Ultra Electronics Holdings plc
Annual Report and Accounts **2009**

strategies for growth…

09

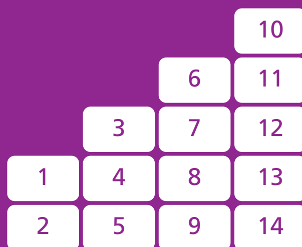
…driving resilience

Ultra
ELECTRONICS

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.

Ultra's strategies for growth drive resilience in the Group's financial performance.

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



1 Each US Navy MH-60R anti-submarine warfare helicopter has a digital sonobuoy receiver supplied by Ultra

2 Ultra supplies specialist sensors and control equipment for US Navy warships

3 Ultra is developing five separate systems for the Airbus A400M military transport aircraft

4 Ultra supplies 'sensors-to-displays' for long-range airborne anti-submarine warfare operations

5 Ultra supplies trackside electrical power equipment for modern mass transit systems

6 Ultra supplies the cannon control electronics for the upgrade of the British Army's Warrior armoured vehicles

7 Ultra is the world's leading supplier of high capacity line of sight tactical radio systems

8 The Royal Navy's new Astute class of submarines contains a broad range of Ultra's specialist electrical and electronic systems

9 Ultra has a broad range of systems and equipment that give modern naval ships an advantage in the underwater battlespace

10 US Navy P-3 and EP-3 aircraft are being upgraded with Ultra's modern battlespace IT equipment and systems

11 Ultra is providing modern Chinese airports with advanced, integrated IT solutions

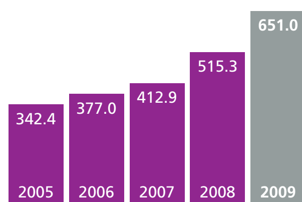
12 Ultra supplies modern high integrity nuclear reactor control systems suitable for new build and upgrades to existing plant

13 Boeing's new 787 Dreamliner aircraft relies on Ultra's innovative wing ice protection system

14 Ultra supplies weapons ejection equipment and ice protection systems for the new F-35 Joint Strike Fighter aircraft

Financial highlights

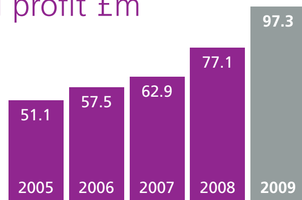
Revenue £m



£651.0m
(2008: £515.3m)

+26%

Headline operating profit £m



£97.3m
(2008: £77.1m)

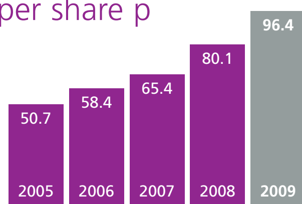
+26%

Headline profit before tax £m

£89.5m
(2008: £72.2m)

+24%

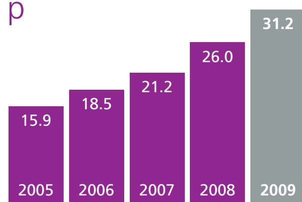
Headline earnings per share p



96.4p
(2008: 80.1p)

+20%

Dividend per share p



31.2p
(2008: 26.0p)

+20%

The proposed total dividend for the year is 31.2p (2008: 26.0p), an annual increase of 20%, with the dividend being covered 3.1 times (2008: 3.1 times) by headline earnings per share. If approved, the dividend will be paid on 4 May 2010 to shareholders on the register on 9 April 2010.

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 £76.0m (2008: £64.1m). **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 115.1p (2008: 2.6p). **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.

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Ultra at a glance

The company

Why Ultra is different

Ultra Electronics is an internationally successful defence, security, transport and energy company with a long, consistent track record of development and growth, achieving 16% compound annual growth of total shareholder return since flotation in 1996.

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.

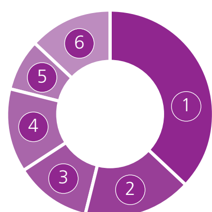
Ultra offers support to its customers through the design, delivery and support phases of a programme. Ultra businesses have a high degree of operational autonomy so that they may provide exceptionally agile and responsive support to customers and partners.

Major market sectors

The major market sectors in which Ultra operates are:

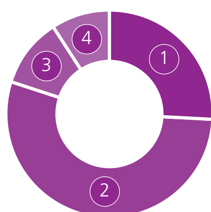
- battlespace IT systems and equipment
- sonar systems
- equipment for civil and military aircraft
- specialist equipment for defence and security applications
- specialist systems and equipment for the transport and energy sectors

Revenue by sector



Sector	%
1 Battlespace IT	37%
2 Sonar	17%
3 Civil equipment	12%
4 Defence equipment & consultancy	13%
5 Civil aircraft equipment	8%
6 Military aircraft equipment	13%

Revenue by region



Region	%
1 United Kingdom	26%
2 North America	54%
3 Middle East & Asia Pacific	11%
4 Mainland Europe	9%

more information on page 09

Major customers

Ultra's independence allows it to work with all of the world's major defence, security, transport and energy customers and prime contractors including:

• BAE Systems • Boeing • British Energy (EdF) • EADS • GE • Kongsberg • L3 • Lockheed Martin • Raytheon • Rolls-Royce • Thales • UAE Armed Forces • UK MoD • US DoD • UTC

Structure

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

Aircraft & Vehicle Systems

Major systems and products

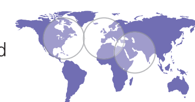
Airframe ice protection systems; Active noise and vibration control; Aircraft system electronics; Aircraft system test equipment; Consultancy and training solutions; High integrity data bus network nodes; Armoured vehicle electronic systems; High integrity software and systems; HiPPAG airborne compressors;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

Employees

980

Locations in:

United Kingdom, North America and the UAE



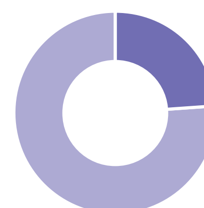
Revenue

£157.6m

2008 £130.1m

+21%

2008 +30%



24% of Group revenue

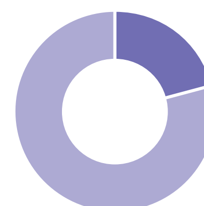
Headline operating profit*

£20.9m

2008 £19.7m

+6%

2008 +22%



21% of Group headline operating profit*

2009 key events

- first flights of the Boeing 787, Airbus A400M and Gulfstream G650 aircraft, on each of which Ultra has equipment that will move to the production phase
- a contract, with production options, for final development of the control electronics of the cannon specified for the British Army's upgraded Warrior and new FRES SV armoured vehicles
- progress through flight test of the F-35 Joint Strike Fighter for which Ultra will supply engine and lift fan ice protection systems and its HiPPAG pneumatic compressors for weapons release and missile cooling

more information on page 16

*see footnote on page 01

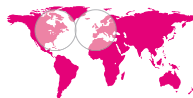
Ultra concentrates on providing its customers with capabilities and systems using the Group's electronic and software solutions for niche markets in defence, security, transport and energy. Within these market sectors Ultra focuses on developing specialist capabilities that provide differentiated solutions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

Information & Power Systems

Major systems and products
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; ID card printers; 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; Transit system power conversion and controls

Employees
1,660

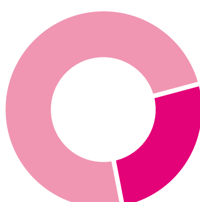
Locations in:
United Kingdom and North America



Revenue
£215.9m
2008 £161.5m
+34%
2008 +28%

33% of Group revenue

Headline operating profit*
£25.3m
2008 £22.2m
+14%
2008 +13%


26% of Group headline operating profit*

2009 key events
- selection of the airborne version of Ultra's real-time command and control system for two upgrade programmes for the US Navy's P-3 aircraft
- the award of multi-year contracts to supply specialist, civil, nuclear-qualified sensors for use in China and the UK
- selection to undertake IT integration at Hangzhou and Kunming airports in China

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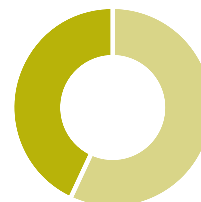
Tactical & Sonar Systems

Major systems and products
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

Employees
1,515

Locations in:
United Kingdom, North America and Australia

Revenue
£277.5m
2008 £223.7m
+24%
2008 +20%


43% of Group revenue

Headline operating profit*
£51.1m
2008 £35.2m
+45%
2008 +29%

53% of Group headline operating profit*

2009 key events
- continuing strong US and international demand for the Group's enhanced line-of-sight tactical radios
- the award of a contract, with potentially significant production options, for risk reduction activities relating to new UK cryptographic equipment
- the application of Ultra's specialist underwater acoustic capability in advanced sensor and countermeasure systems in the US and UK

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strategies for growth…
…driving resilience

*see footnote on page 01

Chairman's statement

Dr Julian Blogh, Chairman

growth in dividend per share

31.2p

+20%

(2008: 26.0p)

Dear shareholder

I am pleased to report that 2009 has been another good year for Ultra. The Group has maintained its focus on growing market sectors in defence, security, transport and energy. Ultra has exploited its position as a specialist supplier of electronic and software systems, products and services.

Ultra has continued to benefit from the successful execution of its strategy. Indeed, the Group broadened its portfolio of specialist capabilities, gained positions on new platforms and programmes, won business with new customers and widened its geographic reach during 2009.

The Group increased headline profit before tax* by 24% and generated an operating cash inflow of over £110 million whilst investing more in new markets, technologies, products and capabilities. As a result of this performance the Board is proposing to increase the total dividend per share by 20% to 31.2p. This is in line with the Group's policy of maintaining dividend cover at about three times.

Importantly, 2009 also saw us make good progress relating to the Board's main objective of delivering superior performance to shareholders, as measured through total shareholder return. Ultra increased its earnings per share more quickly than most of its peer group companies.

The composition of the Board changed in 2009. Paul Dean joined the Group board as Group Finance Director and very quickly became part of the team. Paul has made a valuable contribution already and I am confident he will help drive the Group forward.

Sir Robert Walmsley became a Non-Executive Director in the year, bringing to Ultra his wealth of experience with the Royal Navy, the MoD and his board membership of other major groups.

The intention has been announced that Douglas Caster will become Chairman in 2011 when I will step down and that Rakesh Sharma will succeed him as Chief Executive at the same time. Rakesh has been with Ultra for over twenty years and has successfully undertaken a range of senior management jobs in that time. He was appointed Chief Operating Officer of the Group on 1 January 2010.

Sir Robert Walmsley and Paul Dean took part in Ultra's annual strategy review process with the other members of the Board and with the Group's Executive Team. Ultra has a robust annual strategic review process in which a rolling five year plan is reviewed and refreshed. At the core of this process is the need to ensure we are maximising long-term value for shareholders while acting responsibly. The Group has a resilient strategy, effective financial and other controls and is organised to deliver its plan. Ultra has empowered its management teams in the businesses so that they may operate in a responsive, flexible and agile way. By constantly pursuing product and process innovation, Ultra's businesses are in strong positions to provide and deliver differentiated products, services and solutions to meet customer requirements.

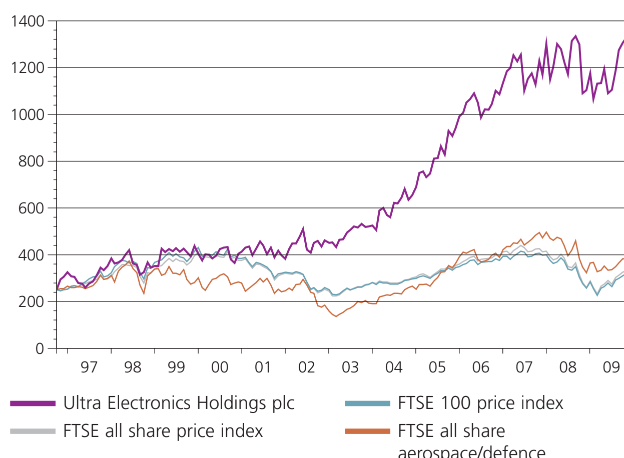
The Board has an evaluation process by which the effectiveness of the Board, its sub-committees and each individual Director are assessed over a rolling two year period. In 2009 the effectiveness of individual Board members was reviewed with the assistance of an external consultant.

On behalf of the Board, I would like to thank all Ultra employees for their hard work and continuing commitment, which have made such important contributions to our success. Ultra's excellent, dedicated employees are central to the Group's progress. With so much professionalism, commitment and enthusiasm in the Group, I am confident that we can 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 Ultra.

I am able to report once again that your Company is in excellent condition and is set to continue to deliver superior shareholder value. Ultra has positioned itself in high growth sectors within its markets, has a broad portfolio of offerings on long-term programmes with a wide customer base and continues to expand its geographic reach. This has created a resilient business model that supports the Group's future performance. In addition, Ultra has a track record of driving organic growth, successfully integrating acquisitions, winning new business and executing contracts effectively. These factors combined give the Board confidence in the continuing progress of the Group.

Dr Julian Blogh, Chairman

Ultra share price (pence)



*see footnote on page 01

Chief Executive's strategic review
Ultra's objective

Douglas Caster, Chief Executive

headline earnings per share*

20% growth

96.4p

(2008: 80.1p)

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 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 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
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

i Pages 8 and 9 expand on these growth strategies.

Successful pursuit of these growth strategies 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.

Competitive strategy

The resilience of Ultra's financial performance is derived from the Group's broad mix of specialist activities in its twenty four businesses, within which the Group has over 130 distinct market or technology niches. 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. Ultra's ability to combine its specialist capabilities enables it to win contracts as a sub-systems integrator for complex systems, often involving a number of different Group businesses. Ultra often teams with international, world-class partners to access 'best of breed' technology. The Group has a reputation for successful programme execution, culminating in innovative solutions utilising differentiated technologies delivered on-time to its customers. Ultra's spread of businesses around the world enables it to address specific national requirements where a sovereign operational capability must be maintained.

Corporate strategy

Ultra's success is underpinned by its investment strategy. The Group has invested to position itself in growing sectors in its various main markets. Ultra has demonstrated its expertise in identifying investment opportunities that deliver growth, either within existing businesses or by acquiring businesses which complement and broaden the Group's portfolio of products and services. This includes broadening the geographic reach of the Group. This investment also includes both the development of systems on programmes that have been won and activities that support the Group's long-term positioning for contracts to be won in the future.

To ensure that this investment strategy remains affordable, Ultra focuses on delivering a high quality of earnings from its operations. Evidence of this quality is the consistently strong cash generation that the Group has achieved. Over the last five years, the average conversion of headline operating profit* to operating cash flow* has been 102%.

The cash generated from operations is then used to fund acquisitions – Ultra seeks to maintain a broad balance over the medium term between organic and acquisition growth. To date, Ultra's acquisitions have mainly been funded by free cash flow and the level of net debt* remains low. It is foreseen that the acquisition strategy that has served Ultra well to date will be continued. The major part of the Group's banking facilities having now been renegotiated, it is intended that the rate of acquisitions in 2010 will be higher than that seen in 2009.

"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."

strategies for growth…
…driving resilience

*see footnote on page 01

Chief Executive's 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 **Order book visibility**
Definition	Growth in total Group revenue compared to the prior year.	Growth in Group headline profit before tax* compared to the prior year.	Order cover for next financial year as percentage of market consensus revenue forecast for the year.
2009 result	26%	24%	62%
2008 result	25%	18%	65%
2007 result	10%	11%	60%

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

Order book visibility, based upon analysts' consensus forecast revenue for the year to come, gives the Board confidence as to the achievement of future growth.

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 then be reinvested in the business in the form of acquisitions.

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 **Growth in earnings per share over a three year period**	KPI 5 **Cash conversion**	KPI 6 **Interest cover**	KPI 7 **Relative shareholder return**
Annual growth in headline earnings per share* calculated over a rolling three year period.	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.
18%	115%	20 times	+8% per annum
16%	102%	19 times	+14% per annum
14%	83%	29 times	+4% per annum

*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

**before amortisation of intangibles arising on acquisition and profit on disposal of property, plant and equipment net of property-related provisions

strategies for growth…
…driving resilience

Chief Executive's 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

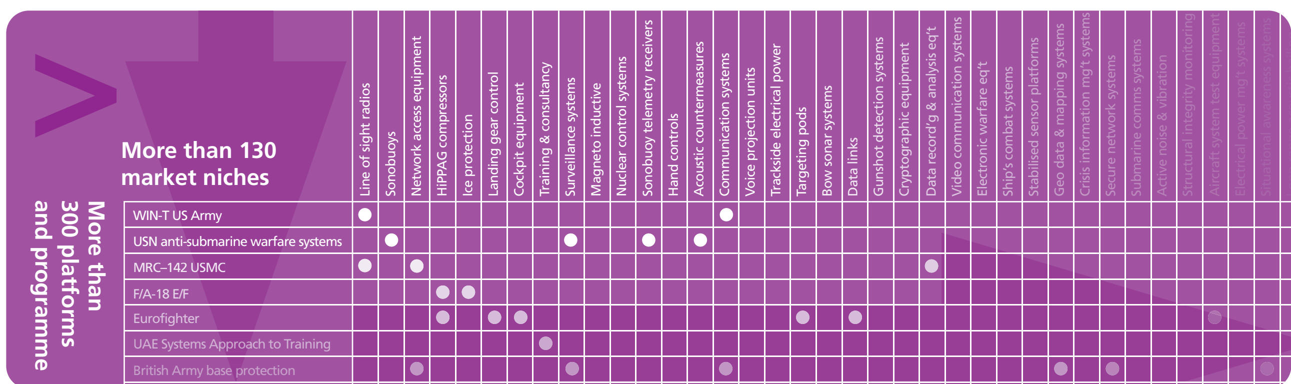
Increase the Group's portfolio of specialist capability areas

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 more than 130 of these specialist capability areas. These are shown as the columns in the matrix shown in the graphic.

#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.



see our 'strategies in action' on pages 16 to 21

62%

opening firm order cover compared to analysts' consensus forecast for 2010 revenue

86%

increase in Ultra's sales to the Middle East & Asia Pacific

£68.9m (2008: £37.0m)

#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 Groups 2009 revenue.

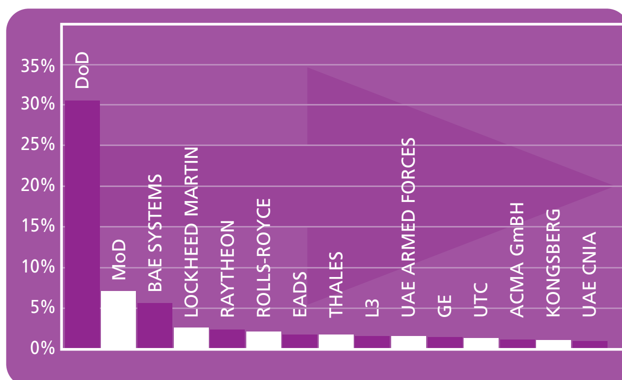
Within the top three customers, DoD, MoD and BAE Systems, Ultra actually supplies to a wide range of different project offices, integrated project teams and platform teams. Ultra therefore deals with a larger number of different customers than the graphic might first suggest.

#4

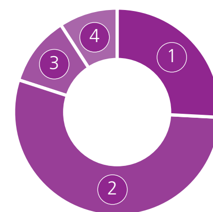
Widen Ultra's geographic footprint

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.

As depicted on the pie chart, revenue from the Middle East and Asia Pacific regions are capable of expansion as a proportion of Ultra's portfolio. The acquisitions of Dascam in Abu Dhabi and Avalon Systems in Australia indicate Ultra's intent in this regard.



Revenue by region



1 United Kingdom	**26%**
2 North America	**54%**
3 Middle East & Asia Pacific	**11%**
4 Mainland Europe	**9%**

strategies for growth…
…driving resilience

Chief Executive's strategic review
Positioning in growing market sectors to provide resilience of performance

£35.1m

investing for growth
Ultra-funded research and development was 5.4% of revenue

(2008: £33.1m)

$708bn

headroom to grow
the value of the President's request for the FY11 US defense budget

Ultra has consistently positioned and then 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 drives resilience into the Group's performance.

Defence and security

The level of international tension is not reducing and this results in continuing expenditure worldwide on defence and security. In Ultra's main markets, defence priorities are under review, as reflected in the recent Quadrennial Defense Review ('QDR') in the US and the forthcoming UK Strategic Defence Review. These highlight the significant competing pressures for funds that have caused recent contract delays. Nevertheless in the US the President's budget requests for the near to medium term are for the core defence budget to grow at about 3% per annum with substantial additional funds for continuing operations in Afghanistan and Iraq. The QDR reprioritises funds to improving information superiority, command and control, unmanned sensors and systems, communications and cyber warfare, with the F-35 Joint Strike Fighter aircraft programme and a continuing submarine-based nuclear deterrent also indicated as high priorities. These are all areas where Ultra has strong market positions. In the UK it is likely that defence budgets will be squeezed. As a consequence fewer new platforms will be built so the military capability of existing platforms will have to be upgraded. This typically drives demand for advanced electronic solutions.

Additionally, all modern armed forces 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.

The Group's broad portfolio of specialist capabilities that contribute to smart electronic solutions positions it well to secure further work in the medium term to satisfy future operational requirements. The Group's independence allows it to work with all the major prime contractors on new platforms as well as upgrade programmes. Overall, budgets addressable by Ultra will remain sufficiently large to give the Group considerable headroom for further growth.

Elsewhere, in areas where Ultra has recently achieved market presence, such as Turkey, Australia and the Middle East, defence spending continues to rise in real terms.

$150,000

incremental sales
the value of Ultra equipment on each Boeing 787 aircraft

44

growing market
44 new commercial nuclear power stations are planned to be built in China

Transport

In the transport sector, the fundamental driver of long-term growth is the increase in business and leisure travel, especially in those areas of the world with rapidly rising populations that have disposable income. This drives demand for civil aircraft, infrastructure investment in airports and in mass passenger transit systems – all areas where Ultra has a strong capability. In the short term there may be cuts in production rates at both Boeing and Airbus despite their long order books though the profit impact on Ultra of these reductions will not be material. 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. The Group continues to win new business around the world, reflecting the global nature of this market sector. Ground transport systems also require continuing investment in regions of high population density, a trend from which Ultra benefits.

Energy

Around the world the strategic need to have secure access to an increasing amount of energy from independent sources is driving a higher level of investment in civil nuclear power generation. This investment is 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 the associated specialist sensors and is therefore well placed to benefit as the market opportunity develops.

strategies for growth…
…driving resilience

Chief Executive's strategic review
Strategies to develop Ultra's people

98%

retention of key staff in 2009

The performance of Ultra is fundamentally driven by the individual and team contributions made by employees. Ultra's success in innovating to meet customer needs is based on the broad range of skills and capabilities of 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 its investments are made wisely, that the quality of the management team is constantly improved, that the right behaviours are encouraged and that appropriate processes are pursued around the Group. 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 – only thirteen staff in total work at the head office in London – and a high degree of authority and responsibility delegated to the twenty four businesses. Supported by their divisional managing directors, the management team of each business is required to focus on three key outcomes:

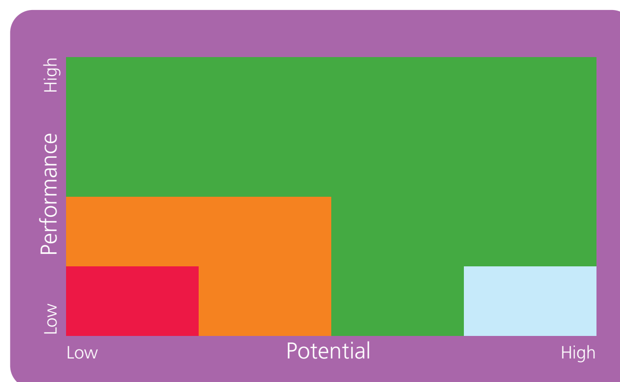
- developing and delivering the strategy
- meeting or beating the budget
- developing the people in the business

If any business does not maintain a constant focus on growing the capabilities of the team, and the individuals in the team, it will become a constraint on the continuing growth and development of the business itself. The management structure and processes at the Executive Team level have been reviewed to ensure that they were capable of supporting the further growth of the Group over the five year period of the strategic plan. The intended succession plan has been announced in which Douglas Caster becomes Chairman in 2011 and Rakesh Sharma succeeds him as Chief Executive.

Across Ultra the role of the human resources function is to work with the rest of the management team to ensure the supply of the necessary high calibre, well trained and committed people. The challenge can be summarised as attracting, retaining, motivating and developing the right people. A further facet of the challenge is managing the poor performance of, and potentially removing, the wrong people from the team. The human resources function is, in addition, expected to manage succession, act as a catalyst for change, ensure legal compliance and actively support the acquisition process.

Ultra's management strives constantly to improve recruitment and personal development processes, to deliver high quality training and to share best practice across the Group.

All businesses in Ultra utilise an internally developed 'organisation and succession 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 below. Included in this assessment is consideration of the challenge posed by the organic growth of the business driven by successful execution of the competitive strategy. 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 these individuals 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.

In 2009 Ultra achieved a retention rate of 98% of those individuals on the business senior management teams that were in the green zone. 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 part 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. In 2009 seven of the eight appointments at this level were filled internally. This proportion has been broadly consistent over the last three years.

The distinctive culture of Ultra and the behaviours of its people are described elsewhere in this report. It is a constant challenge to ensure that these features of Ultra are not diluted as the Group grows. In a typical year Ultra recruits over 400 new employees. In addition, acquisitions bring new people into the Ultra team.

Interaction of new employees with existing staff is encouraged where possible to spread the 'Ultra culture' as effectively as possible.

Ultra recognises the importance of committed employees and, using its YOURviews employee survey, has developed a measure of employee engagement. The survey is conducted at least every two years in each Ultra business and the businesses across the Group have successfully improved engagement by 1 to 2% per year over the last four years. The YOURviews survey has also demonstrated the benefits of the Group's consistent commitment to training and development over the past three years with an improvement in the employee rating of 1% per year.

Ultra's LEAP behaviours

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

Leadership

- determine the future direction and vision for the business
- communicate inspirationally that future
- inspiring and energising the business team, customers, suppliers and colleagues
- stimulating an innovative culture to release creativity
- enabling change to provide a greater and faster return to the business

Entrepreneurship

- encouraging the whole business to be entrepreneurial
- seeking competitive advantage through the differentiation of offerings
- ensuring competitions skewed in Ultra's favour, while behaving ethically
- seeking to enhance the offering by teaming either internally or externally

Audacity

- being daring or bold
- thinking of the bigger picture or opportunity
- being prepared to take a leap forward
- embrace innovation to inject rapid growth into the business

Paranoia

- considering risks and leaving no stone unturned to secure market opportunities
- recognising threats and making it difficult for competitors to steal Ultra's established position
- constantly worrying about satisfying customers' real needs
- considering every possible angle when strategising bids to enhance Ultra's competitive position

strategies for growth…
…driving resilience

Ultra's performance in 2009
Ultra's 2009 results

Paul Dean, Finance Director

26%

revenue growth to £651m

(2008: £515m)

The strong results for the year underline the success of Ultra's strategy of focusing on long-term growth. This is achieved through continued investment in a portfolio of differentiated products and services which are positioned on a large number of international platforms and programmes in the defence, security, transport and energy markets. This creates a flywheel effect that drives Ultra's performance year after year, despite market fluctuations. In 2009, the Group continued its significant level of investment in new products as well as in business development and in acquisitions; this has expanded Ultra's range of specialist capabilities and extended the areas of the world in which the Group operates.

Group results

Revenue increased by 26.3% to £651.0m, an increase of £135.7m. Organic growth, currency benefits and acquisitions all contributed to this increase.

Constant currency organic revenue growth* was 6.3%. Tactical & Sonar Systems and Information & Power Systems grew very strongly, particularly in the North American sonobuoy and battlespace IT markets whilst Aircraft & Vehicle Systems was held back by delays to some programmes. Favourable currency boosted revenue by 9.3% and arose primarily due to the relative weakness of sterling to the US and Canadian dollars. Acquisitions contributed 10.7%; mostly due to the full year effect of transactions completed during 2008.

Headline operating profit* increased by £20.2m, 26.2%, to reach £97.3m, including 18% growth at constant currencies. The headline operating margin* was maintained at 15%. As with revenue, underlying organic growth, currency benefits and acquisitions all contributed to the rise.

Organic headline operating profit* growth was 9.1%, slightly ahead of the equivalent revenue increase and was driven by a particularly strong profit performance in North America. Currency translation benefits represented a further 8.2%. Acquisitions contributed £6.9m (8.9%); slightly lower than the revenue increase as the headline operating margin* on the acquisitions made in 2008 was below Group average. Whilst maintaining this margin, the Group continued to invest in company funded research and development (£35.1m, 2008: £33.1m), which increased by £2.0m and represented 5.4% of Group revenue. This investment of Ultra's funds was supplemented by customer's contributions to product development activities. In 2009, this amounted to £77.0m (2008: £83.3m) and so in total, spending on new product and business development was equivalent to 17.1% of Group revenue.

Net financing charges, excluding fair value adjustments on derivatives and the cost of closing out currency hedges, were £7.8m (2008: £4.9m). The rise of £2.9m is due to increases to the finance costs of both the pension scheme and bank debt. The finance cost of the pension scheme rose by £2.1m to £2.9m (2008: £0.8m) due to a lower expected return on pension scheme assets. The finance cost of bank debt rose by £0.8m to £4.9m (2008: £4.1m) primarily because of the full year effect of bank debt taken on to fund the acquisition programme in 2008. The interest on the bank debt was covered around 20 times by headline operating profit*. Headline profit before tax* was £89.5m (2008: £72.2m) an increase of 24%.

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

	2009 £m	2008 £m
Headline profit before tax*	**89.5**	72.2
Amortisation of intangibles arising on acquisition	**(26.3)**	(13.0)
Profit/(loss) on fair value movements on derivatives	**55.6**	(62.1)
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/(loss) before tax	**107.9**	(2.9)

The amortisation charge for intangibles arising on acquisitions was £26.3m (2008: £13.0m). The main reason behind this large increase was the full-year effect of the high level of acquisition spend in 2008.

During 2009, the Group completed the sale of the old Rugeley site in the UK 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 (2008: nil). As noted at the half-year, the process of matching foreign exchange hedging cover to the net expected inflow of US dollars incurred one-off costs of £15.9m.

Partly due to the closing out of the foreign exchange contracts but also because of the strengthening of sterling to the USD at year end ($1.61 2008: $1.44), the total 'fair value' of foreign exchange hedging contracts increased by £55.6m (2008: decreased by £62.1m).

After the inclusion of these non-headline items, the statutory profit before tax was £107.9m (2008: £2.9m loss).

The headline tax rate rose from 24.6% (2008) to 26.5% in 2009. The increase in the rate arose predominantly due to the mix of profits. During the year, a higher proportion of the Group's headline profit before tax* was earned in the USA and Canada where the Group's marginal tax rate is considerably higher than it is in the UK.

The order book at the end of 2009 was £761.8m compared to £783.5m (£761.1m at constant currencies) at the end of 2008. Within the order book total, opening firm order cover for trading in 2010, defined as firm order cover compared to analysts' consensus revenue forecast, has been maintained at its customary level of above 60%.

*see footnote on page 01

115%
operating cash conversion*
(2008: 102%)

15%
headline operating profit margin*
(2008: 15%)

Acquisitions

Ultra made four acquisitions in 2009; Tisys SA ('Tisys') in France; Avalon Systems Pty Ltd. ('Avalon') in Australia together with Xerion Systems ('Xerion') and Scytale Inc. (Scytale), both in the USA. They have enhanced the Group's portfolio of offerings and extended the Group's geographic reach. The total consideration in the period for these acquisitions was £18.0m, financed using Ultra's existing facilities.

- **Tisys** is a specialist airport IT systems business based in Annecy, France, offering software applications, mainly for small airports, that provide revenue management and invoicing, flight information management and display, resource management and departure control. It is part of Airport Systems in the Group's Information & Power Systems division.

- **Avalon**, based in Adelaide, South Australia, specialises in electronic warfare sub-systems, engineering consultancy and through-life support for the Australian Defence Force. Ultra's team in Australia working on the design, build and support of the sonar system for the new Australian destroyers will be based at the Avalon site. It is part of Ultra Electronics Australia Pty in the Group's Tactical & Sonar Systems division.

- **Xerion**, based in Rochester, New York, makes a range of digital glass cockpit displays suitable for use in general aviation aircraft. Xerion has been subsumed into Ultra's Flightline Systems business, also based in Rochester, in the Tactical & Sonar Systems division.

- **Scytale**, based in Ellicott City, near Baltimore, Maryland, is a provider of Communication Security (ComSec) software and services and has a leading edge ComSec management software solution. Scytale has been subsumed into ProLogic in the Group's Information & Power Systems division.

strategies for growth…
…driving resilience

*see footnote on page 01

Ultra's performance in 2009
Aircraft & Vehicle Systems

Strategy in action

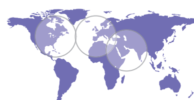
Ultra's four strategies to drive long-term, sustainable growth are explained in detail on pages 8 and 9. Shown here are examples of how Ultra demonstrated success in 2009 against those strategies

#2
Add positions on long-term platforms and programmes

Ultra will supply the advanced control electronics for the innovative cannon that will be used on the British Army's upgraded Warrior and new FRES SV armoured vehicles

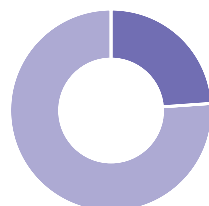
Employees
980

Locations in:
United Kingdom, North America and the UAE



Revenue
£157.6m
2008 £130.1m

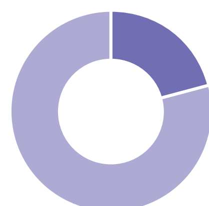
+21%
2008 +30%



24% of Group revenue

Operating profit*
£20.9m
2008 £19.7m

+6%
2008 +22%



21% of Group headline operating profit*

Revenue in Aircraft & Vehicle Systems increased by 21% to £157.6m compared to £130.1m in 2008 and headline operating profit* increased by 6% to £20.9m (2008: £19.7m). There was a full-year contribution from Dascam, acquired in December 2008. The division's order book reduced during the year by 6% to £203.1m (2008: £214.9m) as multi-year aircraft equipment contracts for Eurofighter and A400M were traded.

The 21% growth of revenue in the year was driven by the Dascam contribution and by 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 activity in the division associated with creating high integrity software for aircraft systems, primarily associated with the Boeing 787 and F-35 Joint Strike Fighter aircraft programmes, and appropriate restructuring action was taken. Headline operating profit* growth was lower at 6% reflecting the costs of restructuring noted above and the dilutive effect of lower margin funded development activity in the sales mix. The headline operating margin was also suppressed by the increased charge against profit relating to investment in new aircraft systems.

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

- first flights of the Boeing 787, Airbus A400M and Gulfstream G650 aircraft, on each of which Ultra has equipment that will move to the production phase
- a contract, with production options, for final development of the control electronics of the cannon specified for the British Army's upgraded Warrior and new FRES SV armoured vehicles
- progress through flight test of the F-35 Joint Strike Fighter for which Ultra will supply engine and lift fan ice protection systems and its HiPPAG pneumatic compressors for weapons release and missile cooling

*see footnote on page 01

#3

Broaden the Group's customer base

Ultra has been selected by the Sumitomo Corporation in Japan to supply advanced airframe electronic control systems for the new Mitsubishi Regional Jet aircraft

#2

Add positions on long-term platforms and programmes

Boeing's Small Diameter Bomb system, for which Ultra's HiPPAG airborne compressor provides stored energy for weapons release, has been qualified on the F-35, F-22 and other aircraft types

strategies for growth…
…driving resilience

*see footnote on page 01

Ultra's performance in 2009
Information & Power Systems

Strategy in action

Ultra's four strategies to drive long-term, sustainable growth are explained in detail on pages 8 and 9. Shown here are examples of how Ultra demonstrated success in 2009 against those strategies

#4

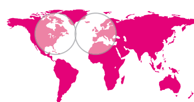
Widen Ultra's geographic footprint

In the international market for airport IT systems, Ultra has won business in Ecuador and Morocco, the latter successes reflecting the specialist capabilities of the Tisys acquisition made in the year

Employees

1,660

Locations in:
United Kingdom and North America



Revenue

£215.9m

2008 £161.5m

+34%

2008 +28%

33% of Group revenue

Operating profit*

£25.3m

2008 £22.2m

+14%

2008 +13%

26% of Group headline operating profit*

Revenue in Information & Power Systems grew by 34% to £215.9m compared to £161.5m in the previous year. Headline operating profit* increased by 14% to £25.3m (2008: £22.2m). These results included full-year contributions from ProLogic, NSPI and Radmon, acquired in 2008, and a part-year contribution from Tisys. The second half performance from ProLogic operating under the Proxy Board that was put in place during the first half of 2009 reflected a sustainable and increasing level of customer demand. The order book at the end of the year had increased by 26% to £218.2m (2008: £173.3m).

Revenue and profit growth reflected strong demand for Ultra's specialist surveillance systems, both for air defence and for operating base protection, and for specialist power equipment for mass transit systems. Demand for airport IT systems recovered in the second half though profit was impacted by high bid costs in the period for substantial overseas opportunities.

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

- selection of the airborne version of Ultra's real-time command and control system for two upgrade programmes for the US Navy's P-3 aircraft
- the award of multi-year contracts to supply specialist, civil, nuclear-qualified sensors for use in China and the UK
- selection to undertake IT integration at Hangzhou and Kunming airports in China

*see footnote on page 01

#2

Add positions on long-term platforms and programmes

The small, lightweight, airborne version of Ultra's innovative combined air picture generator is being added to P-3 and EP-3 aircraft as part of an avionics upgrade package

#3

Broaden the Group's customer base

Ultra has won a contract from British Energy, part of EdF Energy, for the long-term supply and management of neutron flux detectors to a number of civil nuclear reactors in the UK

strategies for growth…
…driving resilience

*see footnote on page 01

Ultra's performance in 2009
Tactical & Sonar Systems

Strategy in action

Ultra's four strategies to drive long-term, sustainable growth are explained in detail on pages 8 and 9. Shown here are examples of how Ultra demonstrated success in 2009 against those strategies

#1
Increase the Group's portfolio of specialist capability areas

Ultra has conducted successful trials of innovative, advanced, long-range airborne anti-submarine warfare systems that help meet the threat from quiet, modern diesel-electric submarines operating in shallow, noisy waters

Employees
1,515

Locations in:
United Kingdom, North America and Australia

Revenue
£277.5m
2008 £223.7m

+24%
2008 +20%

43% of Group revenue

Operating profit*
£51.1m
2008 £35.2m

+45%
2008 +29%

53% of Group headline operating profit*

Revenue in Tactical & Sonar Systems increased by 24% to £277.5m (2008: £223.7m) and headline operating profit* rose 45% to £51.1m (2008: £35.2m). These results included full-year contributions from AudioSoft and MISL, acquired in 2008, and part-year contributions from Xerion and Avalon. The closing order book was £340.5m (2008: £395.3m), a reduction of 14% in the year reflecting delays in contract placement in the UK and US.

Strong battlespace IT demand, especially from US and international customers for tactical radio systems, drove the revenue and profit performance in the year. The full-year contribution from MISL, acquired in 2008, was strengthened by the increase in volume of production deliveries of its unique communication equipment. Deliveries of Ultra's advanced anti-submarine warfare systems and equipment to domestic and international customers also made a good contribution to growth.

Growth in future years will be underpinned as a result of the following developments in 2009:

- continuing strong US and international demand for the Group's enhanced line-of-sight tactical radios
- the award of a contract, with potentially significant production options, for risk reduction activities relating to new UK cryptographic equipment
- the application of Ultra's specialist underwater acoustic capability in advanced sensor and countermeasure systems in the US and UK

*see footnote on page 01

#2

Add positions on long-term platforms and programmes

Ultra has been selected to supply advanced, programmable, high grade cryptographic equipment in the UK to replace various different types of legacy equipment. The programme covers 60 platform types at some 150 locations

#4

Widen Ultra's geographic footprint

The acquisition of Avalon Systems in Adelaide provides Ultra with an initial operational capability in Australia and can act as a portal for the Group into the fast growing Asia Pacific regional market

strategies for growth…
…driving resilience

*see footnote on page 01

Ultra's performance in 2009 (continued)

£89.5m

headline profit before tax*

(2008: £72.2m)

Headline operating cash flow

The Group extended its strong record of cash generation again in 2009. Headline operating cashflow*, after capital expenditure, capitalised development costs and LTIP share purchases, was £111.6m (2008: £79.0m). The ratio of cash to headline operating profit* was 115% which pushed the rolling five-year average to over 102%.

Capital expenditure on property, plant and equipment fell slightly to £10.0m (2008: £14.2m). The reduction was largely due to the completion of PMES's new facility at Rugeley (2009: £0.8m) (2008: £7.1m) which is now fully operational. Major projects in 2009 included renovation of the facility at Braintree, Massachusetts and various Airport Systems projects; the remaining capital expenditure was incurred on upgrading Ultra's internal IT structure.

Proceeds from the disposal of property, plant and equipment (including assets held for sale) amounted to £3.8m (2008: £1.2m). The major inflows related to the part payment for the Rugeley site of £3.1m (the final payment of £2.8m is due in 2010) and the proceeds from the sale of the Audiopack facility in Cleveland, Ohio, following its successful integration into USSI. Depreciation of fixed assets rose to £7.7m (2008: £7.0m), due primarily to the inclusion of assets acquired with businesses in 2008 and the translation effect with sterling being relatively weak.

Following the decision in 2008 to cease capitalising A400M development costs, the cash expenditure on capitalised product development was £0.4m (2008: £0.6m). This is considerably lower than the amortisation of previously capitalised product development costs of £0.9m (2008: £1.2m).

The cash impact of working capital movements was an overall inflow of £11.9m (2008: £4.7m); a small outflow in receivables was more than offset by increased payables due primarily to advanced payments from customers. There was no increase in inventories during the year despite the increase in size of the underlying business. Receivables rose by just £2.5m as a result of debtor days improving from 46 days to 43 days. However, the major contributor to the working capital inflow was the increase in the value of payments in advance from customers on long-term contracts which was £37.4m (2008: £33.6m).

Non-operating cashflow

From the headline operating cashflow* of £111.6m (2008: £79.0m) the Group funded various non-operating items to arrive at the net cash inflow of £35.2m (2008: cash outflow of £49.7m). The major non-operating items were:

- Net interest paid rose by £1.1m to £4.8m (2008: £3.7m) due to the higher level of bank debt for most of 2009 following the acquisitions in 2008.
- The cash cost of tax fell from £20.5m in 2008 to £13.5m because of prior year tax claims, and lower payments on accounts due to the tax credit relating to closing out the currency hedges.

Ultra supplies advanced battery health monitoring and power management solutions for new and existing armoured vehicles

- Acquisition spend at £30.8m, was well below the equivalent for 2008 (£78.8m) following the conscious decision to slow down the rate of spend pending the renegotiation of the banking facilities. The 2009 spend included £16.4m for the four acquisitions made in the year (net of cash acquired) and £14.4m relating to deferred payments and earn-out on deals done in previous years. After the cash cost of closing out currency hedges, (£15.9m: 2008 nil), the payment of dividends (£18.7m: 2008 £15.2m) and the net cash raised through the exercise of share options (£1.9m: 2008 £1.4m), there was a net cash inflow of £35.2m. Total net debt* was £28.7m, compared to £63.9m at the end of 2008.

Effect of acquisitions

The four acquisitions undertaken in the year (Avalon, Tisys, Scytale and Xerion) were made at a total cost of £18.0m of which £16.4m was paid in the year and the balance of £1.6m was deferred to future years. Total net assets acquired amounted to £7.7m, including liabilities of £5.7m and excluding cash acquired of £0.8m. The balance of £10.3m was allocated to goodwill.

Banking facilities

Ultra's banking facilities amount to £200m in total plus a £10m overdraft. They are provided by a small syndicate of banks led by the Royal Bank of Scotland and comprise two tranches. The first tranche comprises £80m of revolving credit facility, which can be drawn down in any common currency and is due to expire in September 2011. The second tranche, that provides a further £120m of revolving credit, was put in place in February 2010 and is due to expire in September 2013. This second tranche is effectively the renewal of the 2005 facility that was due to expire in November 2010 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.

*see footnote on page 01

20 times

bank interest cover

(2008: 19 times)

£111m

operating cash flow*

(2008: £79m)

As well as sterling, Ultra also draws a significant proportion of its borrowing in US and Canadian dollars. The strengthening of sterling at year end against these currencies meant that net debt* reduced by £5.8m in sterling terms. The US and Canadian dollar borrowings represent natural hedges against assets denominated in those currencies.

The total asset drawn down from the facilities was £70.8m (2008: £107.8m) giving headroom of £129.2m (2008: £92.2m) plus the £10m overdraft. Ultra will in due course open negotiations with its banking partners regarding the renewal of £80m due to expire in September 2011.

Many of the most modern airports in the world rely on Ultra's integrated IT systems to optimise operational efficiency

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 dollars borrowings for one year; a value which reduced by $20m in December 2009 and will reduce by a further $20m in December 2010 before expiring 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 £70.8m at year end comprised 87% fixed rate debt and 13% floating rate debt. The effective interest rates paid during the year were 4.3% for the US dollar debt, 3.9% for Canadian dollars and 1.5% for sterling. The fixed rate debt at year end was denominated 81% in US dollars and 19% in Canadian dollars. The floating rate element related to the sterling and euro loan balances. The interest rate on the fixed amount for the debt for 2010 is 4.2%

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

Ultra supplies voice projection units to allow firefighters to communicate in noisy environments

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 2009, when the net scheme deficit calculated in accordance with IAS19 was £55.2m, compared to £41.5m in 2008. The present value of the liabilities rose by £44.0m in the year, mainly because the interest rate used to discount future liabilities back to present value, fell by 0.45% to 5.8% and also due to an increase in the expected future inflation rate. The average life expectancy for pensioners remained unchanged. The increase in the scheme's liabilities was partly offset by an increase in the value of the scheme assets of £25.0m due to the recovery of bond and equity prices in the year.

There was a full actuarial assessment carried out in April 2007 the result of which was a funding deficit relating to past service of £31.1m before tax, assuming an annual discount rate for future liabilities of 5.5%. Following the completion of the assessment the employer reached agreement with the pension scheme trustee board to eliminate the deficit by making annual payments of £0.25m per annum over a ten year period commencing 2008. Certain company assets with an agreed value of approximately £10.0m were offered as security against the deficit until such time as it has been eliminated or alternative arrangements are agreed. The funding position will be reassessed when the next full valuation is carried out in 2010.

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

strategies for growth…
…driving resilience

*see footnote on page 01

Ultra's performance in 2009 (continued)

£129m

headroom against banking facilities

(2008: £92.2m)

Ultra is developing five systems for the new Airbus A400M military transport aircraft

All staff who have joined Ultra in the UK since the defined benefit scheme was closed in 2003 have been invited to become members of the Ultra Electronics Group Personal Pension plan. 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 employees and had an IAS19 deficit of £0.5m at the end of the year (2008: deficit of £0.8m). Regular payments continue to be made, with both 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 defined contribution 401(k) retirement benefit plans to all full-time employees. Under these plans, Ultra provides participating and contributing employees with matching contributions, subject to plan and US Internal Revenue Service limitations. NSPI and ProLogic, which had their own 401(k) plans in place when they became part of Ultra during 2008, were consolidated into the main Ultra scheme during 2009. Scytale which had its own 401(k) plan in place when it became part of Ultra during 2009 will consolidate its plan into the main Ultra scheme during 2010. Wells Fargo provides administrative support and is also a directed trustee of the plan.

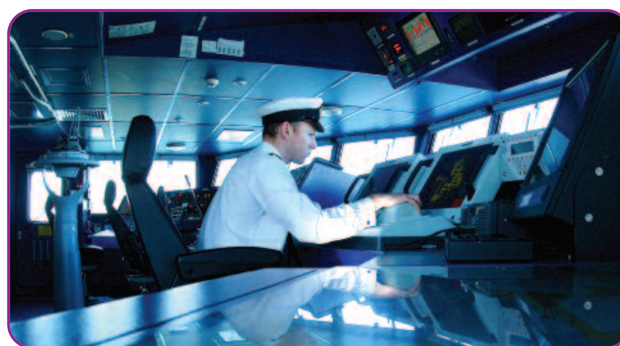
Foreign exchange risks

Ultra's results are affected by both the translation and transaction effects of foreign currency movements and the risks associated with these are discussed on page 26. By their nature, currency translation risks cannot be mitigated but the transaction position is actively managed.

The majority of sales made by Ultra's businesses are made in local currency, thus avoiding any transaction risk. However, this risk does arise when businesses make sales and purchases that are denominated in foreign currencies, most often in US dollars.

To reduce the potential volatility, Ultra attempts to source, in US dollars, a high proportion of the product sold in US dollars. For the remaining net exposure, 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 and Canada. A small amount of hedging (less than $20m per annum) was also put in place at historically favourable rates for 2012 to 2015. Exposure to other currencies is hedged as it arises on specific contracts.

During early 2009, the level of hedging cover relative to the forecast net inflow of US dollars was reviewed and as a consequence, certain hedges were closed out at a loss of £15.9m which is reflected in the full year results. The lag between when foreign exchange contracts are taken out and the dates they mature also leads to annual fluctuations. However, in 2009 the effective hedge rate for selling US dollars was little changed on 2008 so that the impact on headline operating profit* was just a small increase of £0.6m. Little change is also expected in 2010, however, 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.



Ultra supplies the modern combat system for the offshore patrol vessel being procured by the Trinidad & Tobago Navy

*see footnote on page 01

Management of risks and uncertainties and corporate responsibility

5%

no single programme represents more than 5% of Ultra's revenue in any one year

>130

specialist capability areas
Ultra has a strong portfolio of more than 130 specialist capability areas

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.

Ultra has positioned 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 capability areas drives resilience into the Group's performance. This overall process of positioning and repositioning is described more fully on pages 10 and 11 of this document.

Market factors

About three-quarters of Ultra's revenue is from the defence sector. A theoretical risk would therefore be a significant worldwide reduction in defence expenditure. The overall size of the defence budgets relative to Ultra's annual revenue provides sufficient headroom for the Group's growth to continue. Ultra's constant focus has consistently been on ensuring that the Group's businesses operate in a large number of growing niche markets where the Group can create and maintain sustainable competitive advantage and can win business worldwide. This specialism and diversity give some protection from budget variations and so provide resilience to Ultra's performance.

Ultra's financial performance has not been driven significantly by the current allied operations in Afghanistan and Iraq. These operations will be scaled back in the next few years. Since Ultra did not benefit materially from the start of these operations, it is anticipated that such a withdrawal would not harm the Group's trading position. Indeed, it might well be an overall benefit to the Group as it may alleviate some of the current pressures on defence budgets.

The international spread of Ultra's activities provides resilience to its performance. The Group now sells its products and services in over forty countries worldwide and this has broadened the customer base. Ultra also has a transatlantic capability, with twelve of its twenty four businesses being in North America and so is exploiting its innovative solutions and operating as a domestic entity on both sides of the Atlantic, thereby providing sovereign operational independence of the respective armed forces.

Ultra supplies its proven, reliable HiPPAG airborne compressor for missile cooling and for weapons ejection

Importantly, Ultra has taken steps to broaden its geographic footprint and thereby to extend the base on which the Group's further growth will be built. The acquisition of Dascam gives a proven route to market in the Middle East, an area of significant potential for many of Ultra's niche offerings. Avalon Systems, in addition to having its own specialist electronic warfare capabilities, provides Ultra with an initial operational capability in Australia. This will not only satisfy the immediate needs of the sonar system contract won in 2008 but will also act as a portal for all Ultra businesses into the fast growing Asia Pacific regional market.

Ultra is represented on a significant range of major international programmes and platforms. Despite Ultra's growth it remains true that no single programme represents more than 5% of Ultra's revenue in any year. The cancellation or curtailment of any single programme is unlikely therefore to have a significant adverse impact on the Group.

Ultra supplies all elements of the armed forces, i.e. the army, navy, air force and marines together with first responders such as medical staff and firefighters. This customer spread provides an element of risk mitigation. In addition, Ultra operates in a number of different distinct market sectors, including battlespace IT; sonar; military aircraft equipment and military vehicle equipment. Again, this reduces the risk of decline in any one market sector materially affecting Ultra's overall performance.

Ultra has significant business in the civil sector and this provides useful diversification, often providing an adjacent market in which to exploit complementary skills and technologies. Within the civil market, Ultra operates in aerospace, transport, energy and commercial security sectors. This spread gives further resilience to Ultra's performance.

*see footnote on page 01

Management of risks and uncertainties and corporate responsibility

37%

battlespace IT
sales of Ultra's specialist battlespace IT systems and equipment represented 37% of the Group's 2009 revenue

Staff retention

Ultra's strategies to develop its people are described on pages 12 and 13 of this report. It is fundamental to the way that Ultra operates that it focuses on retaining and developing those individuals who have the potential to offer the Group more and to undertake a larger role in the future. Those 'high potential' staff are given a high degree of challenge, training, support and encouragement so they may continue to demonstrate the development of which they are capable. In 2009 Ultra achieved a retention rate of 98% of those individuals on the business senior management teams that were in the 'green zone' of the graphic on page 12. 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.

Ultra supplies advanced electronic architecture solutions suitable for use on the latest designs of armoured vehicles

Exchange rates

Ultra's financial performance is affected by movements in foreign currency exchange rates because it has subsidiaries that are based overseas, mainly in Canada and the USA. Their sales and operating profits are translated into sterling every year using an average exchange rate for the year. A similar effect is seen when reporting the sales made in US dollars by Ultra businesses based in the UK. Variations in these exchange rates result in a currency translation risk. With the average US dollar exchange rate strengthening substantially during the year, the Group's reported revenues were enhanced by a positive currency translation effect. The Canadian dollar saw a similar trend and this contributed further to the favourable impact. Overall the average rate for the US dollar strengthened against sterling by 15% and the Canadian dollar rate by 9%. The combined impact was to increase reported revenue by 9% or £48.1m. On headline operating profit* the effect was an increase of 8%, equivalent to £6.3m. By their nature these currency translation risks cannot be mitigated.

With respect to currency transaction risks Ultra has a natural hedge from its geographic spread of activities. The majority of sales made by Ultra's businesses, wherever they are based, are made in their local currency, thus avoiding any transaction risk. However this risk does arise when businesses make sales and purchases that are denominated in foreign currencies, most often the US dollar. When a foreign currency weakens against the local currency revenue suffers from a negative currency transaction effect and the opposite is true when the foreign currency appreciates. To reduce this volatility Ultra has taken steps to source in US dollar zones a higher proportion of the cost of products sold in US dollars. For the remaining net exposure 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 US dollar-denominated sales from the UK and Canada. A decision was taken in 2008, however, to extend this protection by putting additional hedging contracts in place to provide partial cover for the Group's expected net exposure for a further five years. Exposure to other currencies is hedged as it arises on specific contracts.

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.

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. 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.

*see footnote on page 01

40

countries
Ultra sells its systems, products and services in more than 40 countries worldwide

18%

growth of headline operating profit* at constant currencies

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.

Resources
An important Group resource is its excellent reputation with its customers. All employees strive constantly to ensure that this reputation is upheld.

Ultra has access to adequate financial and human resources to implement its strategy for the foreseeable future. The performance of Ultra is fundamentally driven by the individual and team contributions made by its employees. The Group's success in innovating to meet customer needs is based on the broad range of skills and capabilities of employees. 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 to attract, retain and develop the best people. These are described more fully on pages 12 and 13 of this document.

Ultra supplies secure communication systems for use in modern jet aircraft

Corporate responsibility

Employment practices and standards
Ultra believes that superior business performance can only be achieved through having committed and efficient people. Achieving this high quality requires Ultra to recruit widely and with no bias or discrimination. It is therefore the policy of Ultra to be an equal opportunities employer and to oppose all forms of unlawful or unfair discrimination on the grounds of sex, race, nationality, disability, sexual orientation, age, marital status, religion or political belief. In addition, the Group is a responsible employer, seeking to achieve a culture of fairness to employees and of being a good place both to work and develop a career. Employees and applicants are treated equally and fairly in respect of recruitment, remuneration, training, promotion and career development.

None of Ultra's businesses use forced, compulsory or child labour.

Development and training
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 2009 over 30 in-house training courses were run in the UK and in North America. Many of these are courses that are tailored to the specific requirements of Ultra and the trainers have an intimate knowledge of how the Group operates across all its businesses. For these courses, which typically have 12 to 20 participants, a focus is maintained on bringing together people from different businesses. In this way, that which makes Ultra different and special is spread more broadly across the Group. In addition, there is always value from such networking across different businesses. The cross fertilisation of ideas often spawns ideas for innovative solutions to real customer requirements through internal teaming. 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.

Individual businesses provide a wide variety of training and development opportunities. As well as tuition reimbursement for shorter programmes, support also ranges from apprenticeship programmes to sponsorships at bachelor, master and doctorate level.

Ultra also has very strong links with a large number of universities. For example, TCS sponsors a Chair at the Ecole Technologie Supérieur (ETS) currently held by Professor Francois Gagnon who leads a number of research projects in wireless communications and related technologies.

strategies for growth…
…driving resilience

*see footnote on page 01

Management of risks and uncertainties and corporate responsibility (continued)

>300

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

Ultra's 'right' people are its most important asset

Benefits

Ultra offers to 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. Many businesses promote and offer specific wellness programmes such as smoking cessation, health screening and online resources.

Ultra also places a high level of importance on share plans that are open to all employees. These are offered as savings related share option plans in the UK, US and Canada on a regular basis and enable all employees to share in the success of Ultra as a whole. During 2009 a new plan was successfully launched in the UAE for the first time.

Retirement benefits

Ultra offers retirement benefits to its employees around the world. Further details are provided on pages 23 and 24.

Employee consultation

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. This was emphasised when the Group's Advanced Tactical Systems business was recognised as one of the top 100 companies to work for in Texas for the second time through an award from Texas Monthly Magazine and the Texas Association of Businesses.

Ultra is a responsible citizen

Ultra believes that it should at all times be a responsible corporate citizen. As such the Group complies with all applicable legislation in the areas of trading, employment, health and safety and the environment. Ultra further believes that, in order to achieve superior business performance, the Group must, in certain areas, exceed the minimum standards required by law. Ultra's policies relating to its corporate responsibility are generally established by the Board with individual businesses taking a major role in their implementation.

Business ethics

Ultra requires that its employees comply with the spirit and principles of the laws and standards of conduct of the countries in which it does business as well as behaving ethically and with fairness. Ultra has a corporate ethics policy and businesses are required to report on compliance every month. In addition, the Board reviews compliance twice per year. There were no non-compliance issues reported in 2009. Directors and employees are required to avoid personal conflicts of interest regarding company business and are bound by strict rules on insider dealing and insider information. In addition, all businesses are strictly required to comply fully with the relevant national export control regulations. They are also required to conduct their business in strict accordance with competition and anti-trust laws.

During 2009 a decision was taken to expand to the whole of Ultra the role of the Ethical Overview Committee that has oversight of the business activities of Dascam in the UAE. This independent committee is chaired by the Chief Executive and comprises General Sir Rupert Smith (retired NATO and UK General), Martin Bell (retired MP and former BBC correspondent) and David Shattock (retired Chief Constable).

As part of its commitment to business ethics Ultra recognises the importance of receiving feedback on ethics compliance from employees. In early 2010 the internal reporting system will be replaced Group-wide by a new, independent web- and telephone-based hotline for reporting ethical and other compliance problems. Any reports that are generated will be collected by the independent hotline operator and forwarded to the Chairman of the Audit Committee (other than US security-related issues that will be routed through the outside directors of the Special Security Arrangement board).

Ultra supports and respects the protection of internationally proclaimed human rights in the countries in which it operates. Ultra does not make any political donations.

Customers

Customer relationships

Ultra promotes good working relationships with all its customers with a special emphasis on meeting its commitments. The Group receives direct feedback on relationships from the UK MoD

80

interviews
Ultra's Electrics business conducted over 80 face-to-face interviews to gain customer feedback

30

courses
Thirty in-house training courses were run in 2009 in the UK and in North America

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. Manufacturing & Card Systems became only the second UK contractor to achieve accreditation to NADCAP 7120 after working closely with Honeywell Aerospace. NADCAP 7120 is a very demanding PCB manufacturing standard especially relevant to aerospace and defence applications.

Communication & Integrated Systems received a bronze Chairman's award from BAE Systems as part of the Loitering Munitions demonstration while PMES received a letter of commendation from BAE Systems in connection with both the supply of product and continuing support with the launch of the first Astute submarine in November 2009.

Individual 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 2009. For example, DNE Technologies was recognised by Parker Hannifin for 100% delivery and 100% quality performance, by Lockheed Martin for 100% delivery performance and Northrop for 100% delivery, quality performance as well as customer satisfaction. USSI received a certificate of appreciation from Avon Protection for achieving 100% quality.

In Canada the Honourable Gary Goodyear, Minister of State (Science and Technology), recognized TCS as a Canadian Innovation Leader for developing advanced radio communication systems for the defense and aerospace industry, linking scientific research to commercialisation, jobs and economic growth. The National Research Council of Canada (NRC) created the Canadian Innovation Leader Certificate Program to recognize Canadian firms that have successfully developed and applied innovative technologies.

Many businesses conduct regular, formal customer surveys. Electrics conducted over 80 face-to-face interviews with customers in 2009 as part of their regular customer survey process, while AudioSoft use an outsourced feedback programme with key customers.

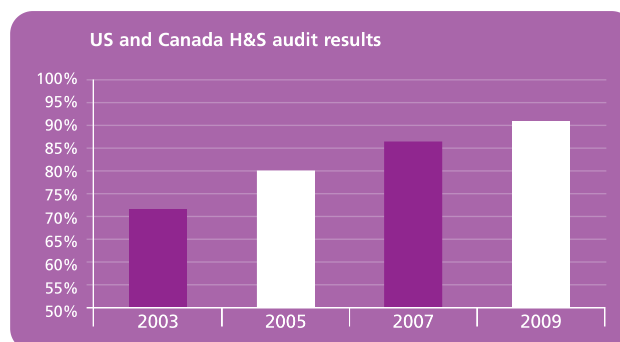
Individual contributions were also recognised. For example, Derick Fulmer at ProLogic received a recognition from the 353rd CTS Commander, PACAF, for his superior support to the Red Flag Alaska program, ensuring that the unit achieved 'combat-ready status'. Also at ProLogic, Darin Kwasniewski received the director's award from the head of the National Geospatial-Intelligence Organization for his modelling work at the Joint Forces Command (JFCOM).

Health and Safety

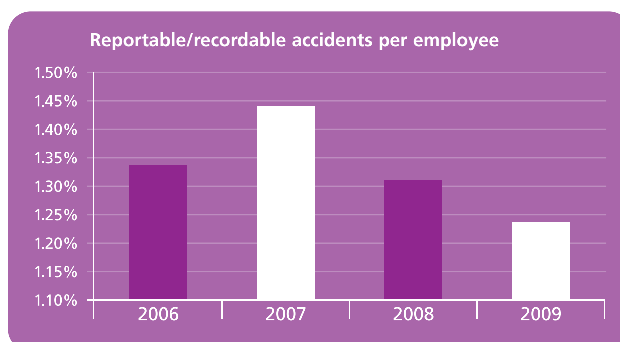
A healthy, committed workforce working in a safe environment is necessary to achieve superior business results. Ultra therefore places great emphasis on maintaining high standards of health and safety. All Ultra businesses are required to have a written local policy, to have the necessary resources to implement the policy, to provide adequate information, instruction and training for employees and to implement monitoring of health and safety standards.

The Chief Executive has been appointed as 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 by independent, external, qualified assessors covering health and safety matters are conducted, most recently in 2009. Audits and the resulting follow-up process have proved effective in reaching and maintaining high standards across all sites. Performance has continued to improve consistently across the Group as illustrated below for North America. The UK data is not included as a new audit framework, based on the OHSAS 18001 standard was introduced for the first time, creating a new benchmark.



Accidents and incidents data is collected annually and incidents involving lost time or requiring external reporting are reported monthly.



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.

strategies for growth…
…driving resilience

Management of risks and uncertainties and corporate responsibility (continued)

91%

Ultra achieved 91% compliance first time against a new UK environmental management benchmark

All but the most recently acquired businesses have health & safety committees consisting of employees, managers and trained health & safety representatives.

Health and safety of employees, visitors and the local community alike is taken very seriously by the Group and the individual businesses. PMES received a RoSPA Gold Award for the fourth year in succession recognising its excellent record of safety in the workplace.

Wellness

Ultra's US businesses offer a number of programmes to help employees improve their health. The range of programmes includes:

Promoting general wellness

- Health risk assessments
- Newsletters
- Immunisations
- Disease management
- 24 hour nurse line

Promoting group behavioural changes

- Awareness activities
- Incentives
- Health screenings

Additional promotions

- Classes/seminars
- Face to face or phone coaching
- On-site fitness centre

Suppliers

Supplier and other partner relationships

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 and its suppliers and its partners.

Manufacturing & Card Systems is working with its suppliers as part of the 21st Century Supply Chains (SC21) initiative.

Supplier payment policy

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.

Local communities

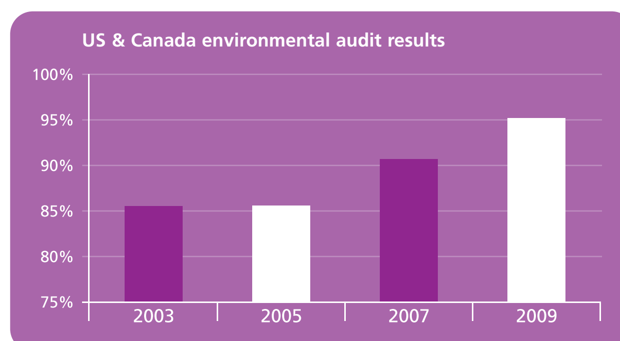
Ultra recognises the importance of being a responsible partner in the communities in which it operates and in which its employees live. The Group has a positive attitude to environmental issues and is pleased to support selected charities and to maintain links with its local communities.

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 has been appointed as 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 last audit took place in 2009. 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. Performance has continued to improve consistently across the Group as illustrated below for North America. The UK data is not included as a new audit framework, based on the ISO 14001 standard was introduced for the first time, creating a new benchmark; despite this the UK audit performance increased from 84% to 91%.



11%

percentage of Ultra's 2009 revenue from the Middle East & Asia Pacific regions

(2008: 7%)

£762m

order book value at the end of 2009

Where appropriate, some businesses have successfully achieved ISO14001 accreditation.

Specific environmental programmes took place at a number of businesses ranging from a waste assessment to the introduction of full scale recycling. For example, Electrics has achieved an increase in recycling of over 10%, a reduction in utility consumption of 10% and a reduction in paper consumption of 26%. Airport Systems introduced a new recycling system during 2009 and completed a Carbon Trust audit to identify cost-effective environmental improvements.

Energy consumption is measured annually and, where possible, the data compared with previous years. There was no contamination of land during 2009, as was the case in 2008.

The results of the audits and 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. Businesses are encouraged and incentivised to reduce the net amount of waste they produce.

The net amount of packaging waste in tonnes per million pounds of revenue has reduced since 2006

Ultra businesses have modern 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 to hold reviews and other meetings. The most significant effect has been a reduction in the amount of air travel undertaken.

Community activities

Ultra businesses are strong supporters of their local communities. Controls and Precision Air Systems both provide work placements to local schools while DNE Technologies actively supports a local youth mentoring scheme and has again been named on the State of Connecticut's Corporate Honor Roll. MSI has partnered with two local high schools and two local colleges for the promotion of science and electronics in education and the workforce. Maritime Systems sponsored the Dalhousie University student team entry in the Marine Advanced Technology Education Center Competition being held in 2010.

Programme Manager at Controls, Neil Thompson, fulfilled his dream by climbing to the summit of Everest. While being sponsored by Controls for the climb, Neil also raised about £2,000 for the CJD Support Network charity.

Charitable activities

In addition to the charitable donations made by the Group (see page 37 for details), Ultra employees are actively supported in their charitable fund-raising endeavours. A large number of local and national charities is supported.

Charitable activities within Ultra vary across businesses and include donations to fund raising events including sponsored walks, runs and competitions. Many thousands of pounds are raised in this way. In addition, special assistance is given in a number of ways; these range from donating blood and clothes collections to sponsored activities and financial donations.

A Children in Need fancy dress event at Airport Systems raised over £3,500 and at Maritime Systems in Canada, an employee rock band named UltraFied, competed in the 'March of Dimes Battle of the Bands' in support of local special needs children raising a total of C$33,000.

Board of Directors

Julian Blogh† CBE PhD CEng
Chairman, age 66, 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 and Housego.

Douglas Caster† CBE BSc MIET
Chief Executive, age 56, 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.

Christopher Bailey*† FCA MCT
Non-Executive Director, age 63, 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. Mr Bailey is also a Non-Executive Director of Rok plc.

Paul Dean MA FCMA
Finance Director, age 49, joined Ultra in January 2009 having been Finance Director of Foseco from 2001 until its acquisition by Cookson plc in April 2008. He was a key part of the team that led the 2001 management buy-out from Burmah Castrol of five specialty chemicals businesses to form Foseco (Jersey) Ltd which was floated as Foseco plc in May 2005. From 1989 to 2001, Paul held a number of senior finance roles in Burmah Castrol plc, including Finance Director of Castrol UK Limited, Chief Financial Officer of the Fosroc Division, Group Financial Controller and then Corporate Treasurer for Burmah Castrol plc. He was appointed to the Board in April 2009.

*Audit and Remuneration Committee member
†Nominations Committee member

Ian Griffiths*† BSc
Non-Executive Director, age 59, 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 became a Non-Executive Director of Renold plc in January 2010.

Sir Robert Walmsley*† KCB, FREng
Non-Executive Director, age 68, 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. He is Chairman of the Board of the Major Projects Association, a Non-Executive Director of Cohort plc and of the General Dynamics Corporation. He is also a senior advisor at Morgan Stanley International plc. He was appointed to the Board in January 2009.

Andy Hamment BA FRAeS
Group Marketing Director, age 55, 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 as Aerospace Business Manager. He joined Dowty in 1988 as Managing Director of the Controls business. He was appointed to his current position in July 2000 and joined the Board at that time.

Ultra's Board comprises a team of individuals with the breadth and depth of experience necessary to steer the continuing development of the Group.

*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

Business MDs & Presidents

John McAlonan
President
Advanced Tactical Systems

Aidan Douglas
Managing Director
Airport Systems

Chris Brill
Managing Director
AudioSoft

Doug Burd
Managing Director
Avalon Systems
& Ultra Electronics Australia pty

Mike Clayton
Managing Director
Command & Control Systems

Mike Baptist
Managing Director
Communication
& Integrated Systems

Kim Wrighton
Managing Director
Controls

Bill Sapp
President
Criticom

Piers Gorman
Managing Director
Dascam

Bill Gill
President
DNE Technologies

Mark Doyle
Managing Director
Electrics

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.

Simon Appleby
President
Nuclear Sensors & Process
Instrumentation

Rick Kielmeyer
President
Ocean Systems

David Sammons
Managing Director
PMES

Andy Yates
Managing Director
Precision Air Systems

Dan Gordon
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

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

All as at January 2010

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Shareholders

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 2009. 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 27 to 31. The Corporate Governance statement on pages 40 to 45 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 2009 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 2009 on pages 14 to 24 and Management of risks and uncertainties and corporate responsibility on pages 25 to 31.

Results and dividends

Group results and dividends are as follows:

		2009 £'000
Balance on retained earnings, beginning of year		**83,594**
Total comprehensive income for the year		**67,626**
Dividends:	2008 final paid of 18.0p per share	**(12,226)**
	2009 interim paid of 9.6p per share	**(6,523)**
	Equity-settled employee share schemes	**1,260**
Balance on retained earnings, end of year		**133,731**

The final 2009 dividend of 21.6p per share is proposed to be paid on 4 May 2010 to shareholders on the register at 9 April 2010. The interim dividend was paid on 23 September 2009, making a total of 27.6p (2008: 22.5p) per share paid in the year.

Future developments

A review of the activities and future developments of the Group is contained in the Chief Executive's Strategic review on pages 5 to 13.

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 £111.5 million (2008: £115.8 million) was spent on engineering development of which £77.0 million (2008: £83.3 million) was funded by customers and £34.5 million (2008: £32.5 million) by the Group.

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 26 February 2010 are listed on page 52.

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 26 February 2010, 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
BlackRock Inc	Indirect	7.2	4,928,126
Schroders plc	Indirect	6.6	4,501,053
F&C Asset Management	Indirect	5.8	3,971,335
Prudential plc Group of Companies	Direct	5.2	3,538,294
Standard Life Investments Ltd	Direct and indirect	4.9	3,354,657
Ignis Investment Services	Indirect	4.1	2,831,217

Charitable and political contributions

The Group contributed £60,000 (2008: £66,000) 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 2009 were 63 days (2008: 61 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 25. 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 25. 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 40.

Post balance sheet events

On 5 February 2010 the Group renewed its £120m banking facility which is provided by a small syndicate of banks led by the Royal Bank of Scotland. This renewed facility provides revolving credit over a three and a half 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 was provided in equal proportions by the Royal Bank of Scotland, Bank of America, Barclays, Lloyds TSB and Santander. This facility is in addition to the Group's existing £80m Revolving Credit Facility and a £10m overdraft facility for funding short-term working capital requirements.

Annual General Meeting

Explanation of special business resolutions is given below:

Resolution 9

This resolution authorises the Directors to allot shares in the Company up to a maximum nominal amount of £1,139,888 representing one third of the 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 £1,139,888. This additional allotment of shares would only be applied to rights issues which are fully pre-emptive (subject to certain customary exceptions). 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.

Annual General Meeting (continued)

Resolution 10

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 26 February 2010, being the latest practicable date before publication of this Notice. 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 9, 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 11

This resolution authorises the Directors to purchase up to a total of 3,419,664 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 prices 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 26 February 2010, 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 1,435,353 ordinary shares of the Company, representing approximately 2.10% of the Company's issued ordinary share capital (excluding treasury shares). If the authority to purchase the Company's ordinary shares were exercised in full, such options would represent 2.21% of the Company's issued ordinary share capital.

Resolution 12

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.

Resolution 13

This resolution authorises the adoption of new Articles of Association. As a result of the full implementation of the Companies Act 2006 and certain changes to company law arising from the implementation of the EU Shareholder Rights Directive, the Company is proposing to amend its articles of association. The principal differences between the current Articles of Association (the "Current Articles") and the new Articles of Association (the "New Articles") are as follows:

1. THE COMPANY'S OBJECTS AND PROVISIONS TRANSFERRED FROM THE MEMORANDUM OF ASSOCIATION

   Prior to the final implementation of the Companies Act 2006 on 1 October 2009, the provisions regulating the operations of a company were set out in that company's memorandum and articles of association. A company's memorandum contained, among other things, an objects clause which set out the scope of the activities the company was authorised to undertake.

   The Companies Act 2006 significantly reduces the constitutional significance of a company's memorandum, such that its sole function is now as a historical record of the names of subscribers and the number of shares each subscriber has agreed to take in the company upon its formation. As of 1 October 2009, for all existing companies the objects clause and certain other provisions of that company's memorandum of association are now deemed to be contained in the company's articles of association. Accordingly, certain of these provisions that are deemed to be contained in a company's articles of association (including the objects clause) can now be amended or removed by special resolution.

   The Company is proposing to remove its objects clause together with all other provisions of its memorandum which, by virtue of the Companies Act 2006, were treated as forming part of the Company's articles of association with effect from 1 October 2009. Resolution 13 confirms the removal of these provisions for the Company. As the effect of this resolution will be to remove the statement currently in the Company's memorandum of association regarding limited liability, the New Articles also contain an express statement regarding the limited liability of shareholders.

Annual General Meeting (continued)

Resolution 13 (continued)

2. AUTHORISED SHARE CAPITAL AND UNISSUED SHARES

The Companies Act 2006 abolishes the requirement for a company to have an authorised share capital. Resolution 13 proposes the removal of this limit and the New Articles reflect this. Directors will still be limited as to the number of shares they can at any time allot because allotment authority continues to be required under the Companies Act 2006, save in respect of employee share schemes, as is the case under the Current Articles.

3. SHAREHOLDER RIGHTS DIRECTIVE

The EU Shareholder Rights Directive, which was implemented in the UK in August 2009, made certain amendments to existing company law, which are reflected in the New Articles. The principal changes are:

(a) General meetings adjourned for lack of quorum must now be held at least 10 clear days after the original meeting;

(b) Shareholders have a right to ask questions at general meetings of the Company and, subject to certain restrictions, the Company is obliged to answer such questions;

(c) Shareholders now have certain additional rights to require the Company to circulate information and/or documents at annual general meetings, and the Company must publish certain information on its website; and

(d) It is no longer possible for the Company to hold general meetings on short notice, except where authorised to do so by a resolution of shareholders at the previous Annual General Meeting.

4 SUSPENSION OF REGISTRATION OF SHARE TRANSFERS

The Current Articles permit the directors to suspend the registration of transfers. Under the Companies Act 2006 share transfers must be registered as soon as practicable. The power in the Current Articles to suspend the registration of transfers is inconsistent with this requirement. Accordingly, this power has been removed in the New Articles.

5 REMOVAL OF OBSOLETE PROVISIONS OR WHICH DUPLICATE STATUTORY PROVISIONS

Certain provisions of the Current Articles (in particular, provisions relating to directors' conflicts of interest) were expressed to apply only before 1 October 2008. These provisions are therefore obsolete and have been removed in the New Articles.

Further, provisions in the Current Articles which replicate provisions contained in the Companies Act 2006 are in the main to be removed in the New Articles. This is in line with the approach advocated by the Government that statutory provisions should not be duplicated in a company's constitution.

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*
26 February 2010
Registered Office: 417 Bridport Road, Greenford, Middlesex UB6 8UA Registered Number: 02830397

Combined code compliance

Throughout the year ended 31 December 2009, the Group has applied the Code provisions set out in section 1 of the 2008 FRC Combined Code on Corporate Governance, published in June 2008 (the "Code"). The Group has complied fully with these provisions during 2009.

Main Board

The Board deals with the important aspects of the Group's affairs including setting and monitoring strategy, reviewing performance, ensuring that the Group has adequate financial resources and reporting to shareholders.

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.

At the start of 2009, the Board structure consisted of the Chairman, three independent non-executive Directors and three executive Directors. The number of independent non-executive Directors increased to four when Sir Robert Walmsley was appointed in January 2009, and reverted to three at the Annual General Meeting ("AGM") held in April 2009, when Andrew Walker retired. The Company's Chairman, Julian Blogh, has informed the Board of his intention to retire at the 2011 AGM. Douglas Caster plans to relinquish his role as Chief Executive at the same date.

Following discussions with major shareholders, the Board decided to propose that Douglas Caster should be appointed as Deputy Chairman with effect from the April 2010 AGM, and should succeed Julian Blogh as Chairman with effect from the April 2011 AGM. In accordance with the requirements of the Code to explain the proposed move of the Chief Executive to the position of Chairman, the Board believes that Douglas Caster's experience, track record, and detailed understanding of the highly complex nature of the Group's operations make him uniquely qualified to take over the Chairman's role. Douglas Caster was a founding shareholder of the Group and has made an outstanding contribution to the growth and success of Ultra, creating substantial and consistent shareholder value. The Directors believe that he is much better equipped to present an effective and independent challenge to the executive team than a new Chairman appointed from outside the Group.

The Board also proposes that Rakesh Sharma, who was promoted to Chief Operating Officer with effect from 1 January 2010, should be put forward for election to the Board at the April 2010 AGM. The Board intends that he should succeed Douglas Caster as Chief Executive with effect from the April 2011 AGM. Rakesh Sharma has comprehensive experience of the operations of Ultra, having occupied a number of senior positions within different parts of the Group. He has been with Ultra since its formation in 1993, having previously been employed by Dowty Group. He has an outstanding track record of achievement within different Ultra businesses and has been responsible for a number of successful acquisitions that the Group has made.

Recognising the contribution that Rakesh Sharma, as Chief Operating Officer, makes to the management of the Group, Douglas Caster will reduce his time commitment to the Group to an average of three days per week from the 2010 AGM.

Accordingly, for the period from the 2010 AGM until the 2011 AGM it is proposed that the Board will comprise the Chairman, three independent non-executive Directors, and four executive Directors. This structure is necessary to accommodate the succession plan described above. After the 2011 AGM, the Board structure will return to a balance between independent non-executive Directors and executive Directors.

The Chairman, Dr Julian Blogh, is also non-executive Chairman of Gooch and Housego plc.

Andrew Walker was senior independent non-executive Director until he retired at the April 2009 AGM. He was succeeded in this role by Chris Bailey. The senior independent non-executive 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 continued in his role as an independent non-executive Director. Sir Robert Walmsley joined the Board in January 2009 to replace Andrew Walker as an independent non-executive Director and was formally elected to the Board at the 2009 AGM.

David Jeffcoat, who was both Finance Director and Company Secretary, retired at the AGM in April 2009, after which the roles were separated. Paul Dean succeeded David Jeffcoat as Finance Director, and was elected to the Board at the April 2009 AGM. David Garbett-Edwards was appointed as Company Secretary at the same time.

The main Board met 11 times during the year. Details of the numbers of the individual Directors' attendance at these meetings and those of the Board sub-committees are set out in the table on page 41.

Meeting attendance 2009

	Main Board	Audit Committee	Nominations Committee	Remuneration Committee
Number of meetings	11	4	1	4
C. Bailey	11	4	1	4
J. Blogh	11	-	1	-
D. Caster	11	-	1	-
P. Dean[1]	8	-	-	-
I. Griffiths	11	4	1	4
A. Hamment	11	-	-	-
D. Jeffcoat[2, 3]	3	2	-	1
A. Walker[3]	3	2	-	2
Sir R. Walmsley	11	4	1	4

[1] Paul Dean was appointed as Finance Director on 24 April 2009.

[2] David Jeffcoat was Secretary to the Board and all three sub-committees. He attended committee meetings in that capacity.

[3] Andrew Walker and David Jeffcoat retired on 24 April 2009.

In addition to the above meetings the non-executive Directors meet annually to review the performance of the Executive Directors.

Details of those matters reserved for the Board can be found in the investors section of the Group website at www.ultra-electronics.com. Key decisions that are delegated to the Chief Executive include the approval of budgeted capital investments below £500,000 in value, the terms of major contract bids below £100m, the appointment and dismissal of business unit Managing Directors and Presidents, together with the determination of their remuneration levels, and the granting of charitable donations. Decisions on charitable donations are made with the advice of an internal charities committee.

Conflicts of interest

Each Director is aware of his responsibility to bring any situational or transactional conflicts of interest to the attention of the Board for its 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. Any identified conflicts are considered and, where appropriate, duly authorised by the Board. No new conflicts were identified in the year.

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 Rule 7 of the Disclosure and Transparency Rules and the Code.

During 2009, the Audit Committee was chaired by Andrew Walker until he retired at the April 2009 AGM. Andrew was succeeded as Chairman of the Audit Committee by Chris Bailey, who had been a member of the Audit Committee since he joined the Board in January 2005. Chris Bailey has recent and relevant experience in a senior financial executive role, having been Group Finance Director of Aggregate Industries plc until 2004, and is currently Chairman of the Audit Committee at Rok plc. Sir Robert Walmsley joined the Audit Committee in January 2009. Ian Griffiths was a member of the Audit Committee throughout 2009.

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 a resolution to be put to the shareholders for their approval in general meeting, on the appointment 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.

Audit Committee (continued)

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 policy and has arranged a further strengthening of the process 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. Special arrangements are in place to deal with issues covered by US security legislation.

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 other attestation 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 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.

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.

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 Audit Committee, following its annual review, is satisified that Deloitte 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. The key responsibility of the Committee is to review all main Board and sub-committee appointments. During 2009 the Committee, which is chaired by Julian Blogh, met once to consider the succession plan for the positions of Chairman and Chief Executive. The Committee recommended that Douglas Caster should be appointed as Deputy Chairman with effect from the April 2010 AGM and that he should be proposed to succeed Julian Blogh as Chairman with effect from the April 2011 AGM. The Committee also recommended that Rakesh Sharma should be promoted to Chief Operating Officer with effect from 1 January 2010, and should be proposed for election to the Board at the 2010 AGM with the intention that he should succeed Douglas Caster as Chief Executive at the 2011 AGM.

Remuneration Committee

During 2009 Chris Bailey succeeded Andrew Walker as Chairman of the Remuneration Committee. Sir Robert Walmsley joined the Committee in January 2009. Ian Griffiths served on the Committee throughout the year. It met four times during the year. The Committee 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 in the Directors' Report on page 46, 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.

Whilst not being members of the Remuneration Committee, the executive Directors meet once a year, without the non-executive Directors being present, to agree the fees for the non-executive Directors.

Evaluation of Board and Committee effectiveness

Following the recommendations of the Code, the Board operates an evaluation process in which the 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 2008, the main Board and its subcommittees 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. 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. The results of this survey were processed and fed back separately to each individual and in total to the Chairman. Its results were communicated to the Directors in a written report and considered at a subsequent meeting. This review cycle is repeated every two years.

Directors' re-election

One third of the Board are required to stand for re-election each year. Ian Griffiths and Julian Blogh, non-executive Directors, are retiring by rotation in accordance with the Articles of Association and are standing for re-election. Rakesh Sharma will also be standing for election for the first time as outlined on page 40.

Succession planning

The Group operates a well defined succession planning process which encompasses the executive Directors, other senior executives, business management teams, and other key individuals with special skills, knowledge or experience. This annual process starts at the business unit level and is addressed first by Managing Directors and Presidents, then by Divisional Managing Directors, and finally by the Chief Executive. The Group Human Resources Director is involved in every stage of the process. The Board discusses the succession plans for the executive Directors and Divisional Managing Directors.

Directors' induction and training

New Directors are provided with a detailed introduction to the Group to facilitate their understanding of the Group structure and the complex nature of the diverse range of products and services provided by the businesses. Directors are encouraged to visit the Group's businesses regularly, and Board meetings are held at different Ultra sites in order to facilitate this. Non-executive Directors are encouraged to meet senior managers to gain a different perspective on the key issues being addressed at business level. Directors are provided with training on points of specific relevance to their roles, including an annual corporate governance update, and specialist help on complex areas such as pensions legislation.

Internal controls

The Code requires that Directors should review 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. 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

Management is responsible for identifying the risks facing Ultra'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 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.

The Board maintains an Internal Audit process, carried out by Ernst & Young LLP, to review financial and information systems control procedures throughout the Group. All significant business units are audited at least once every two years. 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 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 and finance heads 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.

Risk management (continued)

In summary, the Board accepts overall responsibility for reviewing the operation and effectiveness of the Group's internal control framework on a regular basis. Internal control procedures are reviewed and updated where necessary. 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. 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, sales, 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 third 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.

Statement of going concern

Ultra's banking facilities amount to £200m in total, plus a £10m overdraft. They were established in two tranches.

The first tranche was set up in 2005 and is provided by a small syndicate of banks. The facility comprises £120m of revolving credit, denominated in Sterling, US dollars and Canadian dollars. This facility was due to expire in November 2010, but was refinanced in February 2010. The amount of the facility has been maintained at £120m and its duration extended to September 2013. The financial covenants remain unchanged. One new bank has been added to the syndicate.

The second tranche provides a further £80m of revolving credit. It was put in place in September 2008 with the support of the existing banking syndicate in order to fund the eight acquisitions that the Group made during the year. This facility is due to expire in September 2011.

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 and the expectation is that this will continue. Details of how Ultra manages its liquidity risk can be found in Note 22 – Financial Instruments and Financial Risk Management.

Though global macro-economic conditions remain uncertain, the long-term nature of Ultra's business and its positioning in high growth 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 2010 Ultra had firm orders in place for over 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.

Statement of responsibilities

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 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 chosen to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Standards and applicable law). Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent company financial statements, the Directors are required to:

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

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

- properly select and apply accounting policies;
- present information including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; 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 Director's 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*
26 February 2010

Introduction

This report has been prepared in accordance with the Companies Act 2006 and Schedule 8 of the Large and Medium Sized Companies and Groups (Accounts and 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 relevant legislation, a resolution to approve the report will be proposed at the AGM of the Company to be held on 23 April 2010.

The relevant legislation requires the auditors to report to the Company's members on certain parts of the Directors' remuneration 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

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

Chris Bailey succeeded Andrew Walker as the Chairman of the Remuneration Committee at the April 2009 AGM. Sir Robert Walmsley joined the Remuneration Committee in January 2009. The other member of the Committee is Ian Griffiths. Throughout the year, all the members were independent non-executive Directors. David Jeffcoat was secretary to the Committee until he retired at the 2009 AGM and was succeeded in the role by David Garbett-Edwards. 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.

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 full terms of reference of the Committee are available on the Company's website.

Wholly independent advice on executive remuneration and share schemes is received from Hewitt New Bridge Street ("HNBS", part of Hewitt Associates). HNBS is appointed by the Committee and provided the following services to the Company during the year: ongoing advice in connection with the operation of the Company's LTIP and share schemes; and 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.

Remuneration policy

The Company's remuneration policy is to reward senior management competitively, enabling the Company to recruit, motivate and retain executives of high calibre, whilst avoiding making excessive remuneration payments. Further details of the remuneration policy applied by the Committee are set out below.

The remuneration practices adopted by a group of equivalent companies that, in the opinion of the Committee, face similar remuneration issues to the Company are considered, together with guidance from HNBS, when the Committee takes account of market practice. The size and nature of each key element of the remuneration package of the executive Directors is determined following this assessment, with due account also taken of best practice and the particular circumstances and strategic goals of the Company.

It is the aim of the remuneration policy to encourage and reward high performance. The Committee believes that shareholders' interests are best served by setting a moderate level of fixed pay, while providing competitive potential levels of total remuneration through short and longer-term incentive arrangements that require the satisfaction of challenging performance conditions. Therefore, a significant proportion of the executive Directors' remuneration is performance-linked, although not in a manner so as to encourage inappropriate operational risk-taking that may be to the detriment of shareholders. The Committee also ensures that the remuneration policy for senior executives does not raise environmental, social or governance risks by inadvertently motivating irresponsible behaviour.

When setting base salaries and the other elements of remuneration for the executive Directors, the Committee ensures that it is kept fully abreast of remuneration practices across the Group as a whole (through regular interaction with the Group's HR function) in order to ensure that a coherent pay structure applies.

Salaries

The executive Directors' salaries are reviewed annually by the Committee and take effect from 1 January in each year. In addition to the analysis presented by HNBS, 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 include:

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

The executive Directors salaries have been reviewed by the Committee which has determined that the following levels should be implemented with effect from 1 January 2010: Douglas Caster – £450,000, Paul Dean – £278,000, Andy Hamment – £235,000. Douglas Caster's salary will reduce by 40% with effect from the April 2010 AGM, after which he will reduce his time commitment to the Group to an average of three days per week. These salary levels have been set after taking into account the comparative market analysis carried out by HNBS, the performance of each executive Director in 2009 and reflect the crucial role played by these individuals in the Company's continuing success.

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 fee surveys, taking account of individual responsibilities. Andrew Walker was succeeded by Chris Bailey as Chairman of the Audit and Remuneration Committees during 2009 and both received additional fees as a result.

Non-executive Directors' fees have been reviewed for 2010 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 Chairman should receive a fee of £166,000, whilst the non-executive Directors should each receive £41,000. Mr. Bailey will receive a further £9,400 for his responsibilities as Chairman of the Audit and Remuneration Committees.

Annual bonus scheme

Bonus payments in 2009 were based upon the achievement of operating profit and cash flow targets, adjusted where considered appropriate to take account of circumstances where the average actual exchange rates over 2009 varied significantly from the budget on which the initial targets were based. The maximum bonus for executive Directors was 100% of base salary. In 2009 the bonus targets (adjusted as set out above) were a maximum of 25% of salary subject to the achievement of a £89.0m headline profit before tax*, and a maximum of 75% of salary subject to achieving an operating cash flow of £135.0m after capitalised development costs, capital expenditure and purchase of long-term incentive plan shares.

The actual results for the year led to an aggregate bonus pay-out of 67%, of which 25% of salary was due to the profit before tax target being met in full and the balance was linked to achievement against the cash flow target. The pay-out was below the maximum because the cash performance did not reach the maximum level.

It is intended that the annual bonus scheme for 2010 will be structured in broadly the same manner as set out above i.e. a maximum bonus opportunity of 100% of salary, with bonuses payable by reference to performance against challenging financial targets.

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

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

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

2007 LTIP

The sole form of equity-based long-term incentive for executive Directors is the 2007 LTIP. They do not receive awards under the 2007 CSOP or 2007 ESOS schemes, which provide incentives for less senior employees. Under the 2007 LTIP, awards of shares are made annually to executive Directors and selected other senior executives. These awards normally vest three years after grant, subject to continued employment and the extent to which a performance condition has been met. It is the Committee's normal policy to grant annual LTIP awards to executive Directors in the form of shares worth 100% of salary. However, in certain exceptional circumstances the Committee may make awards of up to 150% of salary. It is the opinion of the Committee that the LTIP scheme has helped to motivate senior executives to drive sustained above-market long-term growth in Ultra's profits and to generate excellent returns for shareholders as a result.

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 Company to replace its relative EPS target with a relative total shareholder return ("TSR") condition. Relative TSR now applies to all new awards made under the 2007 LTIP.

The Committee believes that the use of relative TSR has a number of advantages. These include:

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

The Remuneration Committee has decided to make a minor amendment to the 2007 LTIP awards such that the vesting date of such awards will be accelerated from August 2010 to March 2010 (at which date performance against the targets will be known). The 2007 LTIP participants will be required to settle personally any income tax and national insurance payable as a result of this vesting. The shares awarded will be held in trust on behalf of the participants until the original vesting date in August 2010. The shares will be held on the condition that if a participant would have forfeited his original award during the period March 2010 to August 2010 then he would forfeit his vested shares.

Detailed structure of TSR performance condition

Under the TSR performance condition, TSR is based upon a comparison of the Company's average share price (plus reinvested dividends) during the quarter immediately prior to the start of the measurement period and its average share price (plus reinvested dividends) during the last quarter of the three year measurement period. The resulting TSR will be compared with that achieved by a representative comparator group of companies.

2007 LTIP awards vest 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 2007, 2008 and 2009 were:

Alba	**Domino Printing Sciences**	**QinetiQ**[3]	**Telent**[1]
Amstrad[1]	**Filtronic**	**Renishaw**	**TT Electronics**
BAE Systems	**Halma**	**Rolls-Royce**	**UMECO**
Charter	**Hampson Industries**	**Rotork**	**Vitec Group**
Chemring Group	**Laird Group**	**Senior**	**Volex Group**
Chloride Group	**Meggitt**	**Smiths Group**	**VT Group**
Cobham	**Oxford Instruments**	**Spectris**	**Whatman**[2]
Dialight	**Psion**	**Spirax-Sarco Engineering**	**Zetex**[2]

[1] In 2007 group but not 2008 or 2009 groups since delisted before 2008 and 2009 awards granted.
[2] In 2007 and 2008 groups but not 2009 group since delisted before 2009 awards granted.
[3] Added to 2009 group only.

Detailed structure of TSR performance condition (continued)

For the 2010 award, the comparator group of companies has been reviewed and will comprise the following companies:

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**	

In addition to the main TSR condition, an "underpin" will apply to these awards requiring average annual growth in headline EPS growth of 7% over the relevant performance period. In the event that this underpin is not met over a specific three-year LTIP measurement period, the level of vesting will automatically fall to zero. Headline EPS is defined on page 1.

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 Company's Inland Revenue approved All-Employee Share Ownership Plan ("AESOP") and the Savings Related Share Option Scheme on the same terms as other employees. Under the AESOP, employees in the UK are offered the opportunity to buy shares up to the value of £1,500 per annum from pre-tax salary. Shares are then held in trust on behalf of employees until the maturity date or until they leave the Company. Under the Savings Related Share Option Scheme, 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

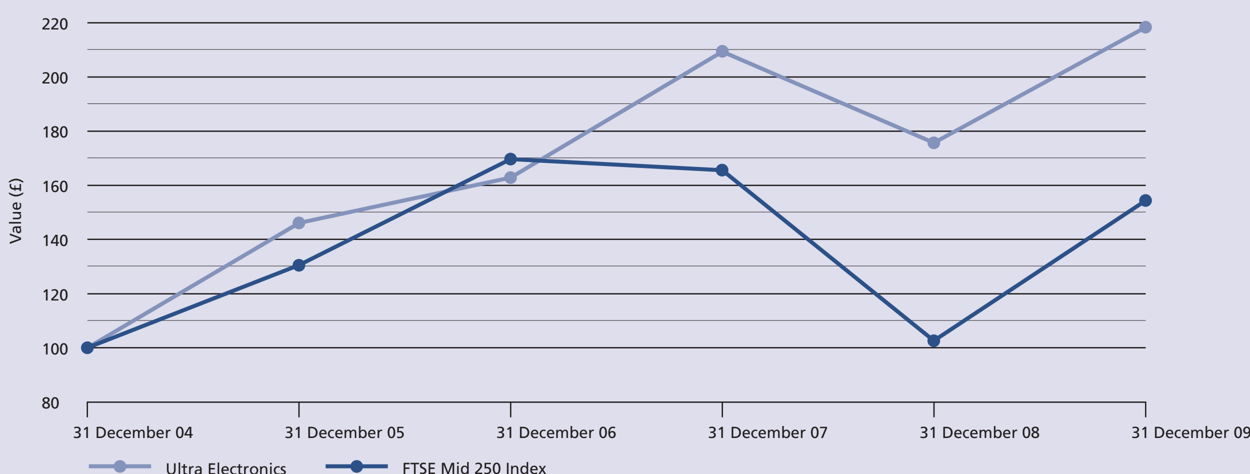
To increase the alignment of interests between senior executives and shareholders, the Committee has introduced a share ownership guideline under which all executive Directors will be encouraged to retain at least 50% of the post-tax shares they acquire on the vesting of LTIP awards until a holding equivalent to 100% of base salary is achieved. Pre-existing shareholdings will be taken into account.

Total Shareholder Return performance graph

The graph below shows the Total Shareholder Return ("TSR") performance of the Company in comparison with the FTSE 250 Index over the past five years. The graph shows the value at the end of 2009 of £100 invested at the start of the evaluation period, in the Company and in the Index. The Committee considers the FTSE 250 a relevant index for the TSR comparison for these purposes as the Company is a member of the index and because together the index members represent a broad range of UK quoted companies.

Total shareholder return – compared to FTSE 250 Index

Source: Datastream



Corporate governance

Directors' service contracts

The executive Directors' service contracts have a notice period of one year, which the Committee considers appropriately reflects both current market practice and the balance between the interests of the Company and each executive Director. In the event of early termination, it is the Committee's policy that the amount of compensation paid to executive Directors will be considered in the light of all the relevant circumstances, subject to the overriding conditions that:

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

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

Name	Date of contract	Notice period
C. Bailey	31 January 2010	Nil
J. Blogh	24 April 2009	Nil
D. Caster	25 September 1996	12 months
P. Dean	1 January 2009	12 months
I. Griffiths	24 April 2009	Nil
A. Hamment	1 July 2000	12 months
Sir R. Walmsley	31 January 2010	Nil

No executive Directors have provisions in their contracts for compensation on early termination other than for the notice period. 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 Company 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 Company's consent, executive Directors may retire from age 50. After age 58, Company consent to early retirement is not required. Pensions are reduced in the event of early retirement. Death-in-service cover is a lump sum of four times pensionable earnings. In addition, 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%, above which increases are at the Trustees' discretion.

AUDITED INFORMATION

Directors' pension benefits earned

The table below sets out the pension benefits earned by executive Directors for the year ended 31 December 2009:

	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	56	195	**37**	**280**	**222**	1,959	**3,131**	**1,135**
A. Hamment	55	84	**26**	**290**	**110**	729	**1,426**	**678**
D. Jeffcoat[1]	59	33	**1**	**33**	**34**	449	**834**	**382**

*Less Directors' contributions.

[1] Information for D. Jeffcoat is as at the date of his resignation on 24 April 2009.

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

Directors' remuneration

Directors' emoluments are detailed below:

	Basic salary	Other cash emoluments	Fees	Annual performance bonus	Benefits	2009 Total	2008 Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
C. Bailey	-	-	**45**	-	-	**45**	37
J. Blogh	-	-	**158**	-	-	**158**	150
D. Caster	**430**	-	-	**289**	**35**	**754**	700
P. Dean[1]	**183**	-	-	**123**	**14**	**320**	-
I. Griffiths	-	-	**39**	-	-	**39**	37
A. Hamment	**225**	**12**	-	**151**	**2**	**390**	321
F. Hope[2]	-	-	-	-	-	-	554
D. Jeffcoat[3]	**88**	**4**	-	-	**1**	**93**	439
A. Walker[3]	-	-	**15**	-	-	**15**	45
Sir R. Walmsley[4]	-	-	**37**	-	-	**37**	-
	926	**16**	**294**	**563**	**52**	**1,851**	2,283

[1] From 24 April 2009 to 31 December 2009.
[2] From 1 January 2008 to 31 July 2008.
[3] From 1 January 2009 to 24 April 2009.
[4] From 22 January 2009 to 31 December 2009.

Pension contributions to Directors of £177,915 (2008: £187,746) were paid by the Company, including £79,550 (2008: £73,075) 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 2002-2007 (the "old LTIP")

Award periods	D. Caster	A. Hamment	D. Jeffcoat	Market price of shares granted	Crystallising dates of outstanding awards
2006	24,727	12,858	17,309	£10.11	April 2009
Interests at 1 January 2009	24,727	12,858	17,309		
2006 award crystallised during the year	(24,727)	(12,858)	(17,309)		
Interests at 31 December 2009	-	-	-		

The 2006 award crystallised during the year as detailed above. The actual date of the award was February 2006. The market price of the shares when granted was £10.11. The market price of the shares on vesting was £11.86. The aggregate gain made by the Directors under the LTIP during the year was £651,043 (2008: £1,122,368). Ultra's share price on 31 December 2009 was £13.75. The range during 2009 was £10.40 to £13.89.

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

Interests under the Ultra Electronics Long-Term Incentive Plan 2007 (the "new LTIP")

	D. Caster	A. Hamment	P. Dean	D. Jeffcoat	Market price of shares granted	Crystallising dates of outstanding awards
2007 award	29,259	12,874	-	18,005	£11.11	April 2010
2008 award	30,968	13,213	-	17,837	£12.11	March 2011
Interest at 1 January 2009	60,227	26,087	-	35,842		
2007 award lapsed during year	-	-	-	(18,005)		
2008 award lapsed during year	-	-	-	(17,837)		
2009 award	33,522	15,276	21,217	-	£11.78	March 2012
Interests at 31 December 2009	**93,749**	**41,363**	**21,217**	**-**		

D. Jeffcoat's 2007 and 2008 awards lapsed on the date he left the Company.

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 nil shares relating to the 2009 award (2008: 52,496 shares for a cost of £674,015). This includes £nil worth of Ultra shares for the Directors (2008: £359,123).

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 2009	Shares acquired during year	Interests as at 31 December 2009	Partnership shares acquired from 1 January 2010 to 26 February 2010	Interests as at 26 February 2010
D. Caster	1,862	**171**	**2,033**	**18**	**2,051**
P. Dean	-	**115**	**115**	**19**	**134**
A. Hamment	1,862	**171**	**2,033**	**18**	**2,051**
D. Jeffcoat	1,765	**44**	**1,809**[1]	**n/a**	**n/a**

[1] D. Jeffcoat's holding is as at the date he left the Company.

During the year, the Share Ownership Plan Trust, established and operated in connection with the AESOP, purchased 43,167 (2008: 44,783) Ultra Electronics Holdings plc shares (nominal value £2,158) for £513,748 (2008: £550,441).

Directors' interests

Details of Directors' shareholdings are given below:

	At start of year		At end of year		At 26 February 2010
	Direct ownership	Indirect ownership	**Direct ownership**	**Indirect ownership**	**Direct ownership**
C. Bailey	-	2,500	**-**	**2,500**	**-**
J. Blogh	305,948	884,921	**-**	**1,190,869**	**-**
D. Caster	920,791	150,000	**2,033**	**633,522**	**2,051**
P. Dean	n/a	n/a	**115**	**-**	**134**
I. Griffiths	-	-	**-**	**-**	**-**
A. Hamment	72,809	43,535	**72,980**	**43,535**	**72,998**
Sir R. Walmsley	n/a	n/a	**1,000**	**-**	**1,000**

There were no changes in indirect ownership between 1 January 2010 and 26 February 2010.

This report was approved by the Board of Directors on 26 February 2010 and signed on its behalf by:

Chris Bailey, *Chairman of the Remuneration Committee*

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 2009 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Cashflow Statement, the Consolidated Statement of Changes in Equity and the related notes 1 to 33. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit 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 2009 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 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; and
- 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.

Other matter

We have reported separately on the parent company financial statements of Ultra Electronics Holdings plc for the year ended 31 December 2009 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 Auditors
Reading, United Kingdom
26 February 2010

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 2009

	Note	2009 £'000	2008 £'000
Continuing operations			
Revenue	3	**651,036**	515,271
Cost of sales		**(462,524)**	(373,100)
Gross profit		**188,512**	142,171
Other operating income	4	**5,112**	3,444
Distribution costs		**(1,038)**	(1,050)
Administrative expenses		**(109,527)**	(77,345)
Other operating expenses	5	**(7,023)**	(3,146)
Profit from operations	6	**76,036**	64,074
Headline operating profit	2	**97,330**	77,091
Amortisation of intangibles arising on acquisition		**(26,303)**	(13,017)
Profit on disposal of property, plant and equipment net of property-related provisions		**5,009**	-
Profit from operations		**76,036**	64,074
Investment revenue	8	**56,212**	1,229
Finance costs	9	**(24,350)**	(68,191)
Profit/(loss) before tax		**107,898**	(2,888)
Headline profit before tax	2	**89,486**	72,198
Amortisation of intangibles arising on acquisition		**(26,303)**	(13,017)
Profit/(loss) on fair value movements on derivatives		**55,630**	(62,069)
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/(loss) before tax		**107,898**	(2,888)
Tax	10	**(29,418)**	4,645
Profit for the year from continuing operations attributable to equity holders of the parent		**78,480**	1,757
Earnings per ordinary share (pence)			
From continuing operations			
Basic	12	**115.1**	2.6
Diluted	12	**114.8**	2.6

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

Consolidated statement of comprehensive income

For the year ended 31 December 2009

	Note	2009 £'000	2008 £'000
Profit for the year		**78,480**	1,757
Exchange differences on translation of foreign operations		**(18,810)**	46,711
Gain/(loss) on net investment hedges		**7,128**	(17,814)
Actuarial losses on defined benefit pension schemes		**(16,706)**	(17,625)
Loss on cash flow hedges		**(116)**	(4,612)
Transfer from profit and loss on cash flow hedges		**1,759**	195
Tax relating to components of other comprehensive income	10	**2,728**	6,749
Other comprehensive income for the year		**(24,017)**	13,604
Total comprehensive income for the year	26	**54,463**	15,361

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

Consolidated balance sheet

31 December 2009

	Note	2009 £'000	2008 £'000
Non-current assets			
Intangible assets	*13*	**301,848**	325,683
Property, plant and equipment	*14*	**36,644**	34,916
Interest in associate	*15*	**1,107**	2,120
Deferred tax assets	*23*	**18,159**	28,650
Derivative financial instruments	*22*	**4,908**	1,257
		362,666	392,626
Current assets			
Inventories	*16*	**50,612**	52,826
Trade and other receivables	*18*	**122,442**	117,406
Cash and cash equivalents		**41,809**	43,385
Derivative financial instruments	*22*	**994**	6,998
Assets held for sale		**-**	828
		215,857	221,443
Total assets		**578,523**	614,069
Current liabilities			
Trade and other payables	*19*	**(169,553)**	(171,159)
Tax liabilities		**(9,020)**	(5,055)
Derivative financial instruments	*22*	**(9,164)**	(38,934)
Obligations under finance leases	*20*	**(5)**	(105)
Bank loans	*21*	**(70,489)**	-
Short-term provisions	*24*	**(15,591)**	(17,224)
		(273,822)	(232,477)
Non-current liabilities			
Retirement benefit obligations	*29*	**(77,497)**	(58,761)
Other payables	*19*	**(18,023)**	(21,864)
Deferred tax liabilities	*23*	**(14,721)**	(13,654)
Derivative financial instruments	*22*	**(4,071)**	(33,927)
Obligations under finance leases	*20*	**-**	(5)
Bank loans	*21*	**-**	(107,214)
Long-term provisions	*24*	**(6,923)**	(2,098)
		(121,235)	(237,523)
Total liabilities		**(395,057)**	(470,000)
Net assets		**183,466**	144,069
Equity			
Share capital	*25*	**3,420**	3,407
Share premium account	*26*	**38,313**	36,427
Own shares	*26*	**(1,450)**	(1,974)
Hedging and translation reserve	*26*	**9,452**	22,615
Retained earnings	*26*	**133,731**	83,594
Total equity attributable to equity holders of the parent		**183,466**	144,069

The finanical statements of Ultra Electronics Holdings plc, registered number 02830397, were approved by the Board of Directors and authorised for issue on 26 February 2010.

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 2009

	Note	2009 £'000	2008 £'000
Net cash flow from operating activities	*27*	**102,056**	69,102
Investing activities			
Interest received		**582**	1,229
Purchase of property, plant and equipment		**(10,042)**	(14,198)
Proceeds from disposal of property, plant and equipment		**3,062**	1,231
Expenditure on product development and other intangibles		**(2,352)**	(1,941)
Acquisition of subsidiary undertakings	*30*	**(31,601)**	(83,845)
Net cash acquired with subsidiary undertakings	*30*	**843**	5,007
Net cash used in investing activities		**(39,508)**	(92,517)
Financing activities			
Issue of share capital		**1,899**	1,379
Purchase of Long-Term Incentive Plan shares		**-**	(674)
Dividends paid		**(18,749)**	(15,225)
Loan syndication costs		**-**	(527)
(Decrease)/increase in borrowings		**(29,051)**	48,568
Repayment of obligations under finance leases		**(104)**	(81)
New finance leases		**-**	114
Loss on closing out foreign currency hedging contracts		**(15,924)**	-
Net cash (used in)/from financing activities		**(61,929)**	33,554
Net increase in cash and cash equivalents		**619**	10,139
Cash and cash equivalents at beginning of year		**43,385**	27,419
Effect of foreign exchange rate changes		**(2,195)**	5,827
Cash and cash equivalents at end of year		**41,809**	43,385

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 2009

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 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)
Deferred 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**
Balance at 1 January 2008	**3,394**	**35,061**	**(1,972)**	**(6,282)**	**111,693**	**141,894**
Profit for the year	-	-	-	-	1,757	1,757
Other comprehensive income for the year	-	-	-	28,897	(15,293)	13,604
Total comprehensive income for the year	**-**	**-**	**-**	**28,897**	**(13,536)**	**15,361**
Own shares acquired	-	-	(674)	-	-	(674)
Disposal of own shares	-	-	672	-	(672)	-
Equity settled employee share schemes	13	1,366	-	-	1,451	2,830
Dividend to shareholders	-	-	-	-	(15,225)	(15,225)
Deferred tax on share-based payment transactions	-	-	-	-	(117)	(117)
Balance at 31 December 2008	**3,407**	**36,427**	**(1,974)**	**22,615**	**83,594**	**144,069**

1 Segment information

For management purposes, the Group is organised into three operating segments – Aircraft & Vehicle Systems, Information & Power Systems and Tactical & Sonar Systems. Each segment includes businesses with similar operating and market characteristics.

	2009 External revenue £'000	2009 Inter segment £'000	2009 Total £'000	2008 External revenue £'000	2008 Inter segment £'000	2008 Total £'000
Revenue						
Aircraft & Vehicle Systems	**157,654**	**2,566**	**160,220**	130,098	3,836	133,934
Information & Power Systems	**215,881**	**7,267**	**223,148**	161,512	9,484	170,996
Tactical & Sonar Systems	**277,501**	**13,982**	**291,483**	223,661	6,891	230,552
Eliminations	**-**	**(23,815)**	**(23,815)**	-	(20,211)	(20,211)
Consolidated revenue	**651,036**	**-**	**651,036**	515,271	-	515,271

All inter-group trading is at arms' length.

2009	Aircraft & Vehicle Systems £'000	Information & Power Systems £'000	Tactical & Sonar Systems £'000	Total £'000
Headline operating profit	**20,940**	**25,325**	**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	**14,845**	**21,986**	**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**

2008	Aircraft & Vehicle Systems £'000	Information & Power Systems £'000	Tactical & Sonar Systems £'000	Total £'000
Headline operating profit	19,727	22,188	35,176	77,091
Amortisation of intangibles arising on acquisition	(2,957)	(3,012)	(7,048)	(13,017)
Profit on disposal of property, plant & equipment net of property related provisions	-	-	-	-
Profit from operations	16,770	19,176	28,128	64,074
Investment revenue				1,229
Finance costs				(68,191)
Loss before tax				(2,888)
Tax				4,645
Profit after tax				1,757

1 Segment information (continued)

Capital expenditure, additions to intangibles, depreciation and amortisation

	Capital expenditure and additions to intangibles (excluding goodwill)		Depreciation and amortisation	
	2009 £'000	2008 £'000	**2009 £'000**	2008 £'000
Aircraft & Vehicle Systems	**1,839**	1,128	**6,339**	4,540
Information & Power Systems	**5,008**	9,925	**15,133**	6,548
Tactical & Sonar Systems	**5,547**	5,086	**14,824**	11,426
Total	**12,394**	16,139	**36,296**	22,514

The 2009 depreciation and amortisation expense includes £28,574,000 of amortisation charges (2008: £15,488,000) and £7,722,000 of property, plant and equipment depreciation charges (2008: £7,026,000).

Total assets by segment

	2009 £'000	2008 £'000
Aircraft & Vehicle Systems	**104,141**	105,089
Information & Power Systems	**202,592**	200,149
Tactical & Sonar Systems	**205,920**	228,541
	512,653	533,779
Unallocated	**65,870**	80,290
Consolidated total assets	**578,523**	614,069

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

Total liabilities by segment

	2009 £'000	2008 £'000
Aircraft & Vehicle Systems	**52,421**	49,946
Information & Power Systems	**67,601**	76,148
Tactical & Sonar Systems	**90,073**	86,361
	210,095	212,455
Unallocated	**184,962**	257,545
Consolidated total liabilities	**395,057**	470,000

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.

	2009 £'000	2008 £'000
United Kingdom	**173,042**	184,845
Continental Europe	**59,453**	51,892
Canada	**13,415**	15,999
USA	**336,236**	225,530
Rest of World	**68,890**	37,005
	651,036	515,271

During the year there was 1 direct customer (2008: 2), that individually accounted for greater than 10% of the Group's total turnover. Sales to this customer in 2009 were £198m (2008: £145m).

1 Segment information (continued)

Other Information (by geographic location)

	Non current assets		Total assets		Additions to Property, Plant & Equipment and intangible assets (excluding acquisitions)	
	2009 £'000	2008 £'000	**2009 £'000**	2008 £'000	**2009 £'000**	2008 £'000
United Kingdom	**112,204**	115,793	**204,089**	205,048	**6,442**	10,560
USA	**158,529**	201,367	**220,413**	265,192	**3,519**	3,422
Canada	**44,531**	26,390	**59,447**	42,533	**2,330**	2,141
Rest of World	**24,335**	19,169	**28,704**	21,006	**103**	16
	339,599	362,719	**512,653**	533,779	**12,394**	16,139
Unallocated	**23,067**	29,907	**65,870**	80,290	**-**	-
	362,666	392,626	**578,523**	614,069	**12,394**	16,139

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:

	2009 £'000	2008 £'000
Profit from operations	**76,036**	64,074
Amortisation of intangibles arising on acquisition	**26,303**	13,017
Profit on disposal of property, plant and equipment net of property-related provisions	**(5,009)**	-
Headline operating profit	**97,330**	77,091
Profit/(loss) before tax	**107,898**	(2,888)
Amortisation of intangibles arising on acquisition	**26,303**	13,017
(Profit)/loss on fair value movements on derivatives	**(55,630)**	62,069
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	**89,486**	72,198
Cash generated by operations *(see note 27)*	**120,944**	94,579
Purchase of property, plant and equipment	**(10,042)**	(14,198)
Proceeds on disposal of property, plant and equipment	**3,062**	1,231
Expenditure on product development and other intangibles	**(2,352)**	(1,941)
Purchase of Long-Term Incentive Plan shares	**-**	(674)
Operating cash flow	**111,612**	78,997

Headline operating profit has been shown before the amortisation of intangible assets arising on acquisitions, which relates to acquired intellectual property, customer relationships and profit in acquired order book. To maintain a consistent presentation of financial performance over the longer term, this charge has been excluded from headline operating profit. In addition, headline operating profit is stated before the profit on disposal of property, plant and equipment net of property-related provisions, which includes the net profit recognised on the disposal of the Armitage Road, Rugeley property and is after deducting a dilapidations provision relating to a number of properties that are approaching their lease expiry dates. Headline profit before tax and headline earnings per share *(see note 12)* are 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. Following the significant exchange rate movements that occurred in the latter part of 2008, the Group reviewed its level of hedging cover for the next two 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. Ultra is therefore stating headline profit before tax and headline earnings per share *(see note 12)* before changes in the valuation of its foreign currency derivative instruments and the costs associated with the reduction in the level of hedging cover so that the headline operating performance of the Group can be seen more clearly.

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:

	2009 £'000	2008 £'000
Sales of goods	**343,153**	281,047
Revenue from long term contracts	**307,883**	234,224
	651,036	515,271

4 Other operating income

Amounts included in other operating income were as follows:

	2009 £'000	2008 £'000
Foreign exchange gains	**103**	2,762
Profit on disposal of property, net of property related provisions	**5,009**	682
	5,112	3,444

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 current year.

5 Other operating expenses

Amounts included in other operating expenses were as follows:

	2009 £'000	2008 £'000
Amortisation of development costs	**925**	1,217
Foreign exchange losses	**6,098**	1,929
	7,023	3,146

6 Profit from operations

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

	2009 £'000	2008 £'000
Raw materials and other bought in inventories expensed in the year	**219,723**	188,725
Inventories written down and recognised as an expense in the year	**1,441**	909
Reversals of write-downs of inventory	**(223)**	(42)
Staff costs *(see note 7)*	**194,348**	146,086
Depreciation and amounts written off property, plant and equipment	**7,722**	7,026
Amortisation of internally generated intangible assets	**925**	1,217
Amortisation of acquired intangible assets	**27,649**	14,271
Net foreign exchange loss/(gain)	**5,995**	(833)
Profit on disposal of property, plant and equipment net of property-related provisions	**(4,977)**	(682)
Operating lease rentals		
– plant and machinery	**969**	902
– other	**7,123**	5,567
Research and development costs	**34,160**	31,923
Auditors' remuneration for statutory audit work (including expenses)	**511**	452

The Company only audit fee included in the Group audit fee shown above was £16,500 (2008: £15,000).

Analysis of auditors' remuneration

	2009 £'000	2008 £'000
Fees payable for the audit of the annual accounts	**165**	150
Fees payable for the audit of subsidiaries	**346**	302
Total for statutory Group audit services	**511**	452
Analysis of non-audit services:		
Non-audit fees – due diligence	**74**	144
Total for non-audit services	**74**	144

7 Staff costs

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

	2009 £'000	2008 £'000
Wages and salaries	**169,886**	125,378
Social security costs	**15,327**	12,707
Other pension costs	**9,135**	8,001
	194,348	146,086

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

	2009 Number	2008 Number
Production	**1,511**	1,217
Engineering	**1,651**	1,628
Selling	**253**	231
Support services	**546**	506
	3,961	3,582

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

	2009 £'000	2008 £'000
Bank interest	**582**	1,229
Fair value movement on derivatives	**55,630**	-
	56,212	1,229

9 Finance costs

	2009 £'000	2008 £'000
Amortisation of finance costs of debt	**310**	114
Interest payable on bank loans and overdrafts	**3,463**	4,972
Interest payable on finance leases	**1**	4
Transfers to equity on cash flow hedges	**1,759**	195
Total borrowing costs	**5,533**	5,285
Fair value movement on derivatives	**-**	62,069
Retirement benefit scheme finance cost	**2,893**	837
Loss on closing out foreign currency hedging contracts	**15,924**	-
	24,350	68,191

10 Tax

	2009 £'000	2008 £'000
UK taxes		
Corporation tax	**6,482**	11,078
Adjustment in respect of prior years	**(3,642)**	(978)
	2,840	10,100
Overseas taxes		
Current taxation	**14,244**	7,736
Adjustment in respect of prior years	**(155)**	(567)
	14,089	7,169
Total current tax	**16,929**	17,269
Deferred tax		
Origination and reversal of timing differences		
UK deferred tax	**10,621**	(12,570)
Overseas deferred tax	**1,868**	(9,344)
Total deferred tax	**12,489**	(21,914)
Total tax charge/(credit)	**29,418**	(4,645)

Corporation tax in the UK is calculated at 28% (2008: 28.5%) of the estimated assessable profit/(loss) 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:

	2009 £'000	2008 £'000
Deferred tax		
Arising on income and expenses recognised in other comprehensive income:		
Actuarial losses on defined benefit pension schemes	**4,669**	5,039
Revaluation of interest rate swaps	**(460)**	1,252
Translation differences on overseas subsidiaries	**(1,481)**	458
Total income tax recognised directly in other comprehensive income	**2,728**	6,749

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:

	2009 £'000	2008 £'000
Current tax		
Excess tax deductions related to share based payments on exercised options	**629**	917
Deferred tax		
Change in estimated excess tax deductions related to share-based payments	**(335)**	(1,034)
Total income tax recognised directly in equity	**294**	(117)

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:

	2009 £'000	2008 £'000
Group profit/(loss) before tax	**107,898**	(2,888)
Tax on Group profit/(loss) at standard UK corporation tax rate of 28% (2008: 28.5%)	**30,211**	(823)
Tax effects of:		
Income/expenses that are not taxable/allowable in determining taxable profits	**1,114**	(3,358)
Different tax rates of subsidiaries operating in other jurisdictions	**2,559**	1,080
Adjustments in respect of prior years	**(4,466)**	(1,544)
Tax expense/(credit) for the year	**29,418**	(4,645)

11 Dividends

Amounts recognised as distributions to equity holders in the year:

	2009 £'000	2008 £'000
Final dividend for the year ended 31 December 2008 of 18.0p (2007: 14.5p) per share	**12,226**	9,806
Interim dividend for the year ended 31 December 2009 of 9.6p (2008: 8.0p) per share	**6,523**	5,419
	18,749	15,225
Proposed final dividend for the year ended 31 December 2009 of 21.6p (2008: 18.0p) per share	**14,723**	12,209

The 2009 proposed final dividend of 21.6p per share is proposed to be paid on 4 May 2010 to shareholders on the register at 9 April 2010. It was approved by the Board after 31 December 2009 and has not been included as a liability as at 31 December 2009.

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

	2009 pence	2008 pence
Basic headline *(see below)*	**96.4**	80.1
Diluted headline *(see below)*	**96.2**	79.7
Basic	**115.1**	2.6
Diluted	**114.8**	2.6

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

	2009 £'000	2008 £'000
Earnings		
Earnings for the purposes of earnings per share being profit for the year from continuing operations	**78,480**	1,757
Headline earnings		
Profit for the year from continuing operations	**78,480**	1,757
(Profit)/loss on fair value movements on derivatives (net of tax)	**(39,415)**	43,927
Amortisation of intangibles arising on acquisition (net of tax)	**18,854**	8,781
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	**65,759**	54,465

The adjustments to profit are explained in note 2.

	2009 Number of shares	2008 Number of shares
The weighted average number of shares is given below:		
Number of shares used for basic earnings per share	**68,200,931**	68,007,223
Number of shares deemed to be issued at nil consideration following exercise of share options	**166,156**	311,743
Number of shares used for fully diluted earnings per share	**68,367,087**	68,318,966

	2009 £'000	2008 £'000
Headline profit before tax	**89,486**	72,198
Tax rate applied for the purposes of headline earnings per share	**26.5%**	24.6%

13 Intangible assets

	Goodwill £'000	Intellectual property £'000	Customer relationships £'000	Development costs £'000	Other £'000	Total £'000
Cost						
At 1 January 2008	128,810	18,018	27,355	13,692	10,988	198,863
Foreign exchange differences	20,320	7,222	15,007	1,652	2,696	46,897
Acquisition of subsidiary undertakings	54,597	5,694	43,171	-	10,644	114,106
Additions	-	-	-	602	1,339	1,941
Transfers from tangible fixed assets	-	-	-	-	101	101
Adjustments	5,835	-	-	-	-	5,835
At 1 January 2009	**209,562**	**30,934**	**85,533**	**15,946**	**25,768**	**367,743**
Foreign exchange differences	(9,625)	(2,737)	(6,957)	(668)	(990)	(20,977)
Acquisition of subsidiary undertakings	10,317	1,050	4,890	-	2,235	18,492
Additions	-	-	-	354	1,998	2,352
Disposals	-	-	-	(895)	(293)	(1,188)
Transfers from tangible fixed assets	-	-	-	182	230	412
Adjustments	1,458	-	-	-	-	1,458
At 31 December 2009	**211,712**	**29,247**	**83,466**	**14,919**	**28,948**	**368,292**
Accumulated amortisation						
At 1 January 2008	-	(2,913)	(4,988)	(5,253)	(6,455)	(19,609)
Foreign exchange differences	-	(1,684)	(2,835)	(866)	(1,578)	(6,963)
Charge	-	(2,676)	(5,708)	(1,217)	(5,887)	(15,488)
At 1 January 2009	**-**	**(7,273)**	**(13,531)**	**(7,336)**	**(13,920)**	**(42,060)**
Foreign exchange differences	-	782	1,446	455	654	3,337
Disposals	-	-	-	895	293	1,188
Charge	-	(3,851)	(13,702)	(925)	(10,096)	(28,574)
Transfers from tangible fixed assets	-	-	-	(138)	(197)	(335)
At 31 December 2009	**-**	**(10,342)**	**(25,787)**	**(7,049)**	**(23,266)**	**(66,444)**
Carrying amount						
At 31 December 2009	**211,712**	**18,905**	**57,679**	**7,870**	**5,682**	**301,848**
At 31 December 2008	209,562	23,661	72,002	8,610	11,848	325,683

Other represents software, patents and trademarks and profit in acquired order book. The amortisation of intangible assets charge is included within administrative expenses.

Purchase price adjustments relating to acquisitions made during 2008, together with a re-assessment of the fair value of net assets for acquisitions made during 2008 and a reduction to the fair value of deferred consideration payable has resulted in adjustments to goodwill of £1,458,000.

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

13 Intangible assets (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:

	2009 £'000	2008 £'000
Dascam	**8,804**	7,792
Electrics	**9,117**	9,358
Other	**12,992**	15,685
Aircraft & Vehicle Systems	**30,913**	32,835
Airport Systems	**27,803**	24,888
Command & Control Systems	**16,542**	13,849
NSPI	**11,666**	11,500
ProLogic	**28,084**	26,343
Other	**6,101**	7,625
Information & Power Systems	**90,196**	84,205
DNE Technologies	**17,053**	19,131
Maritime Systems	**13,770**	14,752
Tactical Communication Systems	**19,402**	19,398
UnderSea Sensor Systems Inc	**18,353**	18,847
Other	**22,025**	20,394
Tactical & Sonar Systems	**90,603**	92,522
Total – Ultra Electronics	**211,712**	209,562

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 the 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. 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 for the next five years using a growth rate of nil per cent.

The goodwill allocated to eight CGUs is considered to be individually significant. Key assumptions used in the value-in-use calculations for these CGUs were as follows:

	Post tax discount rate	Tax rate applied to cash flows
Airport Systems	8.5%	28%
Command & Control Systems	8.5%	28%
Dascam	8.5%	nil
Electrics	8.5%	28%
NSPI	8.5%	35%
ProLogic	8.5%	35%
DNE Technologies	8.5%	35%
Maritime Systems	8.5%	33%
Tactical Communication Systems	8.5%	32%
UnderSea Sensor Systems Inc	8.5%	35%

There was significant headroom within all the value-in-use calculations. Additionally, sensitivity analysis has indicated that no reasonably possible change in the key assumptions used would result in a significant impairment charge being recorded in the financial statements.

14 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 2008	7,637	6,714	57,484	413	72,248
Foreign exchange differences	843	604	5,805	-	7,252
Acquisitions	1,147	152	1,233	-	2,532
Additions	919	682	5,084	7,513	14,198
Disposals	(653)	(3)	(1,292)	-	(1,948)
Transfer to assets held for sale	(1,043)	(58)	(205)	-	(1,306)
Transfers to intangible fixed assets	-	-	(101)	-	(101)
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 31 December 2009	**16,260**	**9,522**	**72,944**	**-**	**98,726**
Accumulated Depreciation					
At 1 January 2008	(2,131)	(3,744)	(42,138)	-	(48,013)
Foreign exchange differences	(155)	(181)	(4,113)	-	(4,449)
Charge	(253)	(598)	(6,175)	-	(7,026)
Disposals	169	3	1,227	-	1,399
Transfer to assets held for sale	73	3	54	-	130
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 31 December 2009	**(2,589)**	**(5,267)**	**(54,226)**	**-**	**(62,082)**
Carrying amount					
At 31 December 2009	**13,671**	**4,255**	**18,718**	**-**	**36,644**
At 31 December 2008	6,553	3,574	16,863	7,926	34,916

Freehold land amounting to £1,960,000 (2008: £1,243,000) has not been depreciated. The net book value of plant and machinery held under finance leases was £nil (2008: £115,000). Depreciation charged in the year on assets held under finance leases was £25,000 (2008: £33,000).

15 Interest in associate

	2009 £'000	2008 £'000
The value of the Group's investment is made up as follows:		
Total assets	**14,678**	6,588
Total liabilities	**(12,605)**	(4,468)
Group's share of net assets of associate	**2,073**	2,120
Provision for impairment	**(966)**	-
Interest in associate	**1,107**	2,120

The aggregated amounts of revenue and profit of associates were as follows:

	2009 £'000	2008 £'000
Total revenue	**18,294**	-
Profit	**928**	-
Groups share of profit of associate (before provisions)	**455**	-

The Group's interest in associates is represented by its 49% shareholding in Al Shaheen Adventure LLC, a Company incorporated in the UAE. The interest was acquired through the purchase of Dascam in November 2008. The share of revenue and profits for 2008 was not significant so has not been included in the above table.

16 Inventories

	2009 £'000	2008 £'000
Raw materials and consumables	**31,022**	32,989
Work in progress	**15,765**	15,778
Finished goods and goods for resale	**3,825**	4,059
	50,612	52,826

17 Long-term contract balances

	2009 £'000	2008 £'000
Contracts in progress at the balance sheet date:		
Amounts due from contract customers included in trade and other receivables	**26,594**	27,641
Amounts due to contract customers included in trade and other payables	**(41,572)**	(37,107)
	(14,978)	(9,466)
Contract costs incurred plus recognised profits less recognised losses to date	**756,241**	832,783

Advances received from customers for contract work amounted to £37,426,000 (2008: £33,622,000).

18 Trade and other receivables

	2009 £'000	2008 £'000
Trade receivables	**75,710**	79,897
Provisions against receivables	**(1,112)**	(1,908)
Net trade receivables	**74,598**	77,989
Amounts due from contract customers *(note 17)*	**26,594**	27,641
Other receivables	**13,993**	6,503
Prepayments and accrued income	**7,257**	5,273
	122,442	117,406

Trade receivables do not carry interest. The average credit period on sale of goods is 43 days (2008: 46 days).

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

Credit risk

The Group's principal financial assets are bank balances, cash and trade and other receivables.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are major high street banks.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. The Group has only one customer that individually accounted for greater than 10% of sales. This customer is considered to have low credit risk.

The carrying amount of financial assets recorded in the financial statements *(see note 22)* net of any allowances for losses represents the Group's maximum exposure to credit risk.

The ageing profile of unprovided overdue debtors was as follows:

	2009 £'000	2008 £'000
1 to 3 months	**8,774**	14,070
4 to 6 months	**1,851**	1,893
7 to 9 months	**416**	294
Over 9 months	**257**	38
Total overdue	**11,298**	16,295

The Group provides against its trade receivables where there are serious doubts as to future recoverability which is based 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:

	2009 £'000	2008 £'000
Balance at beginning of year	**1,908**	527
Foreign exchange differences	**(40)**	31
Increase in provision for trade receivables regarded as potentially uncollectable	**70**	1,388
Decrease in provision for trade receivables recovered during the year	**(826)**	(38)
Balance at end of year	**1,112**	1,908

19 Trade and other payables

	2009 £'000	2008 £'000
Amounts included in current liabilities:		
Trade payables	**54,877**	61,350
Amounts due to contract customers *(note 17)*	**39,105**	32,562
Other payables	**24,655**	38,674
Accruals and deferred income	**50,916**	38,573
	169,553	171,159
Amounts included in non current liabilities:		
Amounts due to contract customers *(note 17)*	**2,467**	4,545
Other payables	**11,946**	15,970
Accruals and deferred income	**3,610**	1,349
	18,023	21,864

20 Finance leases

Minimum lease payments

	2009 £'000	2008 £'000
Amounts payable under finance leases:		
Within one year	**5**	109
Between one and five years	**-**	5
	5	114
Less: future finance charges	**-**	(4)
Present value of finance lease liabilities	**5**	110
Present value of finance lease liabilities – payments due:		
Within one year	**5**	105
Between one and five years	**-**	5
	5	110

21 Bank loans

	2009 £'000	2008 £'000
Bank loans are payable as follows:		
Less than one year	**70,797**	-
Between one and two years	**-**	107,832
	70,797	107,832
Less: unamortised finance costs of debt	**(308)**	(618)
	70,489	107,214

22 Financial instruments and financial risk management

Derivative financial instruments

Exposure to currency and interest rate risks arise 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).

	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)	
	2009 £'000	2008 £'000	**2009 £'000**	2008 £'000
Derivatives that are designated and effective as hedging instruments carried at fair value				
Interest rate swaps	**-**	-	**(2,829)**	(4,472)
Financial assets/(liabilities) carried at fair value through profit or loss				
Foreign exchange currency liabilities	**(9,164)**	(38,934)	**(1,242)**	(29,455)
	(9,164)	(38,934)	**(4,071)**	(33,927)
Foreign exchange currency assets	**994**	6,998	**4,908**	1,257

Financial assets

The financial assets of the Group were as follows:

	2009 £'000	2008 £'000
Cash and cash equivalents	**41,809**	43,385
Currency derivatives used for hedging	**5,902**	8,255
Amounts due from contract customers	**26,594**	27,641
Property held for resale	**-**	828
Loans and receivables	**74,598**	77,989

Financial liabilities

The financial liabilities of the Group were as follows:

	2009 £'000	2008 £'000
Currency derivatives used for hedging	**10,406**	68,389
Interest rate swaps used for hedging	**2,829**	4,472
Other financial liabilities:		
Bank loans and overdrafts	**70,489**	107,214
Finance leases	**5**	110
Trade payables	**54,877**	61,350
Deferred consideration	**21,377**	35,827
Accruals	**23,287**	21,030

22 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 syndicate of banks, led by The Royal Bank of Scotland. During the year there were two facilities in place, one which was renewed in 2005, providing £120 million of revolving credit over a five year period, and a second which was put in place in 2008, providing a further £80 million of revolving credit over a three year period. Both facilities are denominated in sterling, US dollars, Canadian dollars and Euros and are used for balance sheet and operational needs. A further £10 million overdraft is available for short-term working capital funding.

All bank loans are unsecured. Interest was predominantly charged at 0.375% (2008: 0.375%) over base or contracted rate.

At 31 December 2009, the Group had available £129,203,000 (2008: £92,168,000) of undrawn, committed borrowing facilities.

Subsequent to the year end the 2005 facility was replaced with a new three year facility – *see note 32*. The £80 million facility expires in September 2011.

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**
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**
2008					
Bank loans and overdrafts	3,919	109,039	-	-	112,958
Finance leases	108	6	-	-	114
Trade payables	61,350	-	-	-	61,350
Currency derivatives used for hedging	38,934	25,460	2,688	1,307	68,389
Deferred consideration	23,785	7,283	4,759	-	35,827
Interest rate swaps used for hedging	-	-	4,472	-	4,472
Accruals	20,536	11	39	444	21,030

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 2009, the net fair value of the Group's currency derivatives is estimated to be a liability of approximately £4,504,000 (2008: liabilities of £60,134,000), comprising £5,902,000 assets (2008: £8,255,000) and £10,406,000 liabilities (2008: £68,389,000). The gain on derivative financial instruments included in the Group's consolidated income statement for the period was £55,630,000 (2008: loss of £62,069,000).

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

	2009				2008		
	Not exceeding 1 year	**Between 1 year and 5 years**	**Over 5 years**	**Total**	Not exceeding 1 year	Between 1 year and 5 years	Total
	£'000	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000
US dollars/Sterling	**41,630**	**64,089**	**12,893**	**118,612**	65,387	129,243	194,630
US dollars/Canadian dollars	**36,537**	**-**	**-**	**36,537**	14,583	12,153	26,736
Canadian dollars/Sterling	**4,331**	**2,317**	**-**	**6,648**	41,592	24,797	66,389
Other currencies	**17,736**	**8,419**	**-**	**26,155**	10,685	26,410	37,095
Total	**100,234**	**74,825**	**12,893**	**187,952**	132,247	192,603	324,850

22 Financial instruments and financial risk management (continued)

Net investment hedges

The Group has net investments in US, Canadian and French companies where the associated foreign currency translation risk is hedged by external borrowings in US dollars, Canadian dollars and Euros. 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 ranging from 3.93% to 4.30%. 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 80 million (2008: US dollar 100 million) and Canadian dollar 20 million (2008: 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 2009, the net fair value of interest rate swaps was a liability of £2,829,000 (2008: liability of £4,472,000). The amount recycled from the income statement during the year was £1,759,000 and has been charged to interest cost in the year (2008: £195,000). The fair value will be realised in the income statement on a quarterly basis over the next two years (2008: three 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
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**	**-**	**-**
2008					
Cash and cash equivalents	2.06%	43,385	43,385	-	-
Unsecured bank loans:					
Sterling loan	5.46%	26,383	-	26,383	-
US dollar loan	3.83%	69,560	-	69,560	-
Canadian dollar loan	4.55%	11,271	-	11,271	-
Finance lease liabilities	8.20%	110	105	5	-

Fair values

The fair values together with the carrying amounts shown in the balance sheet are as follows:

	Carrying amount	Fair value	Carrying amount	Fair value
	2009 £'000	**2009 £'000**	2008 £'000	2008 £'000
Cash and cash equivalents	**41,809**	**41,809**	43,385	43,385
Interest rate swaps	**(2,829)**	**(2,829)**	(4,472)	(4,472)
Foreign exchange contracts	**(4,504)**	**(4,504)**	(60,134)	(60,134)
Unsecured bank loans	**(70,489)**	**(70,489)**	(107,214)	(107,214)
Finance lease liabilities	**(5)**	**(5)**	(110)	(110)

22 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
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**
2008								
Transaction	7,689	7,689	(7,689)	(7,689)	19,223	19,223	(19,223)	(19,223)
P&L translation	3,043	609	(3,043)	(609)	7,618	975	(7,618)	(975)
Foreign exchange derivatives	(21,369)	(21,369)	14,543	14,543	(59,707)	(59,707)	38,904	38,904
Total foreign exchange	(10,637)	(13,071)	3,811	6,245	(32,866)	(39,509)	12,063	18,706

Interest rate risk

The Group has estimated the change to the income statement of a change of 1% in market interest rates, from the average rates applicable during 2009.

	1% change
	Profit before tax £'000
2009	
Interest rate sensitivity	**242**
2008	
Interest rate sensitivity	137

23 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 2008	282	2,154	(637)	11,283	(4,502)	(565)	8,015
Credit to income	3,001	107	18,142	189	-	475	21,914
Credit/(charge) to equity	(2,725)	(1,035)	1,252	5,040	(447)	-	2,085
Arising on acquisition	(17,288)	-	-	-	-	270	(17,018)
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 31 December 2009	**(15,629)**	**1,128**	**2,082**	**21,738**	**(6,282)**	**401**	**3,438**

*Relates to property, plant and equipment and intangible assets.

The Group has not recognised deferred tax assets of £1.94 million (2008: £1.46 million) relating to tax losses, due to uncertainty as to their recoverability.

There are no temporary differences which arise in respect of undistributed earnings.

24 Provisions

	Warranties £'000	Contract related provisions £'000	Total £'000
At 1 January 2009	9,655	9,667	19,322
Created	1,732	7,640	9,372
Utilised	(3,349)	(2,659)	(6,008)
Exchange differences	(158)	(14)	(172)
At 31 December 2009	**7,880**	**14,634**	**22,514**
Included in current liabilities	6,822	8,769	15,591
Included in non-current liabilities	1,058	5,865	6,923
	7,880	**14,634**	**22,514**

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. Property related provisions of £3.1m (2008: £nil) have been included in contract related provisions. Property related provisions are expected to be utilised over the next three years.

25 Share capital and share options

	2009		2008	
	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	**68,387,487**	**3,420**	68,132,238	3,407

255,249 ordinary shares having a nominal value of £12,762 were allotted during the year under the terms of the Group's various Share Option Schemes. The aggregate consideration received was £1,899,167.

Share options

During the year to 31 December 2009, 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 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 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.

25 Share capital and share options (continued)

1. Savings Related Share Option Schemes (continued)

At 31 December 2009, share options outstanding under the Savings Related Share Option Schemes were as follows:

Options granted	Number of shares 2009	2008	Option price (£)	Exercise dates
2009 – US scheme	**125,512**	-	11.27	September 2011 - December 2011
2006 – Canadian scheme	**4,177**	28,440	9.21	September 2009 - March 2010
2009 – Canadian scheme	**65,972**	-	11.27	September 2012 - March 2013
2009 – Abu Dhabi scheme	**17,009**	-	11.48	December 2012 - June 2013
2007 – UK 3 year scheme	**64,980**	73,775	10.39	December 2010 - June 2011
2007 – UK 5 year scheme	**119,696**	128,546	10.39	December 2012 - June 2013
2008 – UK 3 year scheme	**14,740**	16,714	12.00	December 2011 - June 2012
2008 – UK 5 year scheme	**15,037**	17,296	12.00	December 2013 - June 2014
2009 – UK 3 year scheme	**15,562**	-	11.48	December 2012 - June 2013
2009 – UK 5 year scheme	**11,677**	-	11.48	December 2014 - June 2015

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 2009, share options outstanding under the Company Share Option Plan were as follows:

Options granted	Number of shares 2009	2008	Option price (£)	Exercise dates
1999	**-**	7,050	4.15	March 2002 - March 2009
2000	**11,503**	13,167	3.86	May 2003 - May 2010
2001	**10,419**	10,419	4.39	March 2004 - March 2011
2002	**14,424**	14,424	4.49	March 2005 - March 2012
2003	**3,743**	3,743	4.53	March 2006 - March 2013
2004	**4,712**	6,563	5.97	March 2007 - March 2014
2005	**14,567**	20,611	7.28	March 2008 - March 2015
2006	**16,278**	28,325	10.32	February 2009 - February 2016
2007	**44,267**	50,641	12.07	May 2010 - May 2017
2008	**30,252**	30,817	12.00	March 2011 - March 2018
2009	**46,209**	-	11.90	March 2012 - March 2019

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 2009, share options outstanding under the Executive Share Option Scheme were as follows:

Options granted	Number of shares 2009	2008	Option price (£)	Exercise dates
2002	**-**	985	4.49	March 2005 - March 2009
2003	**-**	87,243	4.53	March 2006 - March 2010
2004	**69,278**	88,587	5.97	March 2007 - March 2011
2005	**98,406**	116,643	7.28	March 2008 - March 2012
2006	**119,048**	130,876	10.32	February 2009 - February 2013
2007	**106,684**	111,258	12.07	May 2010 - May 2014
2008	**149,132**	162,739	12.00	March 2011 - March 2015
2009	**247,441**	-	11.90	March 2012 - March 2016

25 Share capital and share options (continued)

4. Long-Term Incentive Plan

Details in relation to the LTIP are included in the Directors' Remuneration report on pages 47 to 49.

The number and weighted average exercise price of share options for all share based payment arangements (including LTIP) are as follows:

	Weighted average exercise price (£) 2009	**Number of options 2009**	Weighted average exercise price (£) 2008	Number of options 2008
Beginning of year	**7.89**	**1,473,184**	6.65	1,625,332
Granted during the year	**9.51**	**657,414**	8.31	343,478
Forfeited during the year	**4.90**	**(99,771)**	4.53	(87,494)
Expired during the year	**11.26**	**(9,393)**	4.65	(57,733)
Exercised during the year	**5.78**	**(344,342)**	3.94	(350,399)
Outstanding at the end of the year	**9.11**	**1,677,092**	7.89	1,473,184
Exercisable at the end of the year	**7.83**	**366,555**	5.88	369,435

The Group recognised total expenses of £1,490,000 (2008: £1,295,000) 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 £11.86. The fair value of options granted during the year was £2,238,628 (2008: £1,470,425).

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 2007, 2008 and 2009 LTIP schemes are measured by use of the Black Scholes option pricing model using the following assumptions:

	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

	Share save*	CSOP*	ESOS*	LTIP*
				2008
Weighted average share price (£)	12.30	10.40	10.23	8.53
Weighted average exercise price (£)	10.39	10.24	10.13	n/a
Expected volatility %	21.9	19.8	19.8	18.6
Expected option life (years)	3.8	6.0	5.0	3.0
Risk free interest rate %	4.9	4.8	4.6	4.5
Expected dividends %	1.6	1.7	1.7	1.6

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

For the 2007, 2008 and 2009 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:

	2009	2008
Exercise price (£)	**n/a**	n/a
Share price at grant (£)	**12.16**	12.02
Expected option life (years)	**3.0**	3.0
Expected volatility %	**26.6**	23.9
Expected dividend yield %	**0.0**	0.0
Risk free interest rate %	**3.2**	4.7

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

The weighted average fair value of options granted during the year was £3.76 (2008: £4.67).

26 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 2008	3,394	35,061	(1,972)	(6,282)	111,693	141,894
Total comprehensive income for the year	-	-	-	28,897	(13,536)	15,361
Own shares acquired	-	-	(674)	-	-	(674)
Disposal of own shares	-	-	672	-	(672)	-
Equity settled employee share scheme	13	1,366	-	-	1,334	2,713
Dividends to shareholders	-	-	-	-	(15,225)	(15,225)
Balance at 31 December 2008	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**

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.

27 Notes to the cash flow statement

	2009 £'000	2008 £'000
Profit from operations	**76,036**	64,074
Adjustments for:		
Depreciation of property, plant and equipment	**7,722**	7,026
Amortisation of intangible assets	**28,574**	15,488
Cost of equity settled employee share schemes	**1,490**	1,295
Decrease in post employment benefit obligation	**(863)**	(91)
Profit on disposal of property, plant and equipment, net of property related provisions	**(4,977)**	(682)
Loss on revaluation of assets transferred to held for sale	**35**	270
Disposal of asset held for sale	**726**	-
Increase in provisions	**337**	2,526
Operating cash flow before movements in working capital	**109,080**	89,906
Decrease/(increase) in inventories	**31**	(226)
Increase in receivables	**(2,481)**	(13,964)
Increase in payables	**14,314**	18,863
Cash generated by operations	**120,944**	94,579
Income taxes paid	**(13,529)**	(20,502)
Interest paid	**(5,359)**	(4,975)
Net cash from operating activities	**102,056**	69,102

27 Notes to the cash flow statement (continued)

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

	2009 £'000	2008 £'000
Net increase in cash and cash equivalents	**619**	10,139
Cash outflow/(inflow) from decease/(increase) in debt and finance leasing	**29,155**	(48,624)
Change in net debt arising from cash flows	**29,774**	(38,485)
Loan syndication costs	**-**	527
Amortisation of finance costs of debt	**(310)**	(114)
Translation differences	**5,790**	(11,624)
Movement in net debt in the year	**35,254**	(49,696)
Net debt at start of year	**(63,939)**	(14,243)
Net debt at end of year	**(28,685)**	(63,939)

Net debt comprised the following:

	2009 £'000	2008 £'000
Cash and cash equivalents	**41,809**	43,385
Bank loans	**(70,489)**	(107,214)
Obligations under finance leases included in current liabilities	**(5)**	(105)
Obligations under finance leases included in non-current liabilities	**-**	(5)
	(28,685)	(63,939)

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

28 Other financial commitments

a) Capital commitments

At the end of the year capital commitments were:

	2009 £'000	2008 £'000
Contracted but not provided	**359**	510

b) Lease commitments

At 31 December 2009, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2009 £'000	2008 £'000
Within one year	**6,912**	6,560
Between one and five years	**14,644**	16,765
After five years	**7,438**	8,455
	28,994	31,780

29 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 £3,935,000 (2008: £3,050,000).

Defined benefit schemes

The UK defined benefit scheme was actuarially assessed at 31 December 2009 using the 'projected unit' method. The Canadian defined benefit schemes were actuarially assessed at 31 December 2009 using the 'projected unit' method.

29 Retirement benefit schemes (continued)

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

	UK 2009	**Canada 2009**	UK 2008	Canada 2008
Discount rate	**5.8%**	**5.8%**	6.25%	6.0%
Inflation rate	**3.5%**	**3.5%**	3.0%	3.0%
Expected rate of salary increases	**4.75%**	**4.75%**	4.25%	4.25%
Future pension increases (pre 6/4/08)	**3.4%**	**3.4%**	2.8%	2.8%
Future pension increases (post 6/4/08)	**2.5%**	**n/a**	2.4%	n/a

For each of these assumptions there is a range of possible values. Relatively small changes in some of these variables can have a significant impact on the level of the total obligation. For the UK scheme, a 0.1% reduction in the inflation assumption to 3.4% and a 0.1% increase in the discount rate to 5.9% would decrease the schemes liabilities by 2.1% and 1.9% respectively. If the members were to experience the mortality of an individual one year older the scheme liabilities would drop by 1.7%.

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	92 Series tables with medium cohort projections
Future pensioners	92 Series tables with medium cohort projections

The mortality assumptions used in the valuation of the UK scheme make appropriate allowance for future improvements in longevity and are set out below:

	2009	2008
Current pensioners (at 65) – males	**22 years**	22 years
Current pensioners (at 65) – females	**25 years**	25 years
Future pensioners (at 65) – males	**23 years**	23 years
Future pensioners (at 65) – females	**26 years**	26 years

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

	UK 2009 £m	**Canada 2009 £m**	**Total 2009 £m**	UK 2008 £m	Canada 2008 £m	Total 2008 £m
Current service cost	**5.2**	**0.2**	**5.4**	5.9	0.2	6.1
Interest on pension scheme liabilities	**9.5**	**0.5**	**10.0**	9.4	0.4	9.8
Expected return on pension scheme assets	**(6.7)**	**(0.4)**	**(7.1)**	(8.5)	(0.5)	(9.0)
	8.0	**0.3**	**8.3**	6.8	0.1	6.9

Of the current service cost for the year, £4.3 million (2008: £4.3 million) has been included in cost of sales, and £1.1 million (2008: £1.8 million) has been included in administrative expenses.

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

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

	UK 2009 £m	**Canada 2009 £m**	**Total 2009 £m**	UK 2008 £m	Canada 2008 £m	Total 2008 £m
Fair value of scheme assets	**119.3**	**7.9**	**127.2**	94.3	6.6	100.9
Present value of scheme liabilities	**(196.0)**	**(8.7)**	**(204.7)**	(151.9)	(7.8)	(159.7)
Scheme deficit	**(76.7)**	**(0.8)**	**(77.5)**	(57.6)	(1.2)	(58.8)
Related deferred tax asset	**21.5**	**0.3**	**21.8**	16.1	0.4	16.5
Net pension liability	**(55.2)**	**(0.5)**	**(55.7)**	(41.5)	(0.8)	(42.3)

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

29 Retirement benefit schemes (continued)

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

	UK 2009 £m	Canada 2009 £m	Total 2009 £m	UK 2008 £m	Canada 2008 £m	Total 2008 £m
Present value of obligation at 1 January	**(151.9)**	**(7.8)**	**(159.7)**	(161.2)	(6.8)	(168.0)
Service cost	**(5.2)**	**(0.2)**	**(5.4)**	(5.9)	(0.2)	(6.1)
Interest cost	**(9.5)**	**(0.5)**	**(10.0)**	(9.4)	(0.4)	(9.8)
Actuarial gains and losses	**(32.7)**	**0.1**	**(32.6)**	20.6	0.4	21.0
Exchange difference	**-**	**(0.3)**	**(0.3)**	-	(0.8)	(0.8)
Benefits paid	**3.3**	**-**	**3.3**	4.0	-	4.0
Present value of obligation at 31 December	**(196.0)**	**(8.7)**	**(204.7)**	(151.9)	(7.8)	(159.7)

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

	UK 2009 £m	Canada 2009 £m	Total 2009 £m	UK 2008 £m	Canada 2008 £m	Total 2008 £m
Fair value at 1 January	**94.3**	**6.6**	**100.9**	120.3	7.3	127.6
Expected return on scheme assets	**6.7**	**0.4**	**7.1**	8.5	0.5	9.0
Actuarial gains and losses	**15.8**	**0.1**	**15.9**	(36.2)	(2.5)	(38.7)
Exchange differences	**-**	**0.3**	**0.3**	-	0.7	0.7
Employer contributions	**5.8**	**0.5**	**6.3**	5.7	0.6	6.3
Benefits paid	**(3.3)**	**-**	**(3.3)**	(4.0)	-	(4.0)
Fair value at 31 December	**119.3**	**7.9**	**127.2**	94.3	6.6	100.9

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

	2009	2008
Expected return:		
Equities	**7.5%**	7.5%
Bonds	**5.8%**	6.3%
Gilts	**4.4%**	4.0%
Other assets	**3.75%**	4.0%
Other investment funds	**7.5%**	7.5%

Scheme assets were as follows:

	UK 2009 £m	Canada 2009 £m	Total 2009 £m	UK 2008 £m	Canada 2008 £m	Total 2008 £m
Fair value:						
Equities	**86.2**	**4.0**	**90.2**	75.4	3.3	78.7
Bonds	**21.0**	**3.8**	**24.8**	17.5	3.2	20.7
Other assets	**1.6**	**0.1**	**1.7**	1.4	0.1	1.5
Other investment funds	**10.5**	**-**	**10.5**	-	-	-
	119.3	**7.9**	**127.2**	94.3	6.6	100.9

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

	UK 2009 £m	Canada 2009 £m	Total 2009 £m	UK 2008 £m	Canada 2008 £m	Total 2008 £m
Actual return less expected return on pension scheme assets	**15.8**	**0.1**	**15.9**	(36.2)	(2.5)	(38.7)
Experience (losses)/gains arising on scheme liabilities	**(0.8)**	**0.3**	**(0.5)**	(0.5)	(0.2)	(0.7)
Changes in assumptions underlying the present value of the scheme liabilities	**(31.9)**	**(0.2)**	**(32.1)**	21.1	0.6	21.7
	(16.9)	**0.2**	**(16.7)**	(15.6)	(2.1)	(17.7)

Cumulative actuarial losses, net of deferred tax, recognised in the consolidated statement of recognised income and expense at 31 December 2009 were £32.1 million (2008: £20.1 million).

29 Retirement benefit schemes (continued)

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

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Present value of defined benefit obligations	**(204.7)**	(159.7)	(168.0)	(154.8)	(146.4)
Fair value of scheme assets	**127.2**	100.9	127.6	119.7	99.8
Scheme deficit	**(77.5)**	(58.8)	(40.4)	(35.1)	(46.6)
Experience adjustments on scheme liabilities	**(0.5)**	(0.7)	(1.8)	(0.2)	2.5
Percentage of scheme liabilities	**0.2%**	0.4%	1.0%	0.1%	1.7%
Experience adjustment on scheme assets	**16.0**	(38.7)	(4.7)	9.1	13.9
Percentage of scheme assets	**12.6%**	(38.3%)	(3.7%)	8.0%	14.0%

The amount of contributions expected to be paid to defined benefit schemes during the 2010 financial year is £5.4m.

30 Acquisitions

Acquisitions during the year

In aggregate, consideration of £30,758,000 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	17,217
Deferred consideration on subsidiaries acquired in prior years	14,384
Cash acquired with subsidiaries	(843)
Net cash outflow	30,758

Aggregate assets and liabilities acquired comprised intangible assets of £8,174,000, property, plant and equipment of £958,000, cash of £843,000, inventories of £220,000, receivables of £4,020,000 and payables of £5,709,000.

Tisys SA

On 20 May 2009, the Group acquired the entire share capital of Tisys SA, a Company based in Annecy, France for a cash consideration including costs of £5.2m. 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 £'000	Revaluations £'000	Fair value £'000
Intangible assets	**32**	**1,866**	**1,898**
Property, plant and equipment	**21**	**-**	**21**
Net cash	**843**	**-**	**843**
Inventories	**77**	**-**	**77**
Receivables	**1,670**	**-**	**1,670**
Payables	**(1,488)**	**(723)**	**(2,211)**
Net assets acquired	**1,155**	**1,143**	**2,298**
Goodwill arising on acquisition			**2,861**
Purchase consideration, including acquisition costs			**5,159**
Cash outflow arising on acquisition			**5,159**

The profit contribution from Tisys was approximately £0.2m in the period from date of acquisition to 31 December 2009, before a charge of £0.5m relating to the amortisation of intangibles arising on acquisition. 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.

30 Acquisitions (continued)

Avalon Systems Pty Ltd

On 7 July 2009, the Group acquired the entire share capital of Avalon Systems Pty Ltd, a Company based in Adelaide, Australia for a cash consideration including costs of £8.3m. 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	Fair value
	£'000	£'000	£'000
Intangible assets	-	4,261	4,261
Property, plant and equipment	790	-	790
Receivables	1,800	-	1,800
Payables	(829)	(1,278)	(2,107)
Net assets acquired	1,761	2,983	4,744
Goodwill arising on acquisition			3,543
Purchase consideration, including acquisition costs			8,287
Cash outflow arising on acquisition			8,287

The profit contribution from Avalon was approximately £0.9m in the period from date of acquisition to 31 December 2009, before a charge of £0.8m relating to the amortisation of intangibles arising on acquisition. 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.

Scytale Inc

On 16 October 2009, the Group acquired the entire share capital of Scytale Inc, a Company based in Baltimore, Maryland, USA for an initial cash consideration including costs of £3.3m. 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	Fair value
	£'000	£'000	£'000
Intangible assets	-	2,015	2,015
Property, plant and equipment	133	-	133
Inventories	85	-	85
Receivables	535	-	535
Payables	(305)	(814)	(1,119)
Net assets acquired	448	1,201	1,649
Goodwill arising on acquisition			3,239
Purchase consideration, including acquisition costs			4,888
Total consideration			4,888
Less deferred consideration			(1,606)
Cash outflow arising on acquisition			3,282

The profit contribution from Scytale was approximately £0.1m in the period from date of acquisition to 31 December 2009. 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.

Xerion Systems Inc.

On 7 August 2009, the Group acquired the trade and assets of Xerion Systems Inc for a cash consideration of £0.5m including costs. Goodwill arising on the acquisition amounted to £0.7m. The profit contribution from Xerion in the period was not significant.

If the above acquisitions had been completed on the first day of the financial year, the Group revenues for the year would have been £657.8m and the Group would have reported a profit before tax £110.3m.

Prior year acquisitions

Goodwill has been increased by £1.7m as a result of finalising the fair value of assets acquired in respect of business acquisitions made during 2008. In addition, goodwill has also been increased by £0.8m to reflect purchase price adjustments relating to 2008 acquisitions and reduced by £1.0m to reflect a reduction in the fair value of deferred consideration payable.

31 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 51 and 52:

	2009 £'000	2008 £'000
Short-term employee benefits	**3,220**	2,975
Post-employment benefits	**298**	281
Termination payments	**-**	409
Share-based payments	**591**	443
	4,109	4,108

32 Post balance sheet events

On 5 February 2010 the Group renewed its £120m banking facility which is provided by a small syndicate led by the Royal Bank of Scotland. This renewed facility provides revolving credit over a three and a half 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, Lloyds TSB and Santander. This facility is in addition to the Groups existing £80m Revolving Credit Facility and a £10m overdraft facility for funding short-term working capital requirements.

33 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 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 statements, were in issue but not yet effective:
IFRIC 9 and IAS 39 (amended): "Embedded derivatives"
IFRIC 12: "Service concession arrangements"
IFRIC 17: "Distributions of non-cash assets to owners"
IFRIC 18: "Transfers of assets from customers"
IAS 24 (revised): "Related party disclosures"
IAS 27: "Consolidated and seperate financial statements"
IAS 28 (revised): "Investments in associates"
IAS 32 (amended): "Financial instruments: presentation"
IAS 39 (amended): "Eligible hedged items"
IFRS 1 (amended): "Additional exemptions for first time adopters"
IFRS 3 (amended): "Business combinations"
IFRS 9: "Financial instruments"

The Directors do not anticipate that the adoption of these Standards and Interpretations in future periods will have a material impact on the financial statements of the Group, except for the treatment of the acquisition of subsidiaries when IFRS 3 (revised) comes into effect for business combinations for which the acquisition date is on or after 1 January 2010 and additional disclosures when the relevant standards come into effect.

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.

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 contract.

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.

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.

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. Fair value is measured by use of an option pricing model.

Provisions

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

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

Equity instruments

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

Taxation

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

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

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

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

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

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

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

Derivative financial instruments

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

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

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

Derivative financial instruments (continued)
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.

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

IAS 1 (revised 2009) Presentation of Financial Statements – IAS 1 (revised) requires the presentation of a Statement of Changes in Equity as a primary statement, separate from the income statement and statement of comprehensive income. As a result a Consolidated Statement of Changes in Equity has been included in the primary statements, showing changes in each component of equity for each year reported.

IFRS 8 Operating Segments – IFRS 8 replaces IAS 14 "Segment Reporting" and requires segment information to be presented on the same basis as that used for internal reporting purposes, which is regularly reviewed by the Chief Executive to allocate resources to the segments and to assess their performance. IFRS 8 allows the aggregation of operating segments if they exhibit similar long term financial performance or if they have similar economic characteristics. Adoption of IFRS 8 has not led to a change in the Group's reportable segments.

IFRS 2 (amended) clarifies that for share-based payments, vesting conditions are service and performance conditions only and that all cancellations of awards, whether by the entity or by other parties should receive the same accounting treatment. The adoption of these amendments does not have a material impact on the Group's financial statements.

IAS 23 (revised) removes the option of immediately expensing borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset and instead requires these costs to be capitalised as part of the cost of that asset. Whilst this is an accounting policy change, it does not represent a material impact on the Group's financial statements.

IFRS 7 (amended) expands the disclosures required in respect of fair value measurements and liquidity risk. The Group has elected not to provide comparative information for these expanded disclosures in the current year.

Critical accounting judgements and key sources of estimation uncertainty
CONTRACT REVENUE AND PROFIT RECOGNITION
A significant proportion of the Group's activities are conducted under long term contract arrangements and are accounted for in accordance with IAS 11 Construction Contracts.

Revenue and profit on such contracts is recognised according to the stage of completion of the contract activity at the balance sheet date of the particular contract and is 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.

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

RETIREMENT BENEFIT PLANS

The Group accounts for its post-retirement pension plans in accordance with IAS 19 Employee Benefits.

For defined benefit retirement plans, the cost of providing benefits is determined periodically by independent actuaries and charged to the income statement in the period in which those benefits have been earned by the employees. Actuarial gains and losses are recognised in full in the period in which they arise and are recognised in the statement of comprehensive income.

The retirement benefit obligation recognised in the balance sheet represents the present value of the scheme liabilities as reduced by the fair value of the scheme assets.

The main assumptions used in determining the defined benefit post retirement obligation include the discount rate used in discounting scheme liabilities, the inflation rate, the expected rate of salary inflation, the expected rate of future pension increases, expected returns on scheme assets and future mortality assumptions. For each of these assumptions, there is a range of possible values. Relatively small changes in some of these variables can have a significant impact on the level of the total obligation.

The valuation of pension scheme assets and liabilities at a specific point of time rather than over a period of time can lead to significant annual movements in the pension scheme deficit as calculated under IAS 19, but has no impact on short-term cash contributions since these are based upon separate independent actuarial valuations.

Details of the pension scheme assumptions and obligation at 31 December 2009 are provided in note 29.

INTANGIBLE ASSETS

IFRS 3 Business Combinations requires that goodwill arising on the acquisition of subsidiaries is capitalised and included in intangible assets. IFRS 3 also requires the identification of other intangible assets at acquisition. The assumptions involved in valuing these intangible assets requires the use of estimates and judgements, that may differ from the actual outcome. These estimates and judgements cover future growth rates, expected inflation rates and the discount rate used.

Goodwill is not amortised but is tested annually for impairment. The impairment review requires the use of estimates related to the future profitability and cash generating ability of the related business. The estimates used may differ from the actual outcome.

Details of the impairment review calculations are provided in note 13.

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 criteria to qualify for exemption from ongoing effectiveness testing. 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.

GOING CONCERN

On 5th February 2010 the Group renewed its £120m banking facility which is provided by a small syndicate led by the Royal Bank of Scotland. This renewed facility provides revolving credit over a three and a half 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, Lloyds TSB and Santander. This facility is in addition to the Groups existing £80m Revolving Credit Facility and a £10m overdraft facility for funding short-term working capital requirements.

The US, Canadian dollar and Euro borrowings 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 and the expectation is that this will continue.

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

GOING CONCERN (continued)

Whilst the current volatility in financial markets has created general uncertainty in respect of the current economic outlook, the long-term nature of Ultra's business 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 2010 Ultra had firm orders in place for over 60% of its consensus forecast sales in the year.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

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 2009 which comprise the Parent Company Balance Sheet, the related notes 34 to 45 and the statement of accounting policies for the Company. 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 Section 495 and 496 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 Parent Company Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit 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 2009;
- 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 2009.

Mark Mullins, *Senior Statutory Auditor*
for and on behalf of **Deloitte LLP**
Chartered Accountants and Statutory Auditors
Reading, United Kingdom
26 February 2010

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 2009

	Note	2009 £'000	2008 £'000
Fixed assets			
Tangible assets	*35*	**199**	279
Investments	*36*	**297,459**	308,102
		297,658	308,381
Current assets			
Debtors: Amounts falling due within one year	*37*	**675**	461
		675	461
Creditors: Amounts falling due within one year	*39*	**(117,225)**	(62,877)
Net current liabilities		**(116,550)**	(62,416)
Total assets less current liabilities		**181,108**	245,965
Creditors: Amounts falling due after more than one year	*40*	**(18,338)**	(127,765)
Net assets		**162,770**	118,200
Capital and reserves			
Called-up share capital	*41*	**3,420**	3,407
Share premium account	*42*	**38,313**	36,427
Profit and loss account	*42*	**122,487**	80,340
Own shares	*43*	**(1,450)**	(1,974)
Shareholders' funds		**162,770**	118,200

The financial statements of Ultra Electronics Holdings plc, registered number 02830397, were approved by the Board of Directors and authorised for issue on 26 February 2010.

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

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

34 Staff costs

	2009 £'000	2008 £'000
Employee costs during the year amounted to:		
Wages and salaries	**3,206**	2,036
Social security costs	**392**	385
Other pension costs	**607**	636
	4,205	3,057

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

	2009 number	2008 number
Support services	**14**	13

35 Tangible fixed assets

	Plant and machinery £'000
Cost	
At 1 January 2008	619
Additions	63
At 1 January 2009	682
Additions	42
At 31 December 2009	**724**
Accumulated depreciation	
At 1 January 2008	334
Charge	69
At 1 January 2009	403
Charge	122
At 31 December 2009	**525**
Net book value	
At 31 December 2009	**199**
At 31 December 2008	279

36 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 Inc.	USA
Ultra Electronics Canada Defence 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.

b) Investment in subsidiary undertakings

	Total 2009 £'000
At 1 January 2009	**308,102**
Foreign exchange differences	**(7,124)**
Additions	**910**
Redemption of long-term loans	**(4,429)**
At 31 December 2009	**297,459**

37 Debtors

	2009 £'000	2008 £'000
Amounts falling due within one year:		
Deferred tax assets	**267**	334
Other debtors	**296**	64
Prepayments and accrued income	**112**	63
	675	461

38 Deferred tax

Movements in the deferred tax asset were as follows:

	2009 £'000	2008 £'000
Beginning of year	**334**	676
Credit to the profit and loss account	**167**	143
Charge to equity	**(234)**	(485)
End of year	**267**	334

The deferred tax balances are analysed as follows:

	2009 £'000	2008 £'000
Accelerated capital allowances	**(1)**	(1)
Timing differences relating to share schemes	**263**	319
Other timing differences relating to current assets and liabilities	**5**	16
Deferred tax asset	**267**	334

These balances are shown as follows:

	2009 £'000	2008 £'000
Debtors: Amounts falling due within one year	**267**	334

At the balance sheet date the Company had nil unprovided deferred tax (2008: nil).

39 Creditors: amounts falling due within one year

	2009 £'000	2008 £'000
Bank loans and overdraft	**101,663**	44,672
Amounts owed to subsidiary undertakings	**2,958**	3,648
Other creditors:		
– VAT	**126**	-
– social security and PAYE	**220**	171
– other creditors	**10,908**	13,010
Accruals and deferred income	**1,350**	1,376
	117,225	62,877

The bank loans are unsecured and due for repayment in 1 year. Interest was predominantly charged at 0.375% over base or contracted rate.

Financials – Company

40 Creditors: amounts falling due after more than one year

	2009 £'000	2008 £'000
Bank loans	**-**	107,214
Amounts owed to subsidiary undertakings	**18,338**	20,551
	18,338	127,765

Borrowings fall due as analysed below:

	2009 £'000	2008 £'000
Bank loans and overdraft		
In one year or less, or on demand	**101,971**	44,672
In more than one year but less than five years	**-**	107,832
	101,971	152,504
Less: unamortised finance costs of debt	**(308)**	(618)
	101,663	151,886
Less: included in creditors: amounts falling due within one year	**(101,663)**	(44,672)
Less: included in creditors: amounts falling due after more than one year	**-**	(107,214)
	-	-

41 Called-up share capital

	2009		2008	
	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	**68,387,487**	**3,420**	68,132,238	3,407

255,249 ordinary shares having a nominal value of £12,762 were allotted during the year under the terms of the Group's various Share Option Schemes. The aggregate consideration received by the Company was £1,899,167.

42 Reserves

	Share premium £'000	Profit and loss account £'000
Beginning of year	36,427	80,340
Disposal of own shares	-	(524)
Share based payments	-	1,074
Retained profit for the year	-	60,346
Dividends paid	-	(18,749)
Issue of new shares	1,886	-
End of year	**38,313**	**122,487**

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.

43 Own shares

	Long-Term Incentive Plan shares £'000
Cost	
Beginning of year	(1,974)
Additions	-
Disposals	524
End of year	**(1,450)**

The Company holds 223,967 own shares (2008: 304,798).

44 Guarantees and other financial commitments

Lease commitments

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

	Plant and machinery 2009 £'000	Plant and machinery 2008 £'000
Operating lease rentals which expire		
– within one year	**37**	40
– between two to five years	**39**	51
	76	91

45 Post balance sheet events

On 5 February 2010 the Group renewed its £120m banking facility which is provided by a small syndicate led by the Royal Bank of Scotland. This renewed facility provides revolving credit over a three and a half 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, Lloyds TSB and Santander. This facility is in addition to the Groups existing £80m Revolving Credit Facility and a £10m overdraft facility for funding short-term working capital requirements.

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 42.

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 2009 was £76.7 million (2008: £57.6 million). Further disclosures in relation to this pension scheme are given in note 29 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 25.

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.

Shareholder analysis

31 December 2009

By category of shareholder

	Shares held	
	Number '000	% share capital
Unit trusts	32,914	48
Pension funds	14,097	21
Insurance companies	3,685	5
Private investors	2,494	4
Foreign governments	2,403	3
Investment trusts and other funds	1,235	2
Charities	633	1
Below threshold	1,896	3
Other	9,030	13
	68,387	**100**

By size of holding

	Holders		Shares held	
	Number	% of holders	Number '000	% share capital
1-100	138	9	7	-
101-500	499	34	134	-
501-1,000	242	16	182	-
1,001-5,000	259	18	540	1
5,001-10,000	48	3	360	1
10,001-50,000	126	9	3,202	5
50,001-100,000	45	3	3,115	4
100,001 and over	110	8	60,847	89
	1,467	**100**	**68,387**	**100**

Financial calendar

9 April 2010	Record date for 2009 final dividend
23 April 2010	Annual General Meeting
4 May 2010	2009 final dividend paid
2 August 2010	Interim results announced
September 2010	2010 interim dividend paid

Financial highlights

	2005 £m	2006 £m	2007 £m	2008 £m	**2009 £m**
Revenue					
Aircraft & Vehicle Systems	84.4	93.9	100.0	130.1	**157.6**
Information & Power Systems	117.3	120.5	126.6	161.5	**215.9**
Tactical & Sonar Systems	140.7	162.6	186.3	223.7	**277.5**
Total revenue	342.4	377.0	412.9	515.3	**651.0**
Headline operating profit[1]					
Aircraft & Vehicle Systems	15.9	13.2	16.1	19.7	**20.9**
Information & Power Systems	18.1	19.3	19.6	22.2	**25.3**
Tactical & Sonar Systems	17.1	25.0	27.2	35.2	**51.1**
Total headline operating profit[1]	51.1	57.5	62.9	77.1	**97.3**
Margin[1]	14.9%	15.3%	15.2%	15.0%	**15.0%**
Profit/(loss) before tax	40.7	55.0	56.6	(2.9)	**107.9**
Profit after tax	29.4	39.6	41.2	1.8	**78.5**
Operating cash flow[2]	53.8	56.5	52.2	79.0	**111.6**
Free cash flow before dividends, acquisitions and financing[3]	38.1	40.9	36.3	54.7	**93.3**
Net debt at year-end[4]	34.3	7.2	14.2	63.9	**28.7**
Headline earnings per share (p)[5]	50.7	58.4	65.4	80.1	**96.4**
Dividends per share (p)[6]	15.9	18.5	21.2	26.0	**31.2**
Average employee numbers	2,880	2,989	3,054	3,582	**3,961**

[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.

[6] Represents dividends per share on a dividends declared basis.

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