilities of the Group were as follows:

	2010 £'000	2009 £'000
Currency derivatives used for hedging	**2,235**	10,406
Interest rate swaps used for hedging	**1,618**	2,829
Other financial liabilities:		
Bank loans and overdrafts	**49,992**	70,489
Finance leases	**312**	5
Trade payables	**70,566**	54,877
Amounts due to contract customers	**53,012**	41,572
Deferred consideration	**27,929**	21,377
Accruals	**30,694**	23,287

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

23 Financial instruments and financial risk management (continued)

Liquidity risk

The Group maintains committed banking facilities with core banks to provide prudent levels of borrowing headroom.

The Group's banking facilities are provided by a small club of banks, led by The Royal Bank of Scotland. During the year there were two facilities in place; one which was renewed in 2010, provides £120 million of revolving credit and expires in September 2013, and a second which was put in place in 2008, providing a further £80 million of revolving credit which was due to expire in September 2011. Both facilities are denominated in Sterling, US dollars, Canadian dollars, Australian dollars and Euros and are used for balance sheet and operational needs. A further £15 million overdraft is available for short-term working capital funding.

On 28 January 2011 the £80 million facility was replaced by a £90 million facility which expires in January 2016.

All bank loans are unsecured. Interest was predominantly charged at 0.85% (2009: 0.375%) over base or contracted rate.

At 31 December 2010, the Group had available £148,819,000 (2009: £129,203,000) 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 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**
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**
2009					
Bank loans and overdrafts	73,150	-	-	-	73,150
Finance leases	5	-	-	-	5
Trade payables	54,877	-	-	-	54,877
Currency derivatives used for hedging	9,164	1,100	142	-	10,406
Deferred consideration	10,500	5,793	5,084	-	21,377
Interest rate swaps used for hedging	-	2,829	-	-	2,829
Accruals	22,887	63	22	315	23,287

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, Canadian dollars and Euros.

At 31 December 2010, the net fair value of the Group's currency derivatives is estimated to be an asset of approximately £4,448,000 (2009: liability of £4,504,000), comprising £6,683,000 assets (2009: £5,902,000) and £2,235,000 liabilities (2009: £10,406,000). The gain on derivative financial instruments included in the Group's consolidated income statement for the period was £8,952,000 (2009: £55,630,000).

23 Financial instruments and financial risk management (continued)

Currency risk (continued)

The net notional, or net contracted amounts of foreign currency related forward sales contracts, classified by year of maturity are shown below.

	Not exceeding 1 year £'000	Between 1 year and 5 years £'000	Over 5 years £'000	**Total £'000**
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**
Other currencies	**7,320**	**6,386**	**-**	**13,706**
Total	**84,527**	**81,514**	**-**	**166,041**
2009				
US dollars/Sterling	41,630	64,089	12,893	118,612
US dollars/Canadian dollars	36,537	-	-	36,537
Canadian dollars/Sterling	4,331	2,317	-	6,648
Other currencies	17,736	8,419	-	26,155
Total	100,234	74,825	12,893	187,952

Net investment hedges

At the year end the Group had net investments in US and Canadian companies where the associated foreign currency translation risk is hedged by external borrowings in US dollars and Canadian 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, have been entered into to achieve an appropriate mix of fixed and floating rate exposure reflecting the Group's policy. The swaps will mature in December 2011 and have 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 60 million (2009: US dollar 80 million) and Canadian dollar 20 million (2009: Canadian dollar 20 million).

The interest rate swaps are designated effective cash flow hedges and the change in fair value has been charged to equity. At 31 December 2010, the net fair value of interest rate swaps was a liability of £1,618,000 (2009: £2,829,000). The amount recycled from the income statement during the year was £2,224,000 and has been charged to interest cost in the year (2009: £1,759,000). The fair value will be realised in the income statement on a quarterly basis over the next year (2009: two years).

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**
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**
2009					
Cash and cash equivalents	0.25%	41,809	41,809	-	-
Unsecured bank loans:					
Sterling loan	1.51%	4,692	4,692	-	-
US dollar loan	4.30%	49,542	49,542	-	-
Canadian dollar loan	3.93%	11,813	11,813	-	-
Euro loan	0.82%	4,442	4,442	-	-
Finance lease liabilities	6.25%	5	5	-	-

23 Financial instruments and financial risk management (continued)

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
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)**
2009								
Transaction	7,660	7,660	(7,660)	(7,660)	19,150	19,150	(19,150)	(19,150)
P&L translation	4,770	994	(4,770)	(994)	11,925	2,486	(11,925)	(2,486)
Foreign exchange derivatives	(13,082)	(13,082)	11,100	11,100	(33,313)	(33,313)	30,277	30,277
Total foreign exchange	(652)	(4,428)	(1,330)	2,446	(2,238)	(11,677)	(798)	8,641

Interest rate risk

As the Group has predominantly fixed interest rate loans, the income statement is not particularly sensitive to a small change in interest rates. The Group has estimated the change to the income statement and equity of a 1% increase in market interest rates, from the average rates applicable during 2010.

	1% change	
	Profit before tax £'000	Equity £'000
2010		
Interest rate sensitivity	**280**	**660**
2009		
Interest rate sensitivity	(130)	686

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24 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 2009	(16,730)	1,226	18,757	16,512	(4,949)	180	14,996
Credit/(charge) to income	2,563	237	(16,215)	557	148	221	(12,489)
Credit/(charge) to equity	-	(335)	(460)	4,669	(1,481)	-	2,393
Foreign exchange differences	1,253	-	-	-	-	-	1,253
Arising on acquisition	(2,715)	-	-	-	-	-	(2,715)
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 31 December 2010	**(11,622)**	**1,889**	**(806)**	**21,247**	**(7,947)**	**1,525**	**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 £2.62 million (2009: £1.94 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 28% to 27% from 1 April 2011. The lower rate of 27% has been used to calculate the deferred tax balances at 31 December 2010 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 24% 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.

25 Provisions

	Warranties £'000	**Contract related provisions £'000**	**Total £'000**
At 1 January 2010	7,880	14,634	22,514
Created/(released)	1,276	(31)	1,245
Utilised	(1,387)	(1,498)	(2,885)
Exchange differences	134	436	570
At 31 December 2010	**7,903**	**13,541**	**21,444**
Included in current liabilities	6,961	10,125	17,086
Included in non-current liabilities	942	3,416	4,358
	7,903	**13,541**	**21,444**

Warranty and contract related provisions will be utilised over the period as stated in the contract to which each specific provision relates. 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.

26 Share capital and share options

	2010		2009	
	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	**68,715,411**	**3,436**	68,387,487	3,420

327,924 ordinary shares having a nominal value of £16,396 were allotted during the year under the terms of the Group's various Share Option Schemes. The aggregate consideration received was £2,837,012.

Share options

During the year to 31 December 2010, 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 2010, share options outstanding under the Savings Related Share Option Schemes were as follows:

Options granted	Number of shares 2010	2009	Option price (£)	Exercise dates
2010 – US scheme	**32,848**	-	14.62	September 2012 - December 2012
2009 – US scheme	**114,150**	125,512	11.27	September 2011 - December 2011
2010 – Canadian scheme	**8,581**	-	14.62	September 2013 - March 2014
2009 – Canadian scheme	**60,996**	65,972	11.27	September 2012 - March 2013
2009 – Abu Dhabi scheme	**2,856**	17,009	11.48	December 2012 - June 2013
2007 – UK 3 year scheme	**9,660**	64,980	10.39	December 2010 - June 2011
2007 – UK 5 year scheme	**112,817**	119,696	10.39	December 2012 - June 2013
2008 – UK 3 year scheme	**12,708**	14,740	12.00	December 2011 - June 2012
2008 – UK 5 year scheme	**14,479**	15,037	12.00	December 2013 - June 2014
2009 – UK 3 year scheme	**14,172**	15,562	11.48	December 2012 - June 2013
2009 – UK 5 year scheme	**10,704**	11,677	11.48	December 2014 - June 2015
2010 – UK 3 year scheme	**21,752**	-	15.54	December 2013 - June 2014
2010 – UK 5 year scheme	**19,605**	-	15.54	December 2015 - June 2016

26 Share capital and share options (continued)

2. Company Share Option Plan

The Company Share Option Plan provides share options for nominated employees in the UK. The purchase price is set at a mid-market price on the date of grant. This is an approved scheme. Vesting is unconditional. Options vest after three years and lapse after ten years from the date of grant.

At 31 December 2010, share options outstanding under the Company Share Option Plan were as follows:

Options granted	Number of shares 2010	2009	Option price (£)	Exercise dates
2001	**-**	10,419	4.39	March 2004 - March 2011
2002	**7,830**	14,424	4.49	March 2005 - March 2012
2003	**1,301**	3,743	4.53	March 2006 - March 2013
2004	**-**	4,712	5.97	March 2007 - March 2014
2005	**6,623**	14,567	7.28	March 2008 - March 2015
2006	**7,253**	16,278	10.32	February 2009 - February 2016
2007	**24,031**	44,267	12.07	May 2010 - May 2017
2008	**26,722**	30,252	12.00	March 2011 - March 2018
2009	**45,369**	46,209	11.90	March 2012 - March 2019
2010	**26,715**	-	14.83	March 2013 - March 2020

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. Vesting is unconditional. Options vest after three years and lapse after seven years from the date of grant.

At 31 December 2010, share options outstanding under the Executive Share Option Scheme were as follows:

Options granted	Number of shares 2010	2009	Option price (£)	Exercise dates
2004	**3,367**	69,278	5.97	March 2007 - March 2011
2005	**53,262**	98,406	7.28	March 2008 - March 2012
2006	**81,022**	119,048	10.32	February 2009 - February 2013
2007	**80,876**	106,684	12.07	May 2010 - May 2014
2008	**144,601**	149,132	12.00	March 2011 - March 2015
2009	**232,653**	247,441	11.90	March 2012 - March 2016
2010	**189,683**	-	14.83	March 2013 - March 2017

4. Long-Term Incentive Plan

Details in relation to the LTIP are included in the Directors' Remuneration report on pages 51 to 53. 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
	2010	**2010**	2009	2009
Beginning of year	**9.11**	**1,677,092**	7.89	1,473,184
Granted during the year	**10.90**	**415,364**	9.51	657,414
Forfeited during the year	**11.65**	**(42,013)**	4.90	(99,771)
Expired during the year	**11.15**	**(12,981)**	11.26	(9,393)
Exercised during the year	**7.35**	**(379,565)**	5.78	(344,342)
Outstanding at the end of the year	**9.88**	**1,657,897**	9.11	1,677,092
Exercisable at the end of the year	**10.08**	**275,225**	7.83	366,555

The Group recognised total expenses of £1,850,000 (2009: £1,490,000) 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 £15.59. The fair value of options granted during the year was £1,856,793 (2009: £2,238,628).

26 Share capital and share options (continued)

4. Long-Term Incentive Plan (continued)

The Group's equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. The fair value for all schemes other than the 2008, 2009 and 2010 LTIP schemes are measured by use of the Black Scholes option pricing model using the following assumptions:

	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

	Share save*	CSOP*	ESOS*	LTIP*
				2009
Weighted average share price (£)	12.53	11.75	11.58	10.21
Weighted average exercise price (£)	10.82	11.66	11.59	n/a
Expected volatility %	24.9	21.0	22.0	17.4
Expected option life (years)	3.6	6.0	5.0	3.0
Risk free interest rate %	3.3	4.1	3.7	4.2
Expected dividends %	1.8	1.7	1.8	1.4

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

For the 2008, 2009 and 2010 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:

	2010	2009
Exercise price (£)	**n/a**	n/a
Share price at grant (£)	**13.34**	12.16
Expected option life (years)	**3.0**	3.0
Expected volatility %	**28.3**	26.6
Expected dividend yield %	**0.0**	0.0
Risk free interest rate %	**2.7**	3.2

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

The weighted average fair value of options granted during the year was £5.00 (2009: £3.76).

27 Equity

	Share capital £'000	Share premium account £'000	Reserve for own shares £'000	Hedging and translation reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2009	3,407	36,427	(1,974)	22,615	83,594	144,069
Total comprehensive income for the year	-	-	-	(13,163)	67,626	54,463
Disposal of own shares	-	-	524	-	(524)	-
Equity settled employee share scheme	13	1,886	-	-	1,784	3,683
Dividends to shareholders	-	-	-	-	(18,749)	(18,749)
Balance at 31 December 2009	3,420	38,313	(1,450)	9,452	133,731	183,466
Total comprehensive income for the year	**-**	**-**	**-**	**7,415**	**69,976**	**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 31 December 2010	**3,436**	**41,134**	**(2,653)**	**16,867**	**184,351**	**243,135**

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.

28 Notes to the cash flow statement

	2010 £'000	2009 £'000
Profit from operations	**90,015**	76,036
Adjustments for:		
Depreciation of property, plant and equipment	**8,385**	7,722
Amortisation of intangible assets	**23,088**	28,574
Cost of equity settled employee share schemes	**1,850**	1,490
Increase/(decrease) in post employment benefit obligation	**2,843**	(863)
Profit on disposal of property, plant and equipment, net of property related provisions	**(38)**	(4,977)
Loss on revaluation of assets transferred to held for sale	**-**	35
Share of profit from associate	**(2,558)**	-
Disposal of asset held for sale	**-**	726
(Decrease)/increase in provisions	**(1,728)**	337
Operating cash flow before movements in working capital	**121,857**	109,080
Decrease in inventories	**4,232**	31
Increase in receivables	**(28,828)**	(2,481)
Increase in payables	**25,586**	14,314
Cash generated by operations	**122,847**	120,944
Income taxes paid	**(18,823)**	(13,529)
Interest paid	**(4,743)**	(5,359)
Net cash from operating activities	**99,281**	102,056

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

	2010 £'000	2009 £'000
Net increase in cash and cash equivalents	**24,761**	619
Cash outflow from decease in debt and finance leasing	**21,761**	29,155
Change in net debt arising from cash flows	**46,522**	29,774
Loan syndication costs	**1,388**	-
Amortisation of finance costs of debt	**(507)**	(310)
Translation differences	**(893)**	5,790
Movement in net debt in the year	**46,510**	35,254
Net debt at start of year	**(28,685)**	(63,939)
Net cash/(debt) at end of year	**17,825**	(28,685)

28 Notes to the cash flow statement (continued)

Net cash/(debt) comprised the following:

	2010 £'000	2009 £'000
Cash and cash equivalents	**68,129**	41,809
Bank loans	**(49,992)**	(70,489)
Obligations under finance leases included in current liabilities	**(129)**	(5)
Obligations under finance leases included in non-current liabilities	**(183)**	-
	17,825	(28,685)

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

29 Other financial commitments

a) Capital commitments

At the end of the year capital commitments were:

	2010 £'000	2009 £'000
Contracted but not provided	**852**	359

b) Lease commitments

At 31 December 2010, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2010 £'000	2009 £'000
Within one year	**7,398**	6,912
Between one and five years	**21,138**	14,644
After five years	**14,030**	7,438
	42,566	28,994

30 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. 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 £4,337,000 (2009: £3,935,000).

Defined benefit schemes

The UK defined benefit scheme was actuarially assessed at 31 December 2010 using the 'projected unit' method. The Canadian defined benefit schemes were actuarially assessed at 31 December 2010 using the 'projected unit' method.

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

	UK 2010	Canada 2010	UK 2009	Canada 2009
Discount rate	**5.5%**	**5.5%**	5.8%	5.8%
Inflation rate	**3.3%**	**3.3%**	3.5%	3.5%
Expected rate of salary increases	**4.3%**	**4.3%**	4.75%	4.75%
Future pension increases (pre 6/4/08)	**3.2%**	**3.2%**	3.4%	3.4%
Future pension increases (post 6/4/08)	**2.4%**	**n/a**	2.5%	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 3.2% and a 0.1% increase in the discount rate to 5.6% would decrease the schemes liabilities by 1.9% and 1.9% respectively. If the members were to experience the mortality of an individual one year older the scheme liabilities would drop by 2.3%.

In addition to the above assumptions, the assumptions regarding the cash commutation factors have been enhanced for the 2010 UK scheme valuation. For example, at age 63 the proposed factor increased to 13.6 (2009: 10.25) for male members.

30 Retirement benefit schemes (continued)

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:

	2010	2009
Current pensioners (at 65) – males	**22 years**	22 years
Current pensioners (at 65) – females	**23 years**	25 years
Future pensioners (at 65) – males	**23 years**	23 years
Future pensioners (at 65) – females	**25 years**	26 years

Amounts recognised in the income statement in respect of the Groups defined benefit schemes were as follows:

	UK 2010 £m	**Canada 2010 £m**	**Total 2010 £m**	UK 2009 £m	Canada 2009 £m	Total 2009 £m
Past service cost	**2.7**	**-**	**2.7**	-	-	-
Current service cost	**5.4**	**0.2**	**5.6**	5.2	0.2	5.4
Interest on pension scheme liabilities	**11.4**	**0.5**	**11.9**	9.5	0.5	10.0
Expected return on pension scheme assets	**(8.5)**	**(0.5)**	**(9.0)**	(6.7)	(0.4)	(7.1)
	11.0	**0.2**	**11.2**	8.0	0.3	8.3

The past service cost relates to the enhancement of cash commutation factors mentioned previously. This increase in factors is an enhancement to scheme benefits and as such is shown as a past service cost.

Of the current service cost for the year, £4.2 million (2009: £4.3 million) has been included in cost of sales, and £1.4 million (2009: £1.1 million) has been included in administrative expenses. The past service cost has been included in administrative expenses.

Actuarial gains and losses have been reported in the statement of comprehensive income.

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

	UK 2010 £m	**Canada 2010 £m**	**Total 2010 £m**	UK 2009 £m	Canada 2009 £m	Total 2009 £m
Fair value of scheme assets	**134.2**	**8.9**	**143.1**	119.3	7.9	127.2
Present value of scheme liabilities	**(211.7)**	**(9.9)**	**(221.6)**	(196.0)	(8.7)	(204.7)
Scheme deficit	**(77.5)**	**(1.0)**	**(78.5)**	(76.7)	(0.8)	(77.5)
Related deferred tax asset	**21.0**	**0.3**	**21.3**	21.5	0.3	21.8
Net pension liability	**(56.5)**	**(0.7)**	**(57.2)**	(55.2)	(0.5)	(55.7)

At 31 December 2010 cash and property assets, with an agreed combined value of £10.0m had been offered as security against the UK pension deficit, until such time as the deficit has been eliminated or alternative arrangements are agreed.

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

	UK 2010 £m	**Canada 2010 £m**	**Total 2010 £m**	UK 2009 £m	Canada 2009 £m	Total 2009 £m
Present value of obligation at 1 January	**(196.0)**	**(8.7)**	**(204.7)**	(151.9)	(7.8)	(159.7)
Past service cost	**(2.7)**	**-**	**(2.7)**	-	-	-
Current service cost	**(5.4)**	**(0.2)**	**(5.6)**	(5.2)	(0.2)	(5.4)
Interest cost	**(11.4)**	**(0.5)**	**(11.9)**	(9.5)	(0.5)	(10.0)
Actuarial gains and losses	**(0.9)**	**(0.4)**	**(1.3)**	(32.7)	0.1	(32.6)
Exchange difference	**-**	**(0.4)**	**(0.4)**	-	(0.3)	(0.3)
Benefits paid	**4.7**	**0.3**	**5.0**	3.3	-	3.3
Present value of obligation at 31 December	**(211.7)**	**(9.9)**	**(221.6)**	(196.0)	(8.7)	(204.7)

30 Retirement benefit schemes (continued)

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

	UK 2010 £m	**Canada 2010 £m**	**Total 2010 £m**	UK 2009 £m	Canada 2009 £m	Total 2009 £m
Fair value at 1 January	**119.3**	**7.9**	**127.2**	94.3	6.6	100.9
Expected return on scheme assets	**8.5**	**0.5**	**9.0**	6.7	0.4	7.1
Actuarial gains and losses	**6.1**	**-**	**6.1**	15.8	0.1	15.9
Exchange differences	**-**	**0.4**	**0.4**	-	0.3	0.3
Employer contributions	**5.0**	**0.4**	**5.4**	5.8	0.5	6.3
Benefits paid	**(4.7)**	**(0.3)**	**(5.0)**	(3.3)	-	(3.3)
Fair value at 31 December	**134.2**	**8.9**	**143.1**	119.3	7.9	127.2

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

	2010	2009
Expected return:		
Equities	**7.5%**	7.5%
Bonds	**5.5%**	5.8%
Gilts	**4.0%**	4.4%
Property	**6.5%**	n/a
Other assets	**4.0%**	3.75%
Other investment funds	**7.5%**	7.5%

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 2010 £m	**Canada 2010 £m**	**Total 2010 £m**	UK 2009 £m	Canada 2009 £m	Total 2009 £m
Fair value:						
Equities	**94.0**	**5.0**	**99.0**	86.2	4.0	90.2
Bonds	**23.2**	**3.6**	**26.8**	21.0	3.8	24.8
Property	**6.3**	**-**	**6.3**	-	-	-
Other assets	**0.5**	**0.3**	**0.8**	1.6	0.1	1.7
Other investment funds	**10.2**	**-**	**10.2**	10.5	-	10.5
	134.2	**8.9**	**143.1**	119.3	7.9	127.2

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

	UK 2010 £m	**Canada 2010 £m**	**Total 2010 £m**	UK 2009 £m	Canada 2009 £m	Total 2009 £m
Actual return less expected return on pension scheme assets	**6.1**	**-**	**6.1**	15.8	0.1	15.9
Experience gains/(losses) arising on scheme liabilities	**7.5**	**-**	**7.5**	(0.8)	0.3	(0.5)
Changes in assumptions underlying the present value of the scheme liabilities	**(8.5)**	**(0.3)**	**(8.8)**	(31.9)	(0.2)	(32.1)
	5.1	**(0.3)**	**4.8**	(16.9)	0.2	(16.7)

Cumulative actuarial losses, net of deferred tax, recognised in the consolidated statement of recognised income and expense at 31 December 2010 were £29.3 million (2009: £32.1 million).

30 Retirement benefit schemes (continued)

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

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Present value of defined benefit obligations	**(221.6)**	(204.7)	(159.7)	(168.0)	(154.8)
Fair value of scheme assets	**143.1**	127.2	100.9	127.6	119.7
Scheme deficit	**(78.5)**	(77.5)	(58.8)	(40.4)	(35.1)
Experience adjustments on scheme liabilities	**7.5**	(0.5)	(0.7)	(1.8)	(0.2)
Percentage of scheme liabilities	**(3.4%)**	0.2%	0.4%	1.0%	0.1%
Experience adjustment on scheme assets	**6.1**	16.0	(38.7)	(4.7)	9.1
Percentage of scheme assets	**4.3%**	12.6%	(38.3%)	(3.7%)	8.0%

The amount of ongoing contributions expected to be paid to defined benefit schemes during the 2011 financial year is £5.9m.

31 Acquisitions

Acquisitions during the year

In aggregate, consideration of £13,074,000 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	9,385
Deferred consideration on subsidiaries acquired in prior years	4,074
Cash acquired with subsidiaries	(385)
Net cash outflow	13,074

Aggregate assets and liabilities acquired comprised intangible assets of £2,342,000, property, plant and equipment of £1,630,000, cash of £385,000, inventories of £1,949,000, receivables of £2,026,000 and payables of £3,858,000.

Extec Integrated Systems Limited

On 9 July 2010, the Group acquired the entire share capital of Extec Integrated Systems Limited (Extec), a Company based in Porchester, Hampshire, for a cash consideration of £3.0m. Extec operates as a specialist supplier of thick film microcircuits to the defence, aerospace and industrial markets and as such adds an additional niche capability to the Group. The aggregate net assets acquired and their provisional fair values based on the Director's initial assessment of net realisable value together with details of the purchase consideration were as follows:

	Book value	Revaluations	Provisional fair value
	£'000	£'000	£'000
Intangible assets	**158**	**872**	**1,030**
Property, plant and equipment	**259**	**-**	**259**
Cash	**200**	**-**	**200**
Inventories	**795**	**(58)**	**737**
Receivables	**473**	**-**	**473**
Payables	**(743)**	**(278)**	**(1,021)**
Net assets acquired	**1,142**	**536**	**1,678**
Goodwill arising on acquisition			**1,282**
Purchase consideration			**2,960**
Less deferred consideration			**(300)**
Cash outflow arising on acquisition			**2,660**

Acquisition costs of £0.1m were charged to profit and have been included in administrative costs.

The revenue and profit before tax contributions from Extec were approximately £1.4m and £0.1m respectively in the period from date of acquisition to 31 December 2010. The goodwill arising on the acquisition is attributable to the value of synergies arising from the acquisition, the acquiree's assembled workforce and anticipated future profits arising from access to new markets.

31 Acquisitions (continued)

Transmag Power Transformers Limited

On 26 July 2010, the Group acquired the entire share capital of Transmag Power Transformers Limited (Transmag), a Company based in Birmingham, for a cash consideration of £3.2m. Transmag is engaged in the design, manufacture and repair of transformers for various applications including the rail, mining and renewable energy markets and the acquisition secured the source of oil cooled transformers for the PMES rail market. The aggregate net assets acquired and their provisional fair values based on the Director's initial assessment of net realisable value together with details of the purchase consideration were as follows:

	Book value	Revaluations	Provisional fair value
	£'000	£'000	£'000
Intangible assets	-	1,312	1,312
Property, plant and equipment	296	-	296
Cash	185	-	185
Inventories	1,154	-	1,154
Receivables	922	-	922
Payables	(1,651)	(354)	(2,005)
Net assets acquired	906	958	1,864
Goodwill arising on acquisition			1,306
Purchase consideration			3,170
Cash outflow arising on acquisition			3,170

Acquisition costs of £0.1m were charged to profit and have been included in administrative costs.

The revenue and profit before tax contributions from Transmag were approximately £1.7m and £0.4m respectively in the period from date of acquisition to 31 December 2010. The goodwill arising on the acquisition is attributable to the value of synergies arising from the acquisition, the acquiree's assembled workforce and anticipated future profits arising from access to new markets.

Adaptive Materials Inc.

On 31 December 2010, the Group acquired the entire share capital of Adaptive Materials Inc. (AMI) for a cash consideration of £18.0m.

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 values of the net assets acquired are currently being calculated and have not been finalised due to the proximity of the acquisition to the year end. A provisional assessment of the opening balance sheet values is as follows:

	Provisional fair value
	£'000
Property, plant and equipment	1,075
Inventories	58
Receivables	631
Payables	(832)
Net assets acquired	932
Goodwill and other intangibles arising on acquisition	17,053
Purchase consideration	17,985
Less deferred consideration	(14,430)
Cash outflow arising on acquisition	3,555

The accounting exercise for calculating the fair value of acquired intangibles and deferred tax has not yet been completed.

Acquisition costs of £0.1m were charged to profit and have been included in administrative costs.

£11.2m of the deferred consideration was paid on 3 January 2011.

If the above acquisitions had been completed on the first day of the financial year the Group revenues for the year would have been £718.1m and the Group would have reported a profit before tax of £92.2m.

32 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 55 and 56:

	2010 £'000	2009 £'000
Short-term employee benefits	**3,108**	3,220
Post-employment benefits	**266**	298
Share-based payments	**805**	591
	4,179	4,109

Transactions with associate

At 31 December 2010, a loan of £3,266,000 (2009: nil) 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.

33 Post balance sheet events

Banking facilities

On 28 January 2011 the Group entered into a new £90m banking facility which is provided by a small club led by the Royal Bank of Scotland. This facility provides revolving credit over a five year period and is denominated in Sterling, Australian dollars, Canadian dollars, Euros or US dollars and is used for balance sheet and operational needs. The facility is provided in equal proportions by the Royal Bank of Scotland, Bank of America, Barclays, Royal Bank of Canada, Australia and New Zealand Banking Group and Santander. This facility is in addition to the Group's existing £120m Revolving Credit Facility and a £15m overdraft facility for funding short-term working capital requirements.

Acquisition of 3e Technologies International

On 10 January 2011, the Group announced that it had agreed to acquire the entire share capital of 3e Technologies International (3eTI) for a cash consideration of £18.6m. The acquisition was completed on 1 February 2011.

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 are currently being calculated and have not been finalised due to the proximity of the acquisition to the year end. A provisional assessment of the opening balance sheet values is as follows:

	Provisional fair value £'000
Intangible assets	**3,173**
Property, plant and equipment	**291**
Inventories	**3,093**
Receivables	**629**
Payables	**(2,993)**
Net assets acquired	**4,193**
Goodwill and other intangibles arising on acquisition	**14,378**
Purchase consideration	**18,571**

34 Contingent liabilities

The Group has entered into a number of guarantee and performance bond arrangements in the normal course of business. Provision is made for any amounts that the directors consider may become payable under such arrangements.

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.

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):

IFRS 9 "Financial Instruments"
IAS 24 (revised) "Related Party Disclosure"
IAS 32 (amended) "Classification of Rights Issue"
IFRIC 14 (amended) "Prepayments of a Minimum Funding Requirement"
IFRIC 17 "Distributions of Non-cash Assets to Owners"
IFRIC 18 "Transfer of Assets from Customers"
IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"
Improvements to IFRSs 2010 (May 2010) and 2009 (April 2009)

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.

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 had 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 pages 47 and 48.

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.

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 hedging and 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.

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 useful life of the related asset.

Acquired computer software licenses 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 on a straight line basis over their remaining useful lives.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, except for goodwill.

Property, plant and equipment

Property, plant and equipment is shown at original historical cost, net of depreciation and any provision for impairment.

Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life as follows:

Freehold buildings	40 to 50 years
Short leasehold improvements	over remaining period of lease
Plant and machinery	3 to 20 years

Freehold land and assets under construction are not depreciated.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

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

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

Inventories

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

Trade receivables

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

Cash and cash equivalents

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

Assets held for sale

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

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

Trade payables

Trade payables are stated at their fair value.

Bank loans and overdrafts

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges including premiums payable on settlement or redemption and direct issue costs 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.

Derivative financial instruments (continued)

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 its 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.

Adoption of new and revised Standards

In the current year, the following new and revised Standards have been adopted:

IFRS 3 (revised) "Business Combinations". The standard continues to apply the acquisition method to business combinations, with some significant changes. For example IFRS 3 (revised) amends the treatment of acquisition costs incurred in respect of business combinations. These costs were previously capitalised within intangible assets. As from 1 January 2010 the Group expenses all acquisition related transaction costs. Whilst this is an accounting policy change for the Group, it has not had a material impact on the Group's financial statements in the current year.

In addition, IFRS 3 (revised) requires that changes to the fair value of contingent consideration arising from events after the acquisition date, for acquisitions made on or after 1 January 2010, are no longer to be treated as measurement period adjustments. Instead they are recognised in the income statement. This accounting policy change has not had a material impact during the year. However, the amount of contingent consideration paid could differ significantly from the amount originally estimated and therefore this change in accounting policy could have a significant impact on the Group's results going forward.

IAS 27 (amendment) primarily deals with the accounting for non-controlling interests and the loss of control of a subsidiary. This amendment has not led to a change in the way the Group accounts for its subsidiaries in its consolidated financial statements.

Additionally the following new standards and interpretations have been adopted in the current year but have not impacted the reported results or the financial position:
IFRIC 9 and IAS 39 "Embedded Derivatives"
IFRIC 17 "Distribution of non-cash assets to owners"
IFRIC 18 "Transfers of assets from customer"
IAS 28 (revised) "Investments in associates"
IAS 39 (amended) "Eligible Hedged Items"
IFRS 1 (amended) "Additional exemption for first time presentation"

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.

Critical accounting judgements and key sources of estimation uncertainty (continued)
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 2010 are provided in note 30.

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.

DERIVATIVE FINANCIAL INSTRUMENTS
The Group uses derivatives in the normal course of business to manage its exposure to fluctuations in interest and 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.

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

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 auditors' 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 2010 which comprise Parent Company Balance Sheet, the related notes 35 to 45. 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 auditors' 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.

Opinion on financial statements

In our opinion the Parent Company financial statements:

- give a true and fair view of the state of the Parent Company's affairs as at 31 December 2010;
- 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 2010.

Mark Mullins

Mark Mullins, *Senior Statutory Auditor*
for and on behalf of **Deloitte LLP**
Chartered Accountants and Statutory Auditor
Reading, United Kingdom
25 February 2011

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 2010

	Note	**2010 £'000**	2009 £'000
Fixed assets			
Tangible assets	*36*	**459**	199
Investments	*37*	**268,788**	297,459
		269,247	297,658
Current assets			
Debtors: Amounts falling due within one year	*38*	**10,545**	675
Cash at bank and in hand		**3,285**	-
		13,830	675
Creditors: Amounts falling due within one year	*40*	**(57,758)**	(117,225)
Net current liabilities		**(43,928)**	(116,550)
Total assets less current liabilities		**225,319**	181,108
Creditors: Amounts falling due after more than one year	*41*	**(379)**	(18,338)
Net assets		**224,940**	162,770
Capital and reserves			
Called-up share capital	*42*	**3,436**	3,420
Share premium account	*43*	**41,134**	38,313
Profit and loss account	*43*	**183,023**	122,487
Own shares	*43*	**(2,653)**	(1,450)
Shareholders' funds		**224,940**	162,770

The financial statements of Ultra Electronics Holdings plc, registered number 02830397, were approved by the Board of Directors and authorised for issue on 25 February 2011.

On behalf of the Board
D. Caster, *Chief Executive*
P. Dean, *Finance Director*

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

Notes to accounts – Company

31 December 2010

35 Staff costs

	2010 £'000	2009 £'000
Employee costs during the year amounted to:		
Wages and salaries	**4,019**	3,206
Social security costs	**558**	392
Other pension costs	**599**	607
	5,176	4,205

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

	2010 number	2009 number
Support services	**16**	14

36 Tangible fixed assets

	Plant and machinery £'000
Cost	
At 1 January 2009	682
Additions	42
At 1 January 2010	724
Additions	343
At 31 December 2010	**1,067**
Accumulated depreciation	
At 1 January 2009	403
Charge	122
At 1 January 2010	525
Charge	83
At 31 December 2010	**608**
Net book value	
At 31 December 2010	**459**
At 31 December 2009	199

37 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.

37 Investments (continued)

b) Investment in subsidiary undertakings

	Total 2010 £'000
At 1 January 2010	**297,459**
Foreign exchange differences	**(720)**
Additions	**43,953**
Redemption of long-term loans	**(71,904)**
At 31 December 2010	**268,788**

Within additions for the year is £4.2m relating to an investment in Dascam that has been transferred from another Group company.

38 Debtors

	2010 £'000	2009 £'000
Amounts falling due within one year:		
Amounts due from subsidiary undertakings	**9,483**	-
Deferred tax assets	**592**	267
Other debtors	**367**	296
Prepayments and accrued income	**103**	112
	10,545	675

39 Deferred tax

Movements in the deferred tax asset were as follows:

	2010 £'000	2009 £'000
Beginning of year	**267**	334
Credit to the profit and loss account	**99**	167
Credit/(charge) to equity	**226**	(234)
End of year	**592**	267

The deferred tax balances are analysed as follows:

	2010 £'000	2009 £'000
Accelerated capital allowances	**-**	(1)
Timing differences relating to share schemes	**582**	263
Other timing differences relating to current assets and liabilities	**10**	5
Deferred tax asset	**592**	267

These balances are shown as follows:

	2010 £'000	2009 £'000
Debtors: Amounts falling due within one year	**592**	267

At the balance sheet date the Company had nil unprovided deferred tax (2009: nil).

40 Creditors: amounts falling due within one year

	2010 £'000	2009 £'000
Bank loans and overdraft	**49,992**	101,663
Amounts owed to subsidiary undertakings	**1**	2,958
Other creditors:		
– VAT	**239**	126
– social security and PAYE	**249**	220
– other creditors	**4,820**	10,908
Accruals and deferred income	**2,457**	1,350
	57,758	117,225

The bank loans are unsecured and due for repayment within 1 year. Interest was predominantly charged at 0.85% over base or contracted rate.

41 Creditors: amounts falling due after more than one year

	2010 £'000	2009 £'000
Amounts owed to subsidiary undertakings	**379**	18,338
	379	18,338

Borrowings fall due as analysed below:

	2010 £'000	2009 £'000
Bank loans and overdraft		
In one year or less, or on demand	**51,181**	101,971
	51,181	101,971
Less: unamortised finance costs of debt	**(1,189)**	(308)
	49,992	101,663
Less: included in creditors: amounts falling due within one year	**(49,992)**	(101,663)
	-	-

42 Called-up share capital

	2010		2009	
	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	**68,715,411**	**3,436**	68,387,487	3,420

327,924 ordinary shares having a nominal value of £16,396 were allotted during the year under the terms of the Group's various Share Option Schemes. The aggregate consideration received by the Company was £2,837,012.

43 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	2010 £'000	2009 £'000
Balance at 1 January 2010	3,420	38,313	122,487	(1,450)	**162,770**	118,200
Share based payments	-	-	1,407	-	**1,407**	1,074
Retained profit for the year	-	-	81,501	-	**81,501**	60,346
Dividends paid	-	-	(22,006)	-	**(22,006)**	(18,749)
Long-Term Incentive Plan – additions	-		-	(1,569)	**(1,569)**	-
Long-Term Incentive Plan – disposals	-	-	(366)	366	**-**	-
Issue of new shares	16	2,821	-	-	**2,837**	1,899
Balance at 31 December 2010	**3,436**	**41,134**	**183,023**	**(2,653)**	**224,940**	**162,770**

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 26 to the Group financial statements.

The Company holds 258,738 own shares (2009: 223,967).

44 Guarantees and other financial commitments

Lease commitments

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

	Plant and machinery 2010 £'000	Plant and machinery 2009 £'000
Operating lease rentals which expire		
– within one year	**32**	37
– between two to five years	**27**	39
	59	76

45 Post balance sheet events

On 28 January 2011 the Group entered into a new £90m banking facility which is provided by a small club led by the Royal Bank of Scotland. This facility provides revolving credit over a five year period and is denominated in Sterling, Australian dollars, Canadian dollars, Euros or US dollars and is used for balance sheet and operational needs. The facility is provided in equal proportions by the Royal Bank of Scotland, Bank of America, Barclays, Royal Bank of Canada, Australia and New Zealand Banking Group and Santander. This facility is in addition to the Group's existing £120m Revolving Credit Facility and a £15m overdraft facility for funding short-term working capital requirements.

Statement of accounting policies

for the Company accounts

A summary of the Company's principal accounting policies, which has continued to apply United Kingdom accounting standards, all of which have been applied consistently throughout the year and preceding year in the separate financial information presented for the Company, are set out below:

Basis of accounting
The Company accounts have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

No profit and loss account is presented for the Company, as permitted by section 408 of the Companies Act 2006. The Company's retained profit for the year is disclosed in note 43.

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 2010 was £77.5 million (2009: £76.7 million). Further disclosures in relation to this pension scheme are given in note 30 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 26.

Bank loans and overdrafts
Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges including premiums payable on settlement or redemption and direct issue costs 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

	2006* £m	2007* £m	2008* £m	2009* £m	**2010 £m**
Revenue					
Aircraft & Vehicle Systems	114.9	120.0	150.3	180.0	**174.1**
Information & Power Systems	99.5	106.6	141.3	193.5	**224.0**
Tactical & Sonar Systems	162.6	186.3	223.7	277.5	**311.9**
Total revenue	377.0	412.9	515.3	651.0	**710.0**
Headline operating profit[1]					
Aircraft & Vehicle Systems	15.7	19.0	22.0	22.6	**23.4**
Information & Power Systems	16.8	16.7	19.9	23.6	**27.5**
Tactical & Sonar Systems	25.0	27.2	35.2	51.1	**59.4**
Total headline operating profit[1]	57.5	62.9	77.1	97.3	**110.3**
Margin[1]	15.3%	15.2%	15.0%	15.0%	**15.5%**
Profit/(loss) before tax	55.0	56.6	(2.9)	107.9	**91.3**
Profit after tax	39.6	41.2	1.8	78.5	**66.3**
Operating cash flow[2]	56.5	52.2	79.0	111.6	**106.4**
Free cash flow before dividends, acquisitions and financing[3]	40.9	36.3	54.7	93.3	**83.4**
Net (debt)/cash at year-end[4]	(7.2)	(14.2)	(63.9)	(28.7)	**17.8**
Headline earnings per share (p)[5]	58.4	65.4	80.1	96.4	**107.9**
Dividends per share (p)	18.5	21.2	26.0	31.2	**34.6**
Average employee numbers	2,989	3,054	3,582	3,961	**4,006**

*The prior year segmental information has been re-stated to reflect Manufacturing & Card Systems moving from the Group's Information & Power Systems division to the Group's Aircraft & Vehicle Systems division.

[1] Before 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] Bank overdrafts and loans less cash and cash equivalents.

[5] Before 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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