

portfolio strength...



08



...underpinning growth

Ultra at a glance

Why Ultra is different

Ultra Electronics is an internationally successful defence and aerospace company with a long, consistent track record of development and growth, achieving 15% 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.

Ultra's independence allows it to work with all of the world's major defence, aerospace and civil prime contractors.

 BAE Systems	 Raytheon
 Boeing	 Rolls-Royce
 Bombardier	 Thales
 EADS	 UK MoD
 GE	 United Technologies
 Lockheed Martin	 US DoD

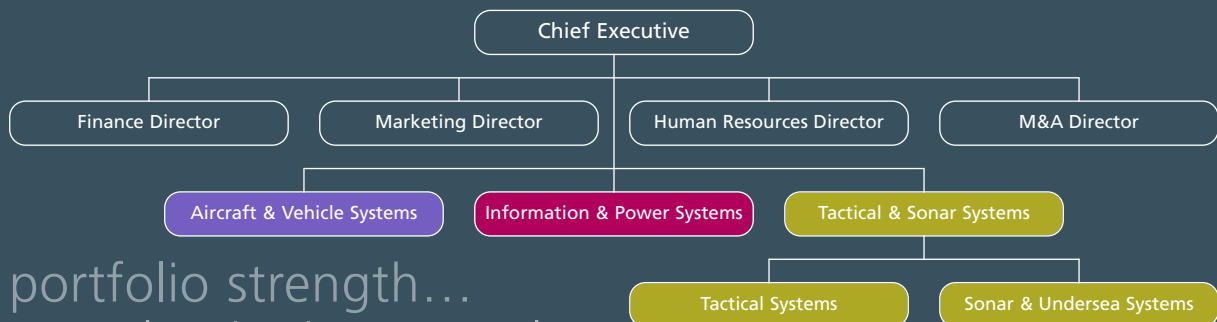


The major market sectors in which Ultra operates are:

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

Operationally, the Group is organised into three divisions:

Aircraft & Vehicle Systems, Information & Power Systems and Tactical & Sonar Systems.

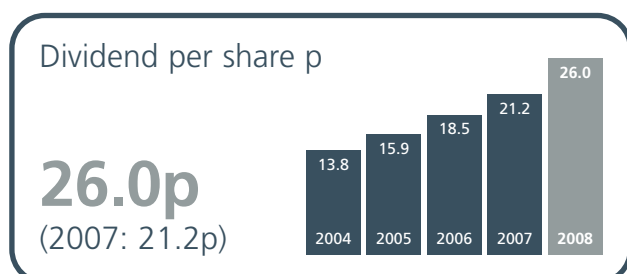
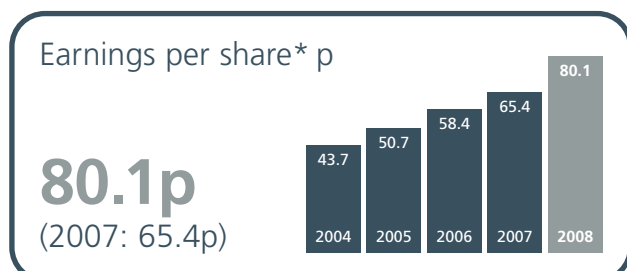
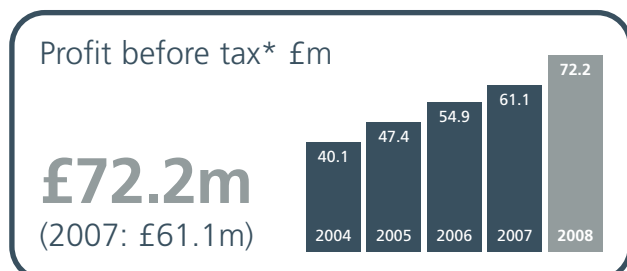
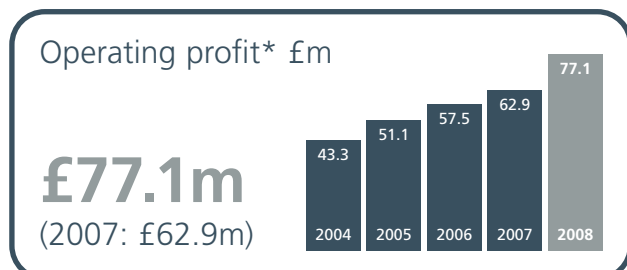
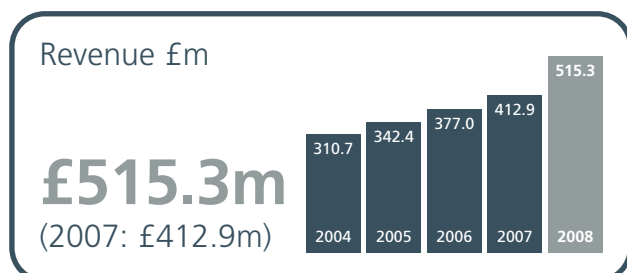


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Cautionary Statement

This document contains forward looking statements that are subject to risk factors associated with, amongst other things, the economic and business circumstances occurring from time to time in the countries and sectors in which the group operates. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a wide range of variables which could cause actual results to differ materially from those currently anticipated.

Financial Highlights



*see footnote

Footnote

Throughout this document, the terms **headline operating profit**, **headline profit before tax** and **headline earnings per share** have the same meaning as, and are used interchangeably with, **operating profit***, **profit before tax*** and **earnings per share*** respectively.

Headline operating profit*, **operating profit*** and **operating margin*** are before amortisation of intangibles arising on acquisition. IFRS profit from operations £64.1m (2007: £59.0m). See Note 2 for reconciliation. **Headline profit before tax** and **earnings per share*** are before amortisation of intangibles arising on acquisition and fair value movement on derivatives. IFRS loss before tax £2.9m (2007: profit before tax £56.6m). See Note 2 for reconciliation. **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. **Net debt*** comprises bank overdrafts and loans less cash and cash equivalents. **Organic revenue growth*** is the annual rate of increase in revenue 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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Chairman's statement



Dr Julian Blogh, Chairman

Dear shareholder

I am pleased to report that 2008 has been another good year for Ultra. The Group, which is a specialist supplier of electronic systems, products and services, focuses on growing markets within the defence, security, transport and energy sectors. Ultra has continued to benefit from the successful execution of its strategy. Indeed, the Group strengthened its portfolio of niche offerings and broadened its geographic reach during 2008.

The Group increased profit before tax* by 18% and generated an operating cash flow* of £79 million whilst investing more in new markets, technologies, products and capabilities. As a result of this performance we are proposing to increase the total dividend per share by 23% to 26.0p. This is in line with the Group's policy of maintaining dividend cover at about three times.

Most importantly, the year has also seen us make good progress relating to the Board's main objective of delivering superior performance to shareholders, as measured through total shareholder return. Although 2008 was a year in which nearly all shares fell in value, Ultra outperformed the FTSE 250 index as a whole again in the year, as it has done over the last five years.

Ultra has a robust annual strategic review process. Each year, 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 robust 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 a strong position 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 subcommittees and each individual Director are assessed over a rolling two year period. In 2008 the effectiveness of the Board as a whole was reviewed with the assistance of an external consultant.

The composition of the Board is changing. Dr Frank Hope left the Group in June 2008 and was not replaced on the Board, which now comprises four non-executive directors and three executive directors.

It has previously been announced that David Jeffcoat will retire and Andrew Walker will step down at the Annual General Meeting in April 2009.

David has been Group Finance Director since 2000 and has been outstanding in that role. He has consistently demonstrated an

"Your company has maintained its long-term focus on gaining strong market positions. The Group is a specialist supplier of electronic systems, products and services in growing sectors within the defence, security, transport and energy sectors."

independence of thought, thorough professionalism and a real focus on supporting the development of the Group. I wish him a long, happy and healthy retirement.

David will be succeeded by Paul Dean who has a broad range of experience in the quoted and private sectors and an excellent track record of achievement. Paul joined Ultra at the start of the year and will succeed David on the Board as Group Finance Director at the AGM. I welcome Paul to Ultra and am confident that he will prove to be an excellent successor to David.

Andrew Walker has been a non-executive director of Ultra since 1996 and has been the senior independent non-executive director since 1998. We will miss Andrew's incisive and challenging review of the Group's strategies and tactics and we wish him well for the future.

I am delighted to welcome Sir Robert Walmsley to the Board as a non-executive Director. I am certain that Sir Robert's wealth of experience will be a great asset to the Group.

With these changes, Chris Bailey becomes the Board's senior independent non-executive director. David Garbett-Edwards has been appointed Company Secretary. He is a qualified accountant who has many years experience with the Group.

Ultra's excellent employees are central to the Group's success and, on behalf of the Board, I thank them for their hard work and dedication. 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.

Once again I am able to report that your company is in excellent condition and is on course to continue to deliver superior shareholder value. The Group is positioned in market sectors worldwide that continue to offer significant headroom for further growth. Many of Ultra's niche markets are also relatively resilient in terms of maintaining growth despite current market conditions. These factors, combined with Ultra's proven ability to win new business and to deliver customer satisfaction through the effective execution of contracts, give the Board confidence in the continuing progress of the Group.

Dr Julian Blogh, Chairman

Chief Executive's report

Ultra's objective



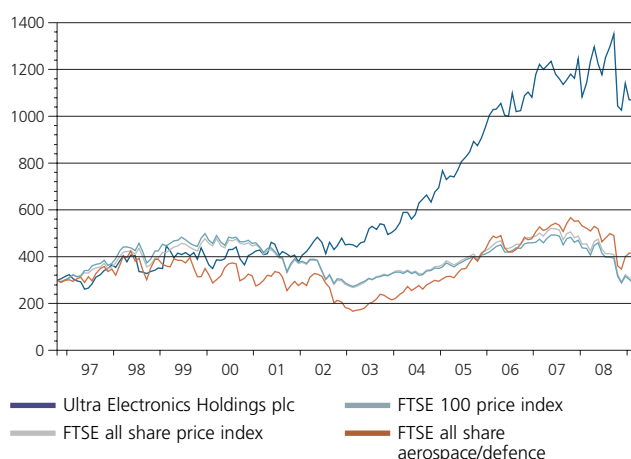
Douglas Caster, Chief Executive

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.

The superior financial performance that is required in order to meet the above objective will be derived from 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 markets in which the Group operates. The corporate strategy adds value by focusing on Ultra's investments in acquisitions and in significant internally funded development programmes.

Ultra's track record of delivering above average shareholder returns since flotation in 1996 is shown in the following graph:

Ultra share price (pence)



Competitive strategy

The resilience of Ultra's financial performance is derived from the Group's broad mix of specialist activities within its twenty four businesses, within which the Group has over 100 distinct market or technology niches. The diversity of niches enables Ultra to contribute to a large number of defence, aerospace and civil platforms and programmes and provides resilience to the Group's financial performance. Ultra has world-leading positions in many of its niches and, as an independent, non-threatening partner, is able to support all of the main prime contractors with specialist capabilities and solutions. As a result of such positioning, Ultra's

Earnings per share*

22% growth
80.1p
(2007: 65.4p)

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 niche capabilities enables it to win contracts as a sub-systems integrator for complex systems, often involving a number of different Group businesses. Increasingly, Ultra 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. 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. During 2008 Ultra invested a total of £125.5m (2007: £69.8m) in acquisitions, research and development, capital expenditure and new business development. Eight acquisitions were made in 2008. 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 operating profit* to operating cash flow* has been 99%.

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. In the short term, the rate of expenditure on acquisitions may reduce as focus is maintained on ensuring that the Group retains a strong balance sheet.

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*see footnote on page 01

Chief Executive's report

Ultra's strategies to achieve the Group's objective

Ultra's success has been achieved by positioning its products and services on a broad range of international, long-term platforms and programmes. These positions are created by applying strategies to ensure that Ultra's offerings are differentiated from those of the competition in a way that the customer values. Focus is sustained on creating and maintaining this differentiation and on continuing to provide innovative solutions to satisfy evolving customer requirements.

The following strategies are a constant in the way that Ultra operates:

1 To concentrate on aerospace and defence

The Group's core competencies, domain knowledge, and market positions give it particular credibility in the aerospace and defence sector worldwide. Core competencies include market positioning through a thorough understanding of customers' operational requirements; responding to complex invitations to tender or requests for proposals to capture large contracts; the management of complex development programmes where risks need careful identification and control; manufacturing and aftermarket support over long timescales and the discipline to meet our commitments. The breadth of capabilities of the Group is increasing and allows for adjacent markets to be served where they exhibit growth and Ultra's core competences match their needs well, such as security and energy.

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

Within the Group's twenty four businesses, over one hundred niches can be identified where the aim is to sustain competitive advantage and achieve a world-leading position within a reasonable time frame. The Group values its portfolio of niches, since each offering can be defended against competition through barriers to entry resulting in the potential for superior financial performance. The broad spread of niches provides a high level of resilience for the Group in the face of technological changes or funding cut backs. This spread also gives the Group low dependency on any single programme or platform.

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

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

4 To grow organically and by acquisition

Each Ultra business has a contribution to make to the organic growth of the Group, as well as identifying well matched acquisition targets. To ensure that organic growth is achieved, businesses produce annual five-year strategic plans that target specific opportunities. The focus on cash generation is a key driver to the affordability of suitable acquisitions to augment the Group's growth rate. The Group's acquisition strategy is summarised as being the pursuit of bolt-on or bolt-in acquisitions that: are defence or aerospace based; are in a growth market sector; augment a current niche, or; add a new, related niche, or widen Ultra's geographic reach.

The ideal size of acquisitions, as measured by annual revenue, is currently about £30m to £70m for bolt-ons and up to £15m for bolt-ins. 'Organisation transforming' acquisitions are unlikely owing to the risk profile of such acquisitions. The Group will seek to maintain a robust portfolio of niche activities.

5 To have an efficient organisation with committed and competent people

Ultra seeks to maximise efficiency throughout its organisation. The levels of commitment and competency of business management teams is continuously assessed through strategic, budget, organisation and succession, and regular business performance reviews. The Group places a high degree of trust in, and has high expectations of, its senior staff and supports their development and improvement activities. Ultra empowers management teams to run their respective businesses to deliver agreed strategies, meet or beat budgets and continuously develop their people. Ultra constantly develops its people and structure through a rigorous, annual organisation and succession planning process. Specific personalised training programmes are identified and provided as necessary, and good performance is rewarded through career development, bonuses and share options.

6 To be an excellent and strategic supplier to our customers

Having established an initial relationship with customers by offering innovative solutions, the Group's businesses are expected to maximise these positions for the long term. This is achieved by nurturing relationships through sustained on-time delivery of high quality products and services. Businesses often create strategic relationships rather than arms-length customer-supplier relationships by offering long-term support or through-life solutions. Many of the Group's niche offerings involve the design and supply of complex products and services which are typically safety or performance-critical in their application. This creates a dependency from the customers' perspectives and encourages a long-term strategic relationship where Ultra's businesses become part of the customers' extended enterprises, to mutual benefit.

7 To gain competitive advantage by internal and external teaming

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

8 To meet our commitments

Ultra has built a reputation of meeting its commitments. This reputation is not only based on businesses meeting their obligations, but also by establishing a culture within the Group which is based on this principle. The management team in each business is required to ensure that potential commitments are fully understood before they are entered into. The team must then encourage behaviours that support the fulfilment of commitments made. Ultra believes that this reputation for meeting commitments is one of its defining and most valuable characteristics. Behaving in this way fosters long-term relationships.

Ultra behaviours

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

Leadership Entrepreneurship Audacity Paranoia

Within Ultra these are known as the **LEAP** behaviours

Leadership

- communicating inspirationally the future direction of the business
- 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
- thinking the unthinkable to grow 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

There is a description of Ultra's strategies to develop its people on pages 8 and 9 of the report. This includes actions to encourage and reinforce **LEAP** behaviours.

Chief Executive's report

Key Performance Indicators

Performance indicator	Definition	2008 result	2007 result
1 Revenue growth	Growth in total Group revenue compared to the prior year.	25%	10%
2 Profit growth	Growth in Group profit before tax, amortisation of intangibles arising on acquisition and fair value movement on derivatives compared to the prior year.	18%	11%
3 Order book visibility	Order cover for next financial year as percentage of market consensus sales forecast for the year.	65% cover on nominal 2009 revenue of £600m	60% cover on actual 2008 revenue of £491m excluding new acquisitions in the year
4 Growth in earnings per share over a three year period	Annual growth in earnings per share, before amortisation of intangibles arising on acquisition and fair value movement on derivatives, calculated over a rolling three year period.	16%	14%
5 Cash conversion	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 before amortisation of intangibles arising on acquisition.	102%	83%
6 Interest cover	The ratio of profit from operations before amortisation of intangibles arising on acquisition to finance costs associated with bank borrowings.	19 times	29 times
7 Relative total shareholder return	Annual total shareholder return (capital growth plus dividends paid, assuming dividends reinvested) over a rolling five year period compared to the FTSE 250 index.	+14% p.a.	+4% p.a.

The indicators shown above have been identified by the Directors as giving the best overall indication of the Group's long-term success. **Revenue growth** gives a quantified indication of the rate at which the Group's business activity is expanding. **Order book visibility**, based upon expected sales during the year to come, gives the Board confidence as to the achievement of future growth forecasts. 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 **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

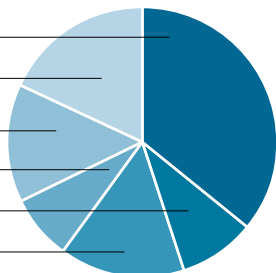
cash, which can then be reinvested in the business in the form of acquisitions. The Board uses **operating cash conversion*** as a simple yet reliable measure of cash generation, which represents the major element of the Group's short-term incentive bonus scheme. Whilst free cash will continue to fund 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.

Chief Executive's report

Ultra and its strategic positioning in growing niche markets

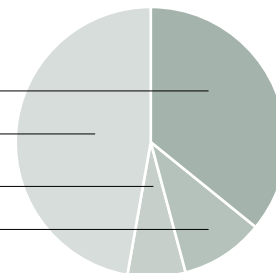
Revenue by sector

Battlespace IT	36%
Sonar	18%
Civil equipment	14%
Defence equipment	8%
Civil aircraft equipment	9%
Military aircraft equipment	15%



Revenue by region

United Kingdom	36%
North America	47%
Rest of World	7%
Mainland Europe	10%



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

Sectoral portfolio

Across the Group's three divisions, the major market sectors in which Ultra operates are:

- **battlespace IT**, summarised as being the systems and equipment that allow coalition commanders to have an integrated, real-time picture of the disposition of friendly and enemy forces that is better than the one available to the enemy. This information superiority underpins rapid decision making which, together with effective command, control and communications, translates into military superiority. The use of battlespace IT is transformational in the capability to win future battles and is able to transform the military capability of existing platforms through upgrade programmes. Expenditure on battlespace IT equipment therefore continues to represent an increasing share of the total defence budget in the main markets in which Ultra operates.
- **sonar systems**, expanding Ultra's traditional world-leading airborne anti-submarine warfare capability into broader activities in the underwater battlespace. These include integrated ship and submarine sonar systems, persistent seabed-deployed sensor arrays, torpedo defence and sea mine disposal systems. The fact that over forty countries have, between them, more than four hundred highly capable, stealthy submarines is continuing to focus expenditure in this sector.
- **civil and military aircraft equipment**. Ultra provides specialist sub-systems and equipment for military and civil aircraft. The main military aircraft programmes on which Ultra equipment is fitted continue to have political support, underpinned by consistent financial commitment. For civil aircraft, large order backlogs at all the major aircraft manufacturers underpin high build rates for the medium term.
- **specialist defence equipment**, including power conversion and signature management systems for naval ships and submarines. Ultra's specialist capability in high integrity controls for submarine nuclear reactors is included in this sector, for which there is continuing commitment to new platforms and the upgrade of existing boats. Ultra also supplies advanced sub-systems for modern armoured vehicles including those for electrical power management, rugged networks and weapon control. The need for increased mobility and force protection is driving a number of large military vehicle procurements in Ultra's main markets.

- **specialist civil systems and equipment**, including Ultra's advanced airport IT solutions. Airline passenger growth around the world is driving long-term expansion and upgrade of airport infrastructure. Ultra supplies trackside power equipment for rail transit systems, for which demand continues driven by the need to expand and upgrade rail networks. The UK market for nuclear power generation is expanding and Ultra's offering derived from its equivalent military capability is well positioned to benefit.

Regional portfolio

Since the Group's formation in 1993 with seven UK-based businesses, Ultra has pursued a strategy of gaining access to the largest two 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 'rest of the world' is capable of expansion as a proportion of Ultra's portfolio. In 2008 the Group took steps to initiate an increase in sales in new areas of the world.

The acquisition of Dascam provides a route to markets in the Middle East with a proven track record of success. Dascam is a growing, profitable and cash generative business and therefore supports the continuing growth of Ultra in its own right. Dascam will, however, be able to help exploit many of the Group's numerous niche capabilities where they align with real customer requirements. This will augment Ultra's rate of growth in the region.

Ultra has activities in a number of countries around the world that can act as the base for further growth. The Group can and will, for example, leverage its success in winning an advanced sonar system in Turkey. Similarly, Ultra has won an important sonar contract in Australia that will require the creation of an in-country capability. This can then be used as a route to market for other Ultra specialist capabilities where they can satisfy customer needs not just in Australia but in the region more broadly.

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Chief Executive's report Strategies to develop Ultra's people



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 twelve 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.

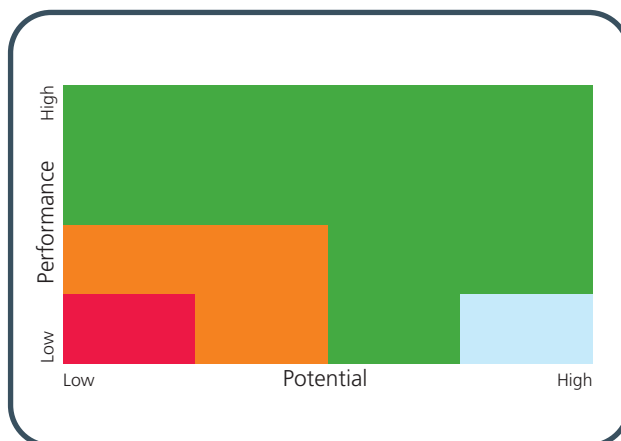
In 2008 the management span of control at the divisional managing director level was rebalanced with the creation of a fourth position, as shown on the extract of the organisation chart on the inside front cover. The management structure and processes at the executive team level were reviewed to ensure that they were capable of supporting the further growth of the Group over the five year period of the strategic plan.

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, 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 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 2008 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 divisional and business levels through internal promotion. In 2008 eight of the nine appointments at this level were filled internally. This proportion has been broadly consistent over the last two 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. In 2008 about 1,000 new employees joined Ultra in total. Interaction of new employees with existing staff is encouraged where possible to spread the 'Ultra culture' as effectively as possible.

In 2008 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.

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 three 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 in this regard of about 1% per year.

In order to ensure that Group businesses can recruit, retain, motivate and develop the right people, Ultra pursues a range of initiatives, which are described below.

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.

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 Supérieure (ETS) currently held by Professor Francois Gagnon who leads a number of research projects in wireless communications and related technologies.

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.



Retirement benefits

Ultra offers retirement benefits to employees in the UK, US and Canada. Further details are provided on page 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 2009 through an award from Texas Monthly Magazine and the Texas Association of Businesses.



portfolio strength...
...underpinning growth

Chief Executive's report

Ultra's performance in 2008

£125.5m

investment by Ultra in acquisitions, new business development and facilities

(2007: £69.8m)

£783.5m

order book value at the end of 2008

Ultra's 2008 results

Ultra made further progress in the year, achieving strong revenue and profit growth. The resilience of the Group's performance in the year demonstrated the benefit of having a broad portfolio of niche activities. Margins were maintained after funding an increased investment in systems for new platforms that will support further growth of the Group. Full year contributions were made by the four acquisitions made in 2007, together with part year contributions from the eight acquisitions made in 2008. Ultra's continuing success in winning new business on a broad range of international programmes resulted in a record order book of £783.5m at the year-end.

Group results

Revenue increased to £515.3m, a rise of 25% over the prior year of which 16% was organic*. At constant currencies growth was 20% of which 11% was organic*. Operating profit* increased 23% to £77.1m (2007: £62.9m) with the operating margin* being maintained at 15%. In 2008 Ultra increased its investment in the development of new business and products so the charge against operating profit* rose by £6.1m to £33.1m (2007: £27.0m). Ultra reviews all such investments to ensure that there is a robust business case leading to an acceptable return for the Group in the medium term. Net financing charges, excluding fair value movement on derivatives, were £3.1m higher at £4.9m (2007: £1.8m) due to higher borrowings through the year as a result of increased acquisition spending and the nominal pension interest charge of £0.8m (2007: credit of £0.3m). Headline profit before tax was £72.2m (2007: £61.1m), an increase of 18%.

There was a reduction in the Group's headline tax rate from 27.5% to 24.6% in the year, reflecting the tax benefits of acquisitions in the USA, an associated increase in borrowings in that country and an increase in R&D tax credits. This reduced tax rate augmented the strong headline operating profit growth to generate a 22% increase in earnings per share* to 80.1p (2007: 65.4p).

Operating cash flow* was again strong at £79.0m (2007: £52.2m). The conversion of operating profit* to operating cash flow* in the year was 102%. Over the last five years, the Group's average cash conversion* has been 99%, reflecting the high quality of Ultra's earnings and effective management of working capital. Net debt* at the end of the year was £63.9m compared to £14.2m at the end of 2007. This increase of £49.7m was after total net cash expenditure on acquisitions in the year of £78.8m (2007: £31.0m) including the payment of deferred consideration in respect of acquisitions made in prior years. Ultra also invested £33.1m (2007: £27.0m) on new product and business development and a

further £14.2m (2007: £8.6m) on new fixed assets. This investment of Ultra's funds was supplemented by further funding from customers for dedicated product development activities. In 2008, this amounted to £83.3m (2007: £74.8m) and so, in total, spending on new product and business development was equivalent to more than 25% of Group revenues (2007: 25%).

The order book value at the end of 2008 was a record £783.5m, an increase of 26% in the year. Consolidation of the order books of acquired businesses and currency effects each contributed 7% growth but there was also 12% organic growth at constant currencies. This order book maintains historic levels of firm order cover for the coming year and so provides the Group's customary level of forward visibility.



Ultra supplies systems that transmit to a Rigid Inflatable Boat (RIB) a situational awareness picture, centred on the RIB but using data from the mother ship radar. Ultra also supplies world-leading intercom systems for the RIB crew.

Acquisitions

Ultra made eight acquisitions in 2008. They have enhanced the Group's portfolio of offerings and are typical of Ultra businesses in having strong positions in growing niche markets. The total net cash consideration for these acquisitions was £78.8m including expenses, financed largely using Ultra's cash resources. The acquisitions were:

- **AudioSoft**, based in Cirencester, Gloucestershire, provides data recording and analysis solutions that allow organisations to record, preserve and rapidly locate important information. AudioSoft is part of the Tactical & Sonar Systems division.

20%
revenue growth at constant currencies

99%
Ultra's average operating cash conversion* over the last five years

- **Dascam** is a leading defence consultancy in the Middle East, providing specialist resources which deliver customised consultancy and training services for the defence, security and government infrastructure markets in the region. While Dascam will act as a portal for many of Ultra's niche activities from across the Group, organisationally it is part of the Aircraft & Vehicle Systems division.



Ultra's Dascam business, based in Abu Dhabi, provides innovative performance consultancy and associated training solutions. Areas of specific expertise include advanced security, safety and risk management systems.

- **Graytronics** is a small business that specialises in the supply of marine intercom systems for customers that include the UK MoD, US Coastguard, British Petroleum and the Royal National Lifeboat Institution. Graytronics has been relocated to become part of the SML business near Southampton in Ultra's Information & Power Systems division.
- **Harris**, based in Massachusetts, US, specialises in the design, supply and support of submarine acoustic transducers and arrays. It is now part of Ultra's Ocean Systems business, within the Group's Tactical & Sonar Systems division.
- **MISL**, based in Nova Scotia, Canada, designs, supplies and supports magneto inductive guidance, signalling and communications equipment. It is part of Maritime Systems also in the Group's Tactical & Sonar Systems division.

- **Nuclear Sensors & Process Instrumentation** (acquired as Weed Instrument Co., Inc.) is based in Round Rock near Austin, Texas, USA. NSPI specialises in pressure and temperature sensors and fibre-optic converters and switches for use in nuclear, aerospace and military applications. It is in the Group's Information & Power Systems division.
- **ProLogic**, operating in various states in the US, provides specialised products and solutions for mission-critical enterprise IT, tactical data communication systems and intelligence processing infrastructures, as well as independent IT consulting services to US government customers. ProLogic is now also part of Ultra's Information & Power Systems division.
- **Radmon** provides neutron and radioactive detection sensors and systems to military and civil customers in the UK. It is to be integrated into Ultra's Command & Control Systems business in the Information & Power Systems division which is where Ultra has concentrated its nuclear systems activities, both military and civil.



Ultra is expert at the design, manufacture and support of high integrity control systems for nuclear reactors. These integrated systems, both civil and military, include the specialist sensors that detect the level of activity in the reactor.

*see footnote on page 01

portfolio strength...
 ...underpinning growth

Chief Executive's report

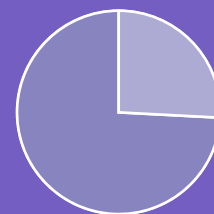
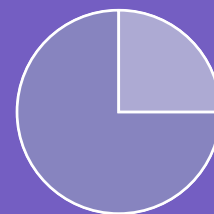
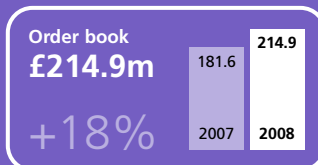
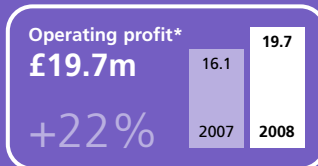
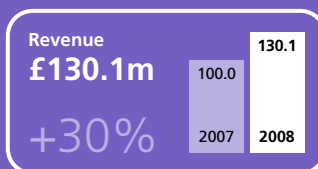
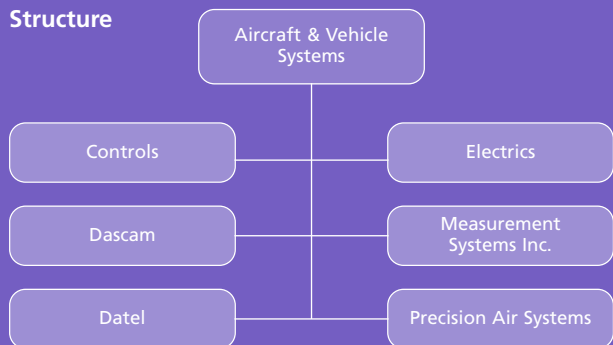
Aircraft & Vehicle Systems

At a glance

Major systems and products

Airframe ice protection systems; Active noise and vibration control; Aircraft system electronics; Aircraft system test equipment; High-integrity data bus network nodes; Armoured vehicle electronic systems; Collaborative working environment solutions; Crisis information management systems; High integrity software and systems; HiPPAG airborne compressors; Specialist pneumatic sub-systems; Human/machine interface equipment; Manned and unmanned vehicle control equipment; Remote weapon station control equipment; Performance consultancy; Rugged aircraft harness systems; Specialist sensors; Training solutions

Structure



Number of employees

869



Major Customers

- BAE Systems
- Boeing
- Bombardier
- EADS
- Finmeccanica
- GE
- Raytheon
- UK MoD
- United Technologies
- US DoD

portfolio strength...
...underpinning growth

+30%

revenue growth* for
Aircraft & Vehicle Systems



Revenue in Aircraft & Vehicle Systems increased by 30% to £130.1m compared to £100.0m in 2007 and operating profit* increased 22% to £19.7m (2007: £16.1m). These results include full-year contributions from Atkins and BCF Designs, both acquired late in 2007, together with a one month contribution from Dascam. The division's order book increased during the year by 18% to close at £214.9m (2007: £181.6m).



The 30% growth of revenue in the year was driven by acquisition and by solid demand across the division's businesses for equipment and systems fitted to aircraft, both military and civil, and to armoured vehicles. Operating profit* growth was lower at 22% reflecting a change in product mix with growth of higher volume products that generate a lower margin, for example hand controls for US armoured vehicles and equipment fitted to Airbus aircraft. The operating margin* was also suppressed by the increased charge against profit relating to investment in new aircraft systems.

Highlights of the division's performance in the year that will underpin continuing growth included:

- a contract extension awarded by Pratt & Whitney, US, to develop key elements of the lift fan ice protection system for the vertical lift fan fitted to the STOVL versions of the Lockheed Martin F-35 Joint Strike Fighter
- a contract to develop a secure communications network on behalf of the UK government to be used for civil contingency response planning
- selection by Boeing to provide an innovative cable harness protection system for its new 747-800 aircraft



*see footnote on page 01

Chief Executive's report

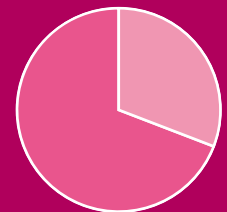
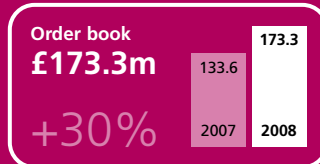
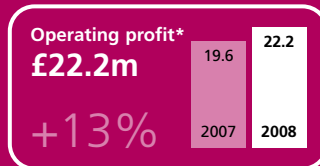
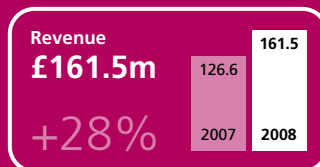
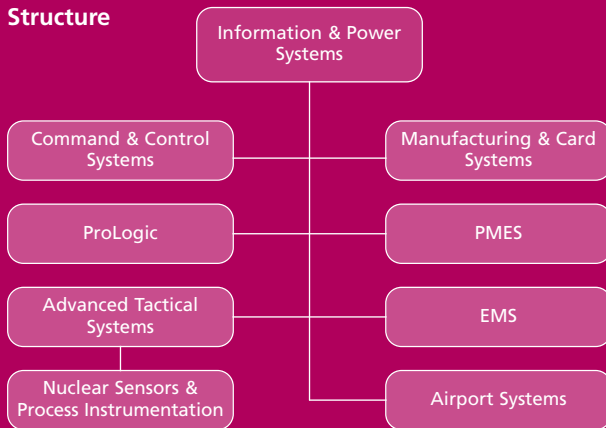
Information & Power Systems

At a glance

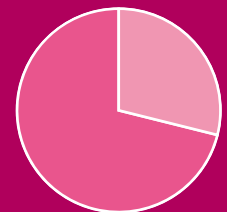
Major systems and products

Airport information management systems; Airport-wide systems integration; Land mine countermeasure systems; Combat systems; Command, control and information 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

Structure



Revenue £161.5m 31%



Operating profit*
£22.2m 29%

Number of employees

1,614



Major Customers

BAE Systems
British Energy
EADS
General Dynamics
Lockheed Martin
Raytheon
Rolls-Royce
UK MoD
US DoD

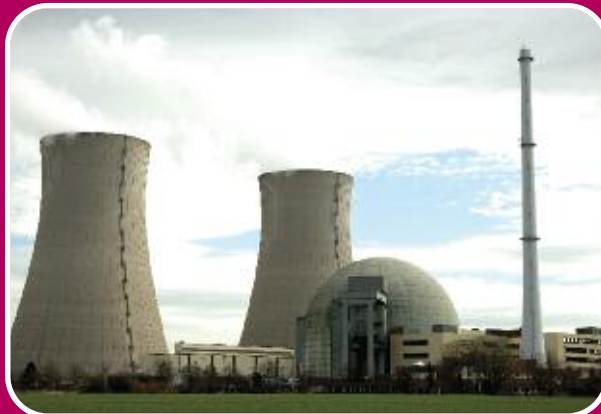
portfolio strength...
...underpinning growth

+28%

revenue growth* for
Information & Power Systems



Revenue in Information & Power Systems grew by 28% to £161.5m compared to £126.6m in the previous year. Operating profit* increased by 13% to £22.2m (2007: £19.6m). The order book at the end of the period had increased by 30% to £173.3m (2007: £133.6m).



Revenue growth included an initial contribution of £17.0m from ProLogic, acquired in June 2008, though these 'cost-plus', low risk sales generated an operating margin* lower than the Group average. The other acquisitions in this division occurred later in the year and so did not have a material impact. Revenue and operating profit* growth reflected increased sales in the second half of the year of specialist power equipment for naval vessels and for mass transit systems. There was also an increase in demand for security and surveillance systems to protect UK bases for current operations in Afghanistan.

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

- further demand for ADSI, Ultra's real-time command and control system, including applications outside the US, notably Asia, and derivatives for airborne use
- the award in the second half of the year of additional contracts for transit system trackside power equipment supporting the improvement of London's transport infrastructure
- winning contracts to supply control systems and sensors for military and civil nuclear reactors



*see footnote on page 01

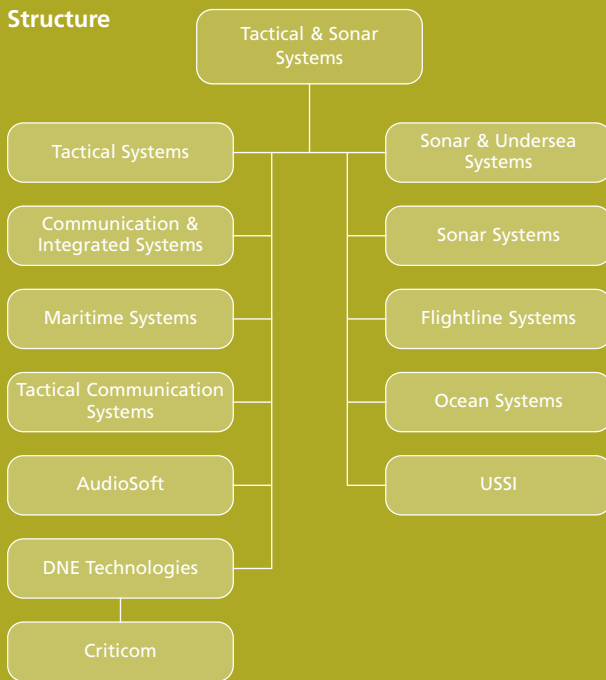
Chief Executive's report Tactical & Sonar Systems

At a glance

Major systems and products

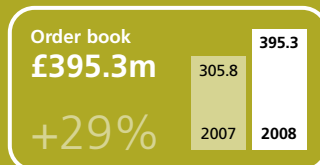
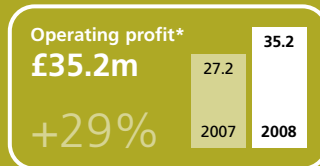
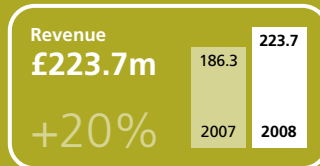
Acoustic countermeasure systems; Airborne anti-submarine warfare systems; Autonomous underwater surveillance systems; Airborne targeting pods; Communications network interfacing equipment; Data recording and analysis solutions; Cryptographic equipment; Data link communication systems; Loitering munition 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

Structure



Number of employees

1,526



Revenue £223.7m 43%



Operating profit*
£35.2m 46%

Major Customers

- Australian DMO
- BAE Systems
- Boeing
- Canadian DND
- Korean DoD
- Lockheed Martin
- Raytheon
- UK MoD
- US DoD

portfolio strength...
...underpinning growth

+20%

revenue growth* for
Tactical & Sonar Systems



Strong battlespace IT demand, especially from US forces for communications equipment and tactical radio systems, drove the revenue and operating profit* performance in the year. Deliveries of Ultra's traditional anti-submarine warfare sonobuoys and sonobuoy receivers 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 2008:

- excellent order intake for the Group's enhanced line-of-sight tactical radios
- a contract to supply an integrated sonar suite for new Australian navy destroyers
- the increasing application of Ultra's specialist underwater acoustic expertise for use in advanced networks of long-life, distributed sensors

Revenue in Tactical & Sonar Systems increased by 20% to £223.7m (2007: £186.3m) and operating profit* rose 29% to £35.2m (2007: £27.2m). These results include a full-year contribution from Criticom which was acquired during 2007. The costs of moving both MISL and Harris to nearby Ultra sites meant that these acquisitions were earnings-neutral in 2008. The closing order book was £395.3m (2007: £305.8m), an increase of 29% in the year.



*see footnote on page 01

Chief Executive's report Influences on the Group's long-term value

Market trends likely to impact future prospects

Budgets have risen over recent years in Ultra's main defence markets in both the US and UK. The continuing costs of peacekeeping operations are, however, straining these defence budgets. Nevertheless, overall defence budgets are sufficiently large to provide substantial headroom for the continuing growth of Ultra.

In the US, Ultra's biggest defence market, the defence budget for 2008/9 is over \$515 billion to fund the necessary strategic investments to modernise and recapitalise key capabilities in the armed forces. That figure does not include the tens-of-billions of dollars in expected costs for US operations in Iraq and Afghanistan. The administration funds the Iraq and Afghanistan deployments through separate legislation. The President's defence budget request for FY10 totals \$527 billion and makes allowance for continuing training and maintenance and the resetting or re-equipping of forces following overseas deployments.

Within the US and UK defence budgets, expenditure continues to be focused on improving command and control through achieving information superiority, on enhancing the ability to deploy forces rapidly and in providing increased protection for personnel. The number of new platforms being built may decline in future years but an increasing share of defence budgets will be spent on maximising, through the application of advanced electronic solutions, the capabilities of new and existing platforms. Ultra has pursued a strategy through investment in product niches that has positioned the Group to benefit from these trends. Moreover, Ultra constantly seeks opportunities to offer new products and services to meet such customer requirements.

In the US, Canada, Europe and the UK new Anti-Submarine Warfare (ASW) aircraft, both fixed and rotary wing, are being procured. This is evidence that the decline in one of Ultra's traditional market sectors, that of ASW, is bottoming out. In the longer term, the entry into service of these platforms might be expected to increase the annual consumption and therefore demand for sonobuoys, the acoustic sensors that are used to detect submarines and for which Ultra is the world-leading supplier. There is also strong interest on both sides of the Atlantic in deploying advanced sensor systems to improve the ability to sanitise coastal waters, where amphibious operations may be mounted, from the threat posed by stealthy submarines. Ultra is already under contract to develop 'multi-static active' sonobuoy systems as well as persistent distributed sensor networks to satisfy this requirement.



Ultra provides advanced, multi-function pilot's stick-tops for 'flying' uninhabited air vehicles



Ultra sold an increased number of HiPPAG airborne compressors to the US Navy in 2008

In the military aircraft sector Ultra provides specialist sub-systems and equipment. The main military aircraft programmes on which Ultra equipment is fitted include the F/A-18 E/F Super Hornet and the F-35 Lightning II Joint Strike Fighter. These programmes continue to have political support, underpinned by consistent financial commitment. Ultra has production contracts for both the second tranche and export quantities of the Eurofighter Typhoon aircraft. The Group also has firm contracts for the design and delivery of 192 aircraft sets of equipment for the new Airbus A400M military transport aircraft. The Group is also positioned on Boeing's 'Small Diameter Bomb' programme which will require over 2,000 bomb racks, each of which will contain a HiPPAG compressor.

Recent terrorist attacks have emphasised that the level of threat is not reducing. The perceived threat to individuals and to economically important assets, together with the need to protect borders and coastlines from illegal immigrants and smugglers, are driving an increase in global demand for intelligence, surveillance and enforcement systems, a market sector in which Ultra has innovative and cost-effective solutions.

Unmanned vehicles will become an increasingly important element of fighting forces worldwide. This reduces both the cost per platform and the risk to personnel from enemy action. For Ultra, this will reduce demand for specialist Human-Machine Interface (HMI) equipment used in cockpits. Anticipating this, Ultra has positioned its HMI equipment for use on base stations that control the unmanned vehicles. Unmanned air vehicles must be controlled using high integrity radio links and Ultra has developed an innovative solution that is being adopted as an international standard. Ultra is also positioned to supply the air-to-ground communications sub-system of unmanned air vehicle systems that, in addition to acting as surveillance assets, will be able to attack time-critical targets at long range.

In civil markets both Airbus and Boeing have aircraft order backlogs equivalent to seven years' production. In the short term there may be some flattening in the rate of aircraft build as airlines are impacted by the global economic slowdown. In the medium and long term there will be greater demand for air travel as a result of growing populations with higher disposable incomes. This also stimulates after-market spares and repair activity. Ultra has niche technology offerings that have well established positions on long-term aircraft build programmes that should provide a flywheel effect for Ultra's civil aerospace sales. Ultra's newer



Ultra is supplying its innovative wing ice-protection system, proximity sensors and control electronics for Boeing's new 787 aircraft programme

technology of wing ice protection has achieved a position on the Boeing 787 aircraft which is set to become one of the world's most successful aircraft programmes with firm orders at the end of 2008 for 879 aircraft.

The long-term worldwide increase in air travel drives investment in infrastructure including airport IT systems. Ultra is an internationally competitive supplier of advanced airport IT systems and of integration services. The Group continues to win new business around the world, reflecting the global nature of this market sector. In the short term the global economic slowdown will reduce demand in some regions of the world. Ground transport systems also require continuing investment in regions of high population density, a trend from which Ultra benefits. Ultra specialises in the supply of trackside power supplies for mass transit systems. In London, preparation for the 2012 Olympic Games is resulting in a high level of investment in the transport infrastructure and Ultra will supply equipment as part of this upgrade programme.

In the UK the strategic need to maintain independence of energy supplies and the need to reduce carbon emissions are driving an increasing level of planned investment in civil nuclear power generation. This is a market in which Ultra has niche capabilities, both in specialist sensors and, potentially, the supply of high integrity control systems derived from the Group's experience in the provision of the naval equivalents. Ultra has augmented this niche position with the acquisition in 2008 of the Nuclear Sensors & Process Instrumentation business in the US and the Radmon activity in the UK. This market includes the refurbishment and life extension of existing installations and these activities will grow rapidly in the short and medium term. This will be further boosted by demand for sensors and systems for new power stations.

The order book value at the end of 2008 was a record £783.5m, an increase of 26.2% in the year. Part of the increase was due to the consolidation of the order books of acquired businesses but there was also strong organic growth. This order book maintains historic levels of firm order cover for the coming year and so provides the Group's customary level of forward visibility.

Resources

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 8 and 9 of this document.

An important Group resource is its excellent reputation with its customers. All employees strive constantly to ensure that this reputation is upheld. The eight Group strategies described on pages 4 and 5 of this document include a focus on being an excellent and strategic supplier and on meeting commitments.

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 civil aerospace and defence sectors. These risks will continue to be mitigated through robust business strategies.

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.



Modern airports around the world rely on Ultra's integrated IT solutions

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.

"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."



Ultra supplies its sonobuoy telemetry receivers to the world's anti-submarine warfare aircraft, both fixed and rotary wing



Ultra supplies innovative hand controls for remotely operated, above-armour weapons on armoured vehicles

The international spread of Ultra's activities provides resilience to its performance. The Group now sells its products and services in over thirty 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 agent on both sides of the Atlantic, thereby providing sovereign operational independence of the respective armed forces.

Importantly, Ultra has taken steps in 2008 to broaden geographically the base for the Group's further growth. 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. In addition, Ultra has started building a capability in Australia, not only to satisfy the immediate needs of the sonar system contract won in 2008 but also to 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 material 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.

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



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

in the UK. Variations in these exchange rates result in a currency translation risk. With the US dollar strengthening substantially during the year, notably in the last quarter, 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 7% and the Canadian dollar rate by 9%. These movements were smaller than those of the year-end spot rates because of the averaging effect. The combined impact was to increase reported revenue by 5% or £19.9m. On operating profit* the effect was an increase of 5%, equivalent to £2.9m. 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. Following the recent strengthening of the US dollar, however, a decision has been taken 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.

Contrary to the strengthening in the US dollar spot rates, the lag between when foreign exchange contracts were taken out and the dates that they mature meant that effective hedged rates for 2008 were weaker than in the previous year. The overall adverse impact on operating profit* was £4.8m. Ultra's effective hedged rates for selling US dollars in the coming year, based upon the forward contracts currently in place in the UK and Canada, are expected to remain virtually unchanged compared to 2008. For 2010 and beyond the outlook is for a

gradual strengthening in Ultra's effective hedged position, taking the existing contracts into account and assuming that the current spot rates remain unchanged.

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.

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 operating margins*.



Ultra supplies equipment that allows teams of firefighters to communicate effectively

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.

*see footnote on page 01

Chief Executive's report

Financial position of Ultra



David Jeffcoat, Group Finance Director

Operating cash flow*

Ultra extended its record of strong cash generation in 2008. The operating cash flow* was £79.0m (2007: £52.2m) after capital expenditure, capitalised development costs and LTIP share purchases. The ratio of cash to operating profit* was 102% with the result that the rolling five-year average was 99%.

Capital expenditure on property, plant and equipment increased by £5.6m in the year to £14.2m. The reason for the increase was that Ultra's PMES business moved, in early 2009, from two old sites nearby to a newly built facility in Rugeley, UK. Expenditure on the project in 2008 was £7.1m out of a total cost of £9.0m. The new building was completed on budget and ahead of schedule. This outlay in 2008 was partially offset by the disposal of one of the two existing sites, which raised £1.2m for the Group. A contract has been signed to sell the remaining site and it is planned that the sale will be completed early in 2010. The remaining capital expenditure was incurred mainly on upgrading Ultra's internal IT infrastructure and on installing new 'managed service' IT equipment at airports around the world. This equipment is typically leased to airline users over a five-year period.

Cash expenditure on capitalised product development and other intangibles was substantially lower in the year at £1.9m (2007: £5.5m). Reflecting increased uncertainty about the programme, no further costs were capitalised in the year relating to the development of systems for the Airbus A400M military transport aircraft. This meant that cash expenditure in the year of £2.3m was written-off against profit rather than being capitalised. With £1.2m of previously capitalised development costs for other products being amortised, the net charge against profit in the year from capitalising development costs was £0.6m compared to an operating profit* increase of £3.2m in 2007.

The cash impact of working capital movements was an overall inflow of £4.7m compared to an outflow of £5.6m in the previous year and this improvement was a key factor behind the improved cash generation in 2008. During a year in which organic revenue growth* at constant currencies was more than 10%, inventories increased by just £0.2m. Another important cash generator was an inflow of £18.9m on payables (2007: £0.3m). The value of payments in advance from customers on long-term contracts increased in the year, as did the value of trade payables. Receivables rose by £14.0m in cash terms (2007: £6.1m fall) with an increased balance due from customers on long-term contracts being a major cause. The level of debtor days outstanding at the year-end was also somewhat higher than in 2007, reflecting a change in the customer mix.

Bank interest cover

19 times

(2007: 29 times)

Acquisitions and intangible assets

The Group made eight acquisitions in the year with a total net cash outlay of £78.8m (2007: £31.0m), which included £3.0m relating to earn-out payments for acquisitions made in previous years. Three of the 2008 acquisitions, Harris Acoustic Products, Radmon and Graytronics, were relatively small with a total cash consideration of £10.3m including costs. Of this amount, £5.5m was paid during the year and the balance of £4.8m was deferred to future years. The tangible assets acquired were worth £1.4m at fair value, with the remaining £8.9m allocated to intangible assets and goodwill. ProLogic was acquired in June for £32.7m with net liabilities of £4.4m, resulting in £37.1m of goodwill and other intangibles. The Magneto Inductive Systems Limited acquisition took place in May and the total costs of £18.0m were split, with £5.5m being deferred until later years and the remainder being paid at acquisition. Net liabilities acquired were £1.7m leaving £19.7m to be allocated to goodwill and other intangibles. AudioSoft Ltd was acquired in August for a cash consideration of £10.7m, of which £3.1m was deferred. This total consideration was allocated £1.2m to tangible assets and £9.4m to intangible assets and goodwill. The acquisition of Weed Instruments Co. Inc. (now named Nuclear Sensors & Process Instrumentation) took place in November for a total cost of £22.2m, of which £10.1m was deferred. The value of net assets acquired was £0.1m with £22.1m allocated to intangible assets and goodwill. Also in November the Group acquired Blue Sky Group (International) Ltd (Dascam), for £19.7m in total, with £5.9m deferred. The tangible assets had a value of £2.9m and the remaining £16.8m was associated with intangible assets and goodwill. Intangible assets arising on acquisition are typically amortised over a period of five years. Although the goodwill is not amortised as a matter of course, it is subject to an annual impairment review.

Capitalised product development costs increased by £0.2m in the year, with a closing net asset value of £8.6m (2007: £8.4m). This movement was due to foreign exchange differences; the strengthening of the US dollar against sterling resulted in a net increase of £0.8m in the value of capitalised development costs denominated in that currency. Excluding currency effects there was a net reduction of £0.6m in the net carrying value of such assets. The balance of £8.6m at year-end includes £5.4m relating to the cost of development of systems for the Airbus A400M transport aircraft. Although uncertainty has recently increased regarding the future of this aircraft programme, the Group has firm production contracts for 192 aircraft sets, with termination clauses that would protect Ultra in the event that the programme were curtailed or cancelled. Therefore, Ultra remains confident

Operating cash flow*

£79.0m
 (2007: £52.2m)

>100 niches

portfolio strength

Ultra has a broad portfolio of over 100 specialist capability areas

that this intangible asset will generate sufficient commercial benefits to support the current balance sheet value. Amortisation of capitalised development costs commences when programmes enter the production phase and the typical amortisation period is between five and ten years, depending upon the expected commercial life of the products involved.

Interest and profit before taxation*

Net financing charges, excluding fair value losses on financial instruments and pension scheme charges, increased by £2.3m in the year to £5.3m. This was due to the additional debt financing that has been taken on to pay for the acquisitions made during the past two years. Ultra maintains cash on deposit in certain countries and the interest income on these funds rose by £0.4m in the year. Overall net bank finance costs rose to £4.1m (2007: £2.2m). They were covered 19 times by operating profit*.

There was an 18% increase in headline profit before tax to £72.2m (2007: £61.1m).

The amortisation charge for intangibles arising on acquisition was £13.0m compared to £3.9m in 2007. The reason for the large increase was the high level of acquisition spending during the second half of 2007 and in calendar year 2008. The total 'fair value' of foreign exchange hedging contracts fell by £62.1m during 2008. The majority of these are forward contracts to convert US dollars into sterling and Canadian dollars. The Group's UK and Canadian businesses hedge forward their US dollar-denominated sales revenues, typically over an 18 to 24 month period. 2008 was a year in which the US dollar strengthened significantly against these currencies, especially during the last quarter. The statutory loss that is being reported resulted from restating the value of these instruments at the spot exchange rates that applied at the end of the year. The change in the value of open contracts gave rise to a loss in the 'marked to market' value of the outstanding contracts as a whole. This compares to a smaller loss of £0.6m in 2007. It should be emphasised that this notional reported loss will never be realised; it is simply a timing effect. The benefit of the hedging contracts to the Group is to fix the value in local currency of future foreign currency sales receipts, thus reducing the uncertainty that would otherwise exist as to their realisable value. After the deductions for amortisation of intangible assets and the loss on financial instruments the Group is reporting a net loss of £2.9m before tax compared to a profit of £56.6m in 2007.

Tax, earnings per share* and dividends

The Group's headline tax rate was reduced to 24.6% (2007: 27.5%) reflecting additional benefits of tax incentives for research &

development expenditure, tax losses brought into the Group following an acquisition in Canada and the benefits of the tax treatment of recent acquisitions in the USA. Headline earnings per share increased by 22% to 80.1p (2007: 65.4p). The Board is proposing a final dividend of 18.0p, bringing the total dividend payout to 26.0p (2007: 21.2p). This would represent an increase of 23% and provide dividend cover of 3.1 times, which is consistent with the Board's long-term policy.

Financing

Free cash flow before dividends and acquisitions in the year was £54.7m (2007: £36.3m). After dividend payments of £15.2m the cash available for acquisitions was £39.5m. Total net cash acquisition spending was £78.8m during the year. The outstanding balance of £39.3m was funded partly by net cash raised through the exercise of share options, which amounted to £1.4m. The remainder of £37.9m was drawn down from the Group's bank facilities. With a significant proportion of Ultra's gross bank borrowings being denominated in US and Canadian dollars, the weakening of sterling against these currencies meant that net debt increased by a further £11.6m in sterling terms. The overall result was that net debt increased to £63.9m at the end of the year, compared to £14.2m at the previous year-end.

Ultra's banking facilities amount to £200.0m in total, plus a £10.0m overdraft. They were established in two tranches. The first was set up in 2005 and is provided by a small syndicate of banks, led by The Royal Bank of Scotland. This element, which comprises £120.0m of revolving credit, denominated in sterling, US dollars and Canadian dollars, is due to expire in November 2010. The £10.0m bank overdraft facility is also available for short-term working capital funding. The second tranche provides a further £80.0m 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 and to provide headroom for further acquisitions. This additional facility is due to expire in September 2011. As well as funding acquisitions, the banking facilities are also used for other balance sheet and operational needs, including funding day-to-day working capital requirements. The US and Canadian dollar borrowings also represent natural hedges against assets denominated in those currencies. The total amount drawn down from the facilities was £107.2m at the end of the year (2007: £41.6m), giving headroom of £92.8m (2007: £78.4m) plus the £10.0m overdraft. Ultra will in due course open negotiations with its banking partners regarding the renewal of the first tranche in 2010.

portfolio strength...
 ...underpinning growth

*see footnote on page 01

35 countries

international spread

Ultra sells its systems, products and services in more than 35 countries worldwide

65%

order book visibility

at the end of 2008 Ultra had 65% firm order cover on nominal 2009 sales of £600m

Financing risk management

– interest rates and foreign exchange rates

Much of the Group's current bank financing has been taken on to fund acquisitions in North America. In order to reduce the risk associated with taking on debt requiring interest payments at floating rates, Ultra committed to three-year interest rate hedging contracts in December 2005. These covered \$20m of US dollar borrowings and \$30m of Canadian dollar debt and both expired at the end of 2008. Since the value of US dollar borrowings had increased due to the recent level of acquisition spending in the USA, new interest rate hedging contracts were signed towards the end of 2008. These involve fixing \$100m of US dollar borrowings for one year, a value which reduces by \$20m each year over a three-year period. Another interest rate hedging contract was put in place for the Canadian dollar debt of \$20m. As a result, the total gross borrowings of £107.2m at year-end comprised 75% fixed rate debt and 25% floating rate debt. The effective interest rates paid during the year were 3.8% for the US dollar debt, 4.6% for Canadian dollars and 5.5% for sterling. The fixed rate debt at year-end was denominated 86% in US dollars and 14% in Canadian dollars. The floating rate element of the debt therefore solely related to the sterling balance. If the US and Canadian dollars had both strengthened by a further 25% from the year-end exchange rates, total gross borrowings would have been £134.0m, still well within the overall £200m limit. The interest rate on the fixed amount of the debt for 2009 is 4.25%.

Pensions

Ultra offers company-funded retirement benefits to all employees in its major countries of operation. Many UK staff with longer service still participate in the Ultra Electronics Limited defined benefit scheme, which was closed to new entrants in 2003. This is a contributory scheme in which the company makes the largest element of the payments which are topped up by employee contributions. The scheme was actuarially assessed using the projected unit method at 31 December 2008, when the net scheme deficit calculated in accordance with IAS19 was £41.5m, compared to £29.4m in 2007. The present value of the liabilities fell by £9.3m in the year, mainly because the interest rate, used to discount future liabilities back to present value, rose by 0.45% to 6.25%. The average life expectancy for pensioners remained unchanged and there was a small reduction in the assumed future inflation rates, reflecting current market conditions. The benefit of lower liabilities was, however, more than offset by a fall of £26.0m or 22% in the value of the scheme assets. This was driven by the extremely poor performance of equity markets worldwide; 70% of the assets were invested in equities at year-end.

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 has 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 will be 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 has been 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. Ultra supports the trustees in a number of ways including the provision of training to the "Trustee Certificate of Essential Pensions Knowledge" standard that is assessed independently by the Pensions Management Institute.

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 £0.8m at the end of the year (2007: surplus of £0.3m). 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 2009, will consolidate these plans into the main Ultra scheme during 2009. Wells Fargo provides administrative support and is also a directed trustee of the plan.

Chief Executive's report

Corporate responsibility

36%

battlespace IT

Sales of Ultra's specialist battlespace IT systems and equipment represented 36% of Group revenue in 2008

47%

geographic spread

North America represented 47% of the Group's 2008 revenue

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.



Ultra's innovative flexibility benefits programme for UK employees has been in operation for seven years and 79% of employees use it to adapt their benefits to suit their own needs

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 issued a corporate ethics policy during 2008 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 2008. 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.

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 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 is increasingly being recognised as a long-term partner to its customers. For example Electrics has been nominated as one of ten strategic suppliers to BAE Systems Land Systems. Airport Systems is regarded by BAA and BA as one of their top six strategic suppliers. Ultra Electronics Canada Defence Inc. was recognised as one of the top defence companies in Canada by the Canadian Defence Review.



The Group's bi-annual magazine, UltraNews, aids effective communication

"Ultra's supplier relationships engender a cooperative culture which assists problem solving and helps to accommodate changes of requirements where these occur."



Brian MacDonald of MSI who received a Raytheon Six Sigma President's Award

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. Many businesses conduct regular, formal customer surveys. Feedback is received in various ways. For example, the Communications & Integrated Systems business received a letter of commendation from its MoD customers for excellent support to trials of advanced data links on uninhabited air vehicles. Brian MacDonald of MSI in the US received the Raytheon Six Sigma President's Award for his work supporting a successful programme to deliver an advanced military surveillance system.

Ultra businesses also work very closely in partnership with customers in the development of new products. At Sonar Systems an innovative proposal for recycling HIDAR sonobuoys was submitted under a formal MoD partnering contract.

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 2007. Audits and the resulting follow-up process have proved effective in reaching and maintaining high standards across all sites.

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.

Health and safety of employees, visitors and the local community alike is taken very seriously by the Group and the individual businesses. PMES received an award for the third year in succession recognising its excellent record of safety in the workplace. USSI in the US has initiated a programme to minimise the risk of injury at work. This includes not only continued investment in ergonomics on the production floor but also the provision of professional support to encourage exercise and stretching to keep work injuries at a minimum.

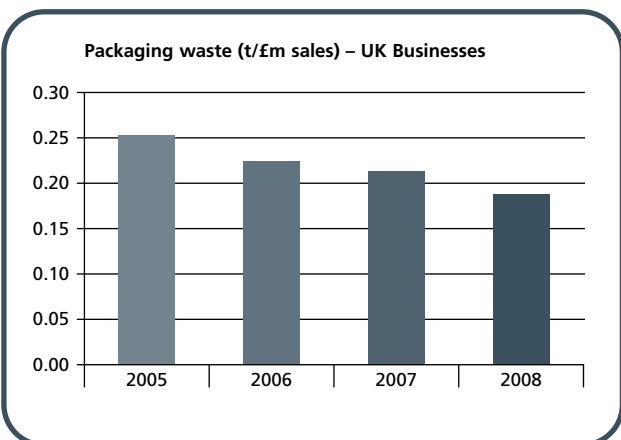
Suppliers

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.

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.



The net amount of packaging waste in tonnes per million pounds of revenue has reduced consistently since 2005

SUPPLY CHAIN AND SC21

Ultra is a founding signatory of SC21, the UK SBAC-led action plan for 21st Century supply chains. Ultra is therefore committed to working together with others in the UK aerospace and defence industry in order to develop supply chains that remain competitive, so that Ultra is able to deliver increased value to its customers.

Senior Ultra representatives participate in the various SC21 special interest groups and the 'key customers working group' to drive forward the implementation of SC21.

Ultra businesses recognise the importance of an excellent supply chain and various initiatives took place during 2008. For example, Manufacturing & Card Systems conducted a major supply chain development programme, part funded through the DTI Supply Chain Group Initiative. The successful initiative delivered improved on-time delivery performance and enhanced quality.



A team from Electrics assessed the waste produced by the business in 2008

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 2007. As with health and safety, the audits and the resulting follow-up process have proved effective in reaching and maintaining high standards of compliance across all sites.

Where appropriate, 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.

Energy consumption is measured annually and, where possible, the data compared with previous years. 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.

Ultra businesses have modern video communication and conferencing facilities. These have been progressively installed and upgraded over the last nine 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.

CHARITABLE AND COMMUNITY ACTIVITIES

In addition to the charitable donations made by the Group (see page 32 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 work experience and mentoring. For example, employees from Electrics supported the Samaritans Purse Christmas Appeal and donated gifts for children who would not normally receive any presents at Christmas.

DNE was recognised for its support of local youth mentoring program and was selected for membership in the State of Connecticut's Corporate Honor Roll.

Board of Directors



Julian Blogh



Douglas Caster



Chris Bailey



Ian Griffiths

Julian Blogh CBE PhD CEng

Chairman, age 65, 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.

Chris Bailey* FCA MCT

Non-Executive Director, age 62, 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.

Douglas Caster CBE BSc MIET

Chief Executive, age 55, 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.

Ian Griffiths* BSc

Non-Executive Director, age 58, 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.



Andy Hamment



Andrew Walker



David Jeffcoat

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

Corporate governance

Andy Hamment BA FRAeS

Group Marketing Director, age 54, 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.

David Jeffcoat BA FCMA

Finance Director and Company Secretary, age 58, started his career as a production engineer in the British car industry. Since qualifying as an accountant he has held senior financial positions in several large international companies including GlaxoWellcome plc, where he was a subsidiary-level Finance Director. Although David has spent most of his career in the UK, he has also worked in Canada and South Africa. Before joining Ultra he was Group Financial Controller of Smiths Industries plc. He was appointed to the board in July 2000.

Andrew Walker* MA CEng

Senior Non-Executive Director, age 57, was appointed to the board in June 1996. He is Chairman of both the Audit and Remuneration Committees. Having joined Dowty Group plc in 1978, he became an operating board member in 1991. Following TI Group's acquisition of Dowty, he became Managing Director of John Crane Polymer Engineering. He was Chief Executive of South Wales Electricity plc (SWALEC) from 1993 to 1996, and was Chief Executive of McKechnie plc from 1997 to 2001. Mr Walker is also a non-executive director of API Group plc, Delta plc, Manganese Bronze Holdings plc, May Gurney plc, Porvair plc, Plastics Capital plc and is Chairman of Bioganix plc and of Brintons Ltd.

*Audit and Remuneration Committee member

Executives and Advisors

Executive Team members

Douglas Caster
Chief Executive

David Jeffcoat
Group Finance Director
& Company Secretary¹

Paul Dean
Group Finance Director²

Alan Barker
President
Tactical Systems

Phil Evans
Managing Director
Sonar & Undersea Systems³
Aircraft & Vehicle Systems⁴

Andy Hamment
Group Marketing Director

Bob Henry
Mergers & Acquisitions Director

Alan Jan-Janin
Managing Director
Aircraft & Vehicle Systems³

Carlos Santiago
President
Flightline Systems³
Sonar & Undersea Systems⁴

Rakesh Sharma
Managing Director
Information & Power Systems

Keith Thomson
Group Human Resources Director

Company Secretary

David Garbett-Edwards²

Business MDs & Presidents

John McAlonan
President
Advanced Tactical Systems

Graeme Stacey
Managing Director
Airport Systems

Chris Brill
Managing Director
AudioSoft

Mike Clayton
Managing Director
Command & Control Systems

Mike Baptist
Director & General Manager
Communication & Integrated Systems

Kim Wrighton
Managing Director
Controls

Bill Sapp
President
Criticom

Piers Gorman
Managing Director
Dascam

Jason Birtwistle
Managing Director
DateI

Bill Gill
President
DNE Technologies

Mark Doyle
Managing Director
Electrics

Pete Crawford
President
EMS

Paul Fardellone
Acting President⁴
Flightline Systems

Ray Coles
Managing Director
Manufacturing & Card Systems

Doug Burd
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
Director & General Manager
Sonar Systems

Iwan Jemczyk
Acting President
Tactical Communication Systems

Roland Fritts
President
USSi

External auditors

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Abbey Street
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Solicitors

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Osborne Clarke
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Temple Quay
Bristol BS1 6EG

Financial advisors

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Citigroup Centre
33 Canada Square
Canary Wharf
London E14 5LB

Stockbrokers

JPMorgan Cazenove Limited
20 Moorgate
London EC2R 6DA

Registrars

Equiniti
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Spencer Road
Lancing
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The members of Ultra's executive team have an average of 29 years experience working in the defence and aerospace industry

¹to 24 April 2009

²from 24 April 2009

³to 9 March 2009

⁴from 9 March 2009

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Photography

Main Board: Molyneux Associates
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Directors' report

For the year ended 31 December 2008

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 2008. 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 25 to 27.

Principal activity

Ultra Electronics Holdings plc is the Group holding Company and the Company is incorporated in the United Kingdom under the Companies Act 1985. The principal activities of its subsidiary undertakings are the design, development and manufacture of electronic systems for the international defence and aerospace markets.

Enhanced 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 2008 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 of the Chief Executive's report; Ultra's 2008 results on pages 10 and 11; divisional review on pages 12 to 17; market trends likely to impact prospects on pages 18 and 19; management of risks and uncertainties on pages 19 to 21 and corporate responsibility on pages 25 to 27.

Results and dividends

Group results and dividends are as follows:

	2008 £'000
Balance on retained earnings, beginning of year	111,693
Total recognised income and expense	(13,536)
Dividends: 2007 final paid of 14.5p per share	(9,806)
2008 interim paid of 8.0p per share	(5,419)
Equity-settled employee share schemes	662
Balance on retained earnings, end of year	83,594

The final 2008 dividend is proposed to be paid on 5 May 2009 to shareholders on the register at 3 April 2009. The interim dividend was paid on 26 September 2008, making a total of 22.5p (2007: 19.3p) per share paid for the year.

Future developments

A review of the activities and future developments of the Group is contained in the Chief Executive's report on pages 3 to 27.

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 £115.8 million (2007: £105.0 million) was spent on engineering development of which £83.3 million (2007: £74.8 million) was funded by customers and £32.5 million (2007: £30.2 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 of the Company at 27 February 2009 are listed on page 45.

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 27 February 2009, the Company has been notified that the following hold, either directly or indirectly, 3 per cent or more of the Company's voting rights:

	Nature of holding	Percentage of ordinary share capital	Number of 5p ordinary shares
Schroders plc	Indirect	6.6	4,501,053
F&C Asset Management	Indirect	5.8	3,971,335
Legal & General Group plc	Direct and indirect	5.2	3,539,587
Prudential plc Group of Companies	Direct	5.2	3,538,294
Standard Life Investments Ltd	Direct and indirect	4.9	3,354,657
Aegon UK Plc Group of Companies	Direct and indirect	4.4	2,964,838

As at 27 February 2009, under DTR5, the Company had received notification that Baillie Gifford & Co holds less than 5 per cent of the Company's voting rights.

Charitable and political contributions

The Group contributed £66,000 (2007: £62,000) 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 2008 were 61 days (2007: 53 days), based on the ratio of Group trade payables at the end of the year to the amounts invoiced during the year by suppliers. The Company had no trade payables at either year end.

Capital structure

Details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 26. The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

There are no specific restrictions either on the size of a holding or on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation.

Details of employee share schemes are also set out in note 26. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Combined Code, the Companies Acts and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of Directors are described in the Main Board Terms of Reference, copies of which are available on request, and the Corporate Governance Statement on page 34.

Annual General Meeting

Explanation of special business resolutions is given below:

Resolution 10

This resolution authorises the Directors to allot shares in the Company up to a maximum nominal amount of £1,135,540 representing approximately one third of the allotted and fully paid up share capital of the Company as at 27 February 2009, being the latest practicable date before publication of the Notice of AGM.

In addition, in accordance with guidelines issued by the Association of British Insurers, this resolution authorises the Directors to allot further shares up to an aggregate nominal value of £1,135,540, representing approximately one third of the allotted and fully paid up share capital of the Company as at 27 February 2009, being the latest practicable date before publication of the Notice of AGM. This additional authority may be only applied to fully pre-emptive rights issues.

As at 27 February 2009, being the latest practicable date before publication of the Notice of AGM, there are no treasury shares in issue in the Company.

This authority expires on the conclusion of the next Annual General Meeting of the Company.

The Directors do not have any present intention of exercising the authorities conferred by this resolution but they consider it desirable that the specified amount of authorised but unissued share capital is available for issue so that they can more readily take advantage of possible opportunities.

Resolution 11

This resolution authorises the Directors to allot shares for cash, without first having offered to allot such shares to existing shareholders in proportion to their existing holdings, in respect of approximately 5% of the total issued share capital of the company. The resolution complies with the latest issued guidelines of the Association of British Insurers, and is similar to authorities given previously.

This authority expires on the conclusion of the next Annual General Meeting of the Company.

TREASURY SHARES REGULATIONS

The Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 (as amended) ("Treasury Shares Regulations") give flexibility concerning what the Company can do with any of its ordinary shares that it may buy back. The Company may now hold such shares "in treasury" and then sell them at a later date for cash rather than simply cancelling them. The Treasury Shares Regulations require such sales to be on a pre-emptive, pro-rata basis to existing shareholders unless shareholders agree by special resolution to disapply such pre-emption rights. Accordingly, in addition to giving the Directors power to allot unissued ordinary shares on a non pre-emptive basis, this resolution also gives Directors power to sell ordinary shares held in treasury on a non pre-emptive basis, subject always to the limitations noted above.

The Directors consider that the power proposed to be granted by this resolution is necessary to retain flexibility, although they do not have any intention at the present time of exercising such power.

Resolution 12

This resolution authorises the Directors to purchase up to a total of 3,406,621 of the Company's shares, representing approximately 5% of the issued share capital of the Company as at 27 February 2009, being the latest practicable date before publication of the Notice of AGM. Shares so purchased may be cancelled or held as treasury shares.

This authority expires on the earlier of 12 months from the date of passing this resolution or the conclusion of the next Annual General Meeting of the Company. The Directors intend to seek renewal of this authority at subsequent Annual General Meetings.

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 decision as to whether any such shares bought back will be cancelled or held in treasury will be made by the Directors on the same basis at the time of the purchase. The Directors have no current intention to exercise the authority sought by this resolution, except for employee share option schemes.

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 27 February 2009, 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 1,216,799 ordinary shares in the capital of the Company, representing approximately 1.79% 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 1.88% of the Company's issued ordinary share capital.

Resolution 13

This resolution is required to reflect the proposed implementation in August 2009 of the Shareholder Rights Directive. The regulation implementing this Directive will increase the notice period for general meetings of the Company to 21 days. The Company is currently able to call general meetings (other than an AGM) on 14 clear days notice and would like to preserve this ability. In order to be able to do so after August 2009, shareholders must have approved the calling of meetings on 14 days notice. This resolution seeks such approval. The approval will be effective until the Company's next annual general meeting, when it is intended that a similar resolution will be proposed.

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 S234ZA of The Companies Act 1985.

By order of the Board,

D. Jeffcoat

Company Secretary

27 February 2009

Registered Office: 417 Bridport Road, Greenford, Middlesex UB6 8UA Registered Number: 2830397

Combined code compliance

This section describes how the Group has applied the principles of the Combined Code on Corporate Governance, published in June 2006 ("the Code"). During the year ended 31 December 2008 the Group complied with the provisions of Section 1 of the Code with some exceptions, details of which are given in the following sections.

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.

Ultra's Board structure and composition was revised during 2008 following the resignation of Frank Hope, an executive Director. It now comprises the Chairman, three independent non-executive Directors and three executive Directors and is therefore compliant with the recommendations of the Code.

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

As senior independent non-executive Director, Andrew Walker 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. Mr Walker has announced his decision to retire at the April 2009 Annual General Meeting ("AGM"). Following this, Christopher Bailey will become senior independent non-executive Director. Ian Griffiths will continue in his role as an independent non-executive Director. Sir Robert Walmsley joined the Board in January 2009 to replace Mr Walker as an independent non-executive Director. Sir Robert had a long career in the UK Royal Navy and, following his retirement from the Navy, he was Chief of Defence Procurement for the UK Ministry of Defence. 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. Sir Robert will be standing for formal election to the Board at the AGM.

David Jeffcoat, who was appointed to the Board in 2000, is both Finance Director and Company Secretary. He reports to the Chief Executive in his role of Finance Director and to the Chairman in his capacity of Company Secretary. Mr Jeffcoat has announced his intention to retire at the AGM after which the roles of Finance Director and Company Secretary will be separated, in line with best governance practice. The Board is proposing that Mr Jeffcoat's replacement as Finance Director be Paul Dean. Mr Dean is a qualified accountant who has had a long and successful career in financial management with major British companies including Burmah Castrol plc and Foseco plc. He is standing for election to the Board at the AGM. David Garbett-Edwards, a qualified accountant who has been a senior financial manager within Ultra for many years, will be appointed as Company Secretary following the AGM.

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

Meeting attendance

	Main Board	Audit Committee	Nominations Committee	Remuneration Committee
Number of meetings	10	4	2	3
C. Bailey	10	4	2	3
J. Blogh	10	-	2	-
D. Caster	10	-	2	-
I. Griffiths	10	4	2	3
A. Hamment	10	-	-	-
F. Hope ²	5	-	-	-
D. Jeffcoat ¹	10	4	1	3
A. Walker	10	4	2	3

¹ Mr Jeffcoat is secretary to the Board and all three sub-committees. He attends all Committee meetings in that capacity.

² Resigned 31 July 2008.

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 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

In accordance with the requirements of the Companies Act 2006, the Group introduced changes to its Articles of Association that were approved by shareholders at the 2008 Annual General Meeting. The Board has been briefed on the implications of these changes and each Director is aware of his responsibility to bring any situational or transactional conflicts to the attention of the Board. In order to recognise pre-existing conflicts at the time that the new legislation became active, each Director completed a conflicts questionnaire. Situational conflicts that were identified were brought to the attention of the Board for its consideration and, where appropriate, were duly authorised. The same process applies to new Directors, who are required to complete a conflicts questionnaire in order that any identified conflicts can be considered by the Board. A review of conflicts will be carried out annually to ensure that they have all been brought to the attention of the Board.

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.

During 2008 the Audit Committee consisted of Andrew Walker, Committee Chairman and senior independent non-executive Director, Ian Griffiths and Christopher Bailey. Christopher Bailey has recent and relevant experience in a senior financial executive role. He was Group Finance Director of Aggregate Industries plc until 2004. Mr Walker has been a member of the Audit Committee for more than ten years and has served on the Audit Committees of several other quoted companies of which he has been a director. Christopher Bailey will succeed Andrew Walker as Chairman of the Committee when Mr Walker leaves the Board after the AGM.

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

- (a) agreeing the strategy and scope of the internal and external audits;
- (b) reviewing the outcome of the audits and agreeing upon the necessary actions;
- (c) monitoring Ultra's financial results and the formal external announcements relating to them;
- (d) ensuring that the internal and external audit functions, which are carried out by professional accounting firms on behalf of the Group, remain both independent and effective;
- (e) assessing the risk that Ultra's financial statements are materially misstated as a result of fraud;
- (f) endorsing the Group's public interest disclosure policy, which provides an independent point of contact for all employees, and the arrangements for its application; and
- (g) considering the recommendation to the shareholders of a preferred firm of external auditors.

The Committee has recently reviewed the public interest disclosure policy and has recommended a further strengthening of the process through the engagement of an independent party to provide a point of contact for employees, and to refer employee concerns directly to the Chairman of the Audit Committee. This appointment will be made shortly.

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 and responding to new reporting requirements, due diligence assessments of potential acquisitions and other attestation work. 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 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.

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 2008 the Committee, which is chaired by Julian Blogh, met twice. Following the announcements of the planned retirements of Andrew Walker and David Jeffcoat, the Committee met to agree the process to identify their replacements. After considering alternative candidates, the Committee recommended that Sir Robert Walmsley be appointed as a non-executive Director and as a member of the Audit, Remuneration and Nominations Committees. The Committee also recommended that the roles of Finance Director and Company Secretary, currently undertaken by David Jeffcoat, should be split. Following an external search process carried out by external consultants, the Committee is recommending the appointment at the AGM of Paul Dean as Finance Director. It has also been determined that David Garbett-Edwards should be appointed as Company Secretary at the same time.

Remuneration Committee

The Remuneration Committee comprises Andrew Walker, Christopher Bailey and Ian Griffiths. During 2008, the committee, which is chaired by Andrew Walker, met three times. Christopher Bailey will succeed Andrew Walker as Chairman of the Committee when Mr Walker leaves the Board after the AGM. Sir Robert Walmsley joined the Committee with effect from February 2009. 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 on page 40, 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.

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 facilitated by an independent external consultant. He is supported in this regard by the Company Secretary. In 2007 the contribution of each individual Director was assessed by the rest of the Board. This involved a questionnaire that was completed independently by each individual Director. The results of this survey were processed and fed back separately to each individual and in total to the Chairman. In 2008, the main Board and its subcommittees were reviewed, again 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. Its results were communicated to the Directors in a written report, considered at a subsequent meeting in a discussion facilitated by the external consultant, and a number of actions were agreed as a result. This review cycle is repeated every two years.

Directors' re-election

All Directors are subject to re-election at least once every three years. Douglas Caster, Chief Executive, and Andrew Hamment, executive Director, are retiring by rotation in accordance with the Articles of Association and are standing for re-election. Sir Robert Walmsley, who joined the Board in January 2009, is standing for election for the first time. Paul Dean will also be standing for election as Finance Director as outlined above.

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 each stage of this 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 each business unit. Directors are provided with training on points of specific relevance to their roles, including an annual corporate governance update, and specialised help on complex areas such as pensions legislation.

Internal controls

The Code states 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, such 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.

Control environment (continued)

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 leading 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, Presidents 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.

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 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, revenues, profit and cash flow. The five year strategic plan and annual budget for each business unit 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 Annual General Meetings, to ask questions during the meeting and to meet individual Directors after the formal proceedings have ended. Documentation relevant to Ultra's governance framework will be available for inspection before the AGM, 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.

Going concern

Ultra's banking facilities amount to £200m in total, plus a £10m overdraft. These facilities provided more than £100m of borrowing headroom over the gross balance that had been drawn down at the end of 2008. They were established in two tranches. The first was set up in 2005 and is provided by a small syndicate of banks, led by The Royal Bank of Scotland. This element comprises £120m of revolving credit, denominated in Sterling, US dollars and Canadian dollars, which is due to expire in November 2010. A £10m bank overdraft facility is also available for short-term working capital funding. 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 and to provide headroom for further acquisitions going forward. This additional facility is due to expire in September 2011. As well as funding acquisitions, the banking facilities are used for other balance sheet and operational needs, including the funding of day-to-day working capital requirements. Details of how Ultra manages its liquidity risk can be found in Note 23 – Financial instruments and financial risk management.

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. Ultra will open negotiations with its banking partners in due course regarding the renewal of the first tranche in 2010.

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 2009 Ultra had firm orders in place for over 60% of its consensus forecast sales in the year.

Hence, after making appropriate enquiries, the Board's view is that Ultra has adequate resources to continue in operational existence for the foreseeable future and that the business outlook remains strong. The Board therefore believes that the Group is well placed to avoid any material adverse consequences of the current economic conditions. Accordingly, the Group continues to adopt a going concern basis in preparing the accounts.

Statement of responsibilities

The Directors are responsible for preparing the Annual Report and the associated financial statements. They are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards (IFRS) but have chosen to prepare Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP).

In the case of UK GAAP company financial statements, the Directors are required to prepare financial statements for each financial year that 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 year. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

In the case of IFRS financial statements, International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. Directors are also required to:

- select and apply appropriate 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 of International Financial Reporting Standards is 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
- prepare the accounts on a going concern basis unless, having assessed the ability of the company to continue as a going concern, management intends either to liquidate the entity or to cease trading, or has no realistic alternative but to do so.

Statement of responsibilities (continued)

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' report and Directors' remuneration report which comply with the requirements of the Companies Acts 1985 and 2006 and article 4 of the IAS regulation.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

UNAUDITED INFORMATION

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

The Company complies with the relevant conditions of the Combined Code on Corporate Governance relating to Directors' remuneration and the Directors' Remuneration Report Regulations 2002.

Andrew Walker is the Chairman of the Remuneration Committee and the other members are Christopher Bailey and Ian Griffiths. All three members are independent non-executive Directors. David Jeffcoat is secretary to the Committee. Julian Blogh and Douglas Caster also normally attend Committee meetings except where matters directly relating to their own remuneration are discussed, although they are formally not Committee members. Andrew Walker has announced that he will resign from the Board at the AGM. Chris Bailey will succeed Andrew as Chairman of the Remuneration Committee, whilst Sir Robert Walmsley, who joined the Board as an independent non-executive Director in January 2009, will also join the Remuneration Committee.

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). They are appointed by the Committee and provided no other services to the Company during the year, save for ongoing advice in connection with the operation of the Company's share schemes.

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 with guidance from HNBS. The size and nature of each key element of the remuneration package of the executive Directors is determined following this assessment.

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.

When setting base salaries and the other elements of remuneration for the executive Directors, regard is given to remuneration practices across the Group as a whole in order to ensure that a coherent structure applies.

Salaries

The executive Directors' salaries are reviewed annually by the Committee and take effect from 1 January. 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 are:

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

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 salary surveys, taking account of individual responsibilities. Andrew Walker was Chairman of the Audit and Remuneration Committees during 2008 and received additional fees as a result.

Annual bonus scheme

Bonus payments in 2008 were based upon the achievement of operating profit and cash flow targets. The maximum bonus for executive Directors was 75% of base salary. In 2008, a maximum of 15% of salary could have been paid subject to the achievement of a £66.6m profit before tax and loss on fair value movements on derivatives and amortisation of intangibles arising on acquisition and a maximum of 60% of salary subject to achieving an operating cash flow of £74.0m 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 70%, of which 15% of salary was due to the profit before tax target being met in full and the balance was linked to achievement against the cash flow target. The pay-out was below the maximum because the cash performance did not reach the maximum level when adjusted for certain balance sheet parameters at the end of the year.

The Committee has recently commissioned a review of the executive Directors' remuneration packages, assisted by HNBS. Particular regard was paid to the extent to which the executive Directors' remuneration packages were linked to Ultra's performance compared with those of similar quoted companies in the UK when measured by turnover and market capitalisation. A main finding of the review was that the percentage of basic salary that is payable under the Ultra bonus scheme is generally lower than elsewhere. The Committee has therefore revised the parameters for the 2009 Executive Bonus scheme. Under the new scheme, the maximum bonus payable will increase to 100% of basic salary. 25% could be earned for the achievement of the target level of profit before tax, the loss on fair value movements on derivatives and amortisation of intangibles and 75% could be payable for the achievement of a challenging target for operating cash flow after capitalised development costs, capital expenditure and purchase of long-term incentive plan shares. It should be emphasised that the Committee is determined that the performance targets for the executive Directors should continue to call for growth in profitability and cash generation. If achieved they should therefore provide the prospect of enhanced value for the Group's shareholders.

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

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

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

2007 LTIP

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

At the 2008 Annual General Meeting shareholders approved a change to the methodology for all awards made under the 2007 LTIP, together with a retrospective change to the awards still outstanding under the previous LTIP scheme (the "2002 LTIP"). As explained last year, 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 will now apply to all new awards made under the 2007 LTIP going forward, as well as to the 2007 awards made under the 2007 LTIP, together with the remaining 2006 award made under the 2002 LTIP. It also applied to the 2005 award which vested in 2008.

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.

Detailed structure of TSR performance condition

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

The vesting rules under the 2007 LTIP are as follows:

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

The comparator group for measuring relative TSR for the awards made in 2007 and 2008 is:

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

*In 2007 group but not 2008 group since delisted before 2008 awards granted

The Committee will review the comparator group annually and make such adjustments as it sees fit (for example, to take account of companies which delist during the year). For the 2009 award, it is proposed that Qinetiq is added and Amstrad, Telent, Whatman and Zetex, all of whom have now delisted, are excluded.

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, then the level of vesting will automatically fall to zero. Headline EPS will be defined as earnings per share after adjustments to exclude gains or losses on financial instruments and the amortisation of intangibles arising on acquisition.

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

All-Employee Share Plans

The executive Directors are also eligible to participate in the 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

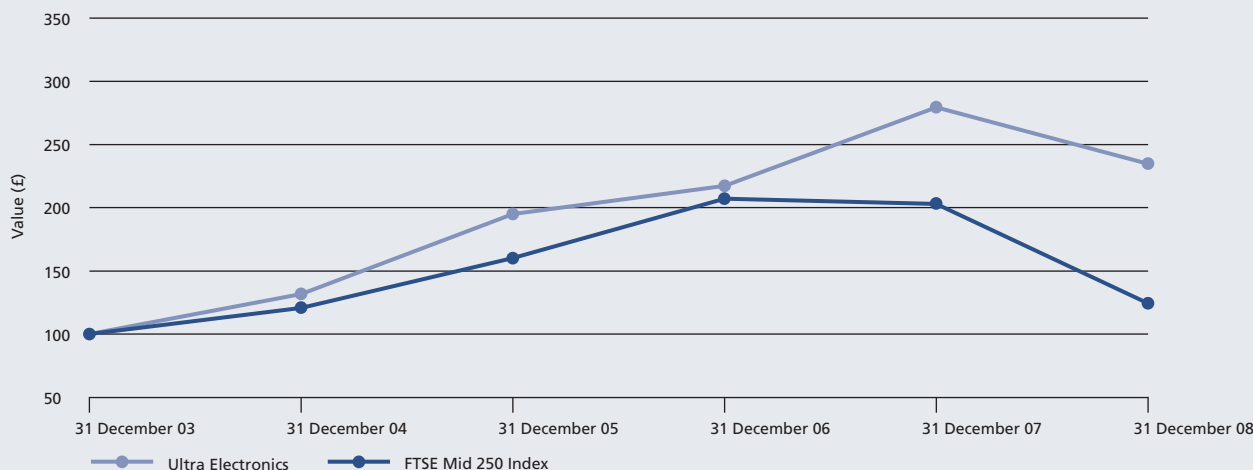
To increase the alignment of interests between senior executives and shareholders, the Committee has introduced a share ownership guideline under which all executive Directors will be encouraged to retain at least 50% of the post-tax shares they acquire on the vesting of LTIP awards until a holding equivalent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

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 2008 of £100 invested at the start of the evaluation period, in the Company and in the Index. The Committee considers the FTSE 250 a relevant index for the TSR comparison as the Company is a member of the index and because together the index members represent a broad range of UK quoted Companies.

Total shareholder return – compared to FTSE 250 Index

Source: Datastream



Directors' service contracts

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

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

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

Name	Date of contract	Notice period
C. Bailey	28 January 2008	Nil
J. Blogh	25 April 2008	Nil
D. Caster	25 September 1996	12 months
I. Griffiths	25 April 2008	Nil
A. Hamment	1 July 2000	12 months
D. Jeffcoat	10 July 2000	12 months
A. Walker	17 December 2008	Nil
Sir R. Walmsley	22 January 2009	Nil

No executive Directors have provisions in their contracts for compensation on early termination other than for the notice period. With the exception of Andrew Walker, whose contract ends at the conclusion of the AGM, 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. 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 2008:

	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	55	176	10	68	195	2,047	1,959	(120)
A. Hamment	54	71	9	67	84	774	729	(59)
F. Hope ¹	53	43	4	105	47	469	1,019	545
D. Jeffcoat	58	28	4	41	33	377	449	62

*Less Directors' contributions.

¹ Information for F. Hope is as at the date of his resignation on 31 July 2008.

Directors' remuneration

Directors' emoluments are detailed below:

	Basic salary	Other cash emoluments	Fees	Annual performance bonus	Benefits	2008 Total	2007 Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
C. Bailey	-	-	37	-	-	37	35
J. Blogh	-	-	150	-	-	150	144
D. Caster	395	1	-	276	28	700	519
I. Griffiths	-	-	37	-	-	37	35
A. Hamment	180	12	-	126	3	321	223
F. Hope	133	409	-	-	12	554	303
D. Jeffcoat	250	5	-	175	9	439	295
A. Walker	-	-	45	-	-	45	42
	958	427	269	577	52	2,283	1,596

F. Hope's basic salary, annual performance bonus and benefits covered the period up to the date of his resignation on 31 July 2008. F. Hope's other cash emoluments include £289,998 in lieu of salary, benefits and holiday pay under his service contract, and a further £108,830 for loss of employment and as settlement for any claims that he had against the Company. These payments reflected his length of service, contribution to the Company's growth during this time, and the fact that he would not benefit from the 2008 bonus plan or the vesting of the 2006 LTIP.

Pension contributions to Directors of £134,994 (2007: £137,665) were paid by the Company, including £45,425 (2007: £43,125) 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	J. Blogh	D. Caster	A. Hamment	F. Hope	D. Jeffcoat	Market price of shares granted	Crystallising dates of outstanding awards
2005	26,280	26,954	16,576	22,237	21,832	£7.42	April 2008
2006	-	24,727	12,858	17,309	17,309	£10.11	April 2009
Interests at 1 January 2008	26,280	51,681	29,434	39,546	39,141		
2005 award crystallised during the year	(20,188)	(20,706)	(12,733)	(17,082)	(16,771)		
2005 award lapsed during year	(6,092)	(6,248)	(3,843)	(5,155)	(5,061)		
2006 award lapsed during year	-	-	-	(17,309)	-		
Interests at 31 December 2008	-	24,727	12,858	-	17,309		

F. Hope's 2006 award lapsed on the date he left the Company.

The 2005 award crystallised during the year as detailed above. The actual date of the award was February 2005. The market price of the shares when granted was £7.42. The market price of the shares on vesting was £12.83. The aggregate gain made by the Directors under the LTIP during the year was £1,122,368 (2007: £1,445,524). Ultra's share price on 31 December 2008 was £11.33. The range during 2008 was £9.90 to £13.84.

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	F. Hope	D. Jeffcoat	Market price of shares granted	Crystallising dates of outstanding awards
2007 award	29,259	12,874	18,005	18,005	£11.11	April 2010
Interest at 1 January 2008	29,259	12,874	18,005	18,005		
2007 award lapsed during year	-	-	(18,005)	-		
2008 award	30,968	13,213	-	17,837	£12.11	March 2011
Interests at 31 December 2008	60,227	26,087	-	35,842		

F. Hope's 2007 award 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 52,496 shares (nominal value of £2,903) for a net £674,015 relating to the 2008 award (2007: nil shares). This includes £359,123 worth of Ultra shares for the Directors (2007: nil). The Group purchased 43,442 shares for the 2008 award at the then mid-market price from Directors who sold shares on crystallisation of the 2005 awards as noted above. The mid-market price was £12.80 on the date of purchase. Shares were sold by J. Blogh (8,294), D. Caster (8,507), A. Hamment (12,733), D. Jeffcoat (6,890) and F. Hope (7,018).

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 2008	Partnership shares acquired during year	Interests as at 31 December 2008	Partnership shares acquired from 1 January 2009 to 27 February 2009	Interests as at 27 February 2009
D. Caster	1,709	153	1,862	22	1,884
A. Hamment	1,709	153	1,862	22	1,884
F. Hope	1,709	81	1,790	n/a	n/a
D. Jeffcoat	1,613	152	1,765	21	1,786
Total	6,740	539	7,279	65	5,554

F. Hope'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 44,783 (2007: 43,523) Ultra Electronics Holdings plc shares (nominal value £2,239) for £550,441 (2007: £513,607). One executive Director, David Jeffcoat, is a trustee of the Plan Trust as well as participating in the AESOP.

Directors' interests

Details of Directors' shareholdings are given below:

	At start of year		At end of year		At 27 February 2009
	Direct ownership	Indirect ownership	Direct ownership	Indirect ownership	Direct ownership
C. Bailey	-	2,500	-	2,500	-
J. Blogh	294,054	884,921	305,948	884,921	305,948
D. Caster	908,439	150,000	920,791	150,000	920,813
I. Griffiths	-	-	-	-	-
A. Hamment	72,656	43,535	72,809	43,535	72,831
D. Jeffcoat	42,373	-	52,406	-	52,427
A. Walker	1,096	12,771	1,096	13,006	1,096

There were no changes in indirect ownership between 1 January 2009 and 27 February 2009.

Andrew Walker

Chairman of the Remuneration Committee

27 February 2009

To the members of Ultra Electronics Holdings plc

We have audited the Group financial statements (the "Group financial statements") of Ultra Electronics Holdings plc for the year ended 31 December 2008 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of recognised income and expense, the related notes numbered 1 to 31 and the statement of Group accounting policies. These Group financial statements have been prepared under the accounting policies set out therein.

The Corporate governance statement and the Directors' Remuneration report are included in the individual Company Annual Report of Ultra Electronics Holdings plc for the year ended 31 December 2008. We have reported separately on the individual Company financial statements of Ultra Electronics Holdings plc for the year ended 31 December 2008 and on the information in the Directors' Remuneration report included in the Annual Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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

The Directors' responsibilities for preparing the annual report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether, in our opinion, the information given in the Directors' report is consistent with the Group financial statements. The information given in the Directors Report includes that specific information presented in the Operating and Financial Review that is cross referred from the Directors report.

In addition, we report to you if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' transactions with the Group is not disclosed.

We read the other information contained in the Annual Report for the above year as described in the contents section and consider whether it is consistent with the audited Group financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements.

Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' report is consistent with the Group financial statements.

The Group in addition to complying with its legal obligation to comply with IFRSs adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board.

In our opinion the Group financial statements give a true and fair view, in accordance with IFRSs, of the state of the Group's affairs as at 31 December 2008 and its profit for the year then ended.



Deloitte LLP

Chartered Accountants and Registered Auditors

Reading, United Kingdom

27 February 2009

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 2008

	Note	2008 £'000	2007 £'000
Continuing operations			
Revenue	3	515,271	412,890
Cost of sales		(373,100)	(300,380)
Gross profit		142,171	112,510
Other operating income	4	3,444	5,050
Distribution costs		(1,050)	(875)
Administrative expenses		(77,345)	(56,687)
Other operating expenses	5	(3,146)	(992)
Profit from operations	6	64,074	59,006
Headline operating profit	2	77,091	62,921
Amortisation of intangibles arising on acquisition		(13,017)	(3,915)
Profit from operations		64,074	59,006
Investment revenue	8	1,229	1,092
Finance costs	9	(68,191)	(3,500)
(Loss)/profit before tax		(2,888)	56,598
Headline profit before tax	2	72,198	61,069
Amortisation of intangibles arising on acquisition		(13,017)	(3,915)
Loss on fair value movements on derivatives		(62,069)	(556)
(Loss)/profit before tax		(2,888)	56,598
Tax	10	4,645	(15,363)
Profit for the year from continuing operations attributable to equity holders of the parent		1,757	41,235
Earnings per ordinary share (pence)			
From continuing operations			
Basic	12	2.6	60.9
Diluted	12	2.6	60.5

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

Consolidated balance sheet

31 December 2008

	Note	2008 £'000	2007 £'000
Non-current assets			
Intangible assets	13	325,683	179,254
Property, plant and equipment	14	34,916	24,235
Interest in associate	15	2,120	-
Deferred tax assets	24	28,650	10,634
		391,369	214,123
Current assets			
Inventories	16	52,826	42,417
Trade and other receivables	18	125,661	84,226
Cash and cash equivalents		43,385	27,419
Assets held for sale	19	828	-
		222,700	154,062
Total assets		614,069	368,185
Current liabilities			
Trade and other payables	20	(210,093)	(116,247)
Tax liabilities		(5,055)	(9,123)
Obligations under finance leases	21	(105)	(25)
Short-term provisions	25	(17,224)	(10,644)
		(232,477)	(136,039)
Non-current liabilities			
Retirement benefit obligations	30	(58,761)	(40,390)
Other payables	20	(55,791)	(2,976)
Deferred tax liabilities	24	(13,654)	(2,619)
Obligations under finance leases	21	(5)	(29)
Bank loans	22	(107,214)	(41,608)
Long-term provisions	25	(2,098)	(2,630)
		(237,523)	(90,252)
Total liabilities		(470,000)	(226,291)
Net assets		144,069	141,894
Equity			
Share capital	26	3,407	3,394
Share premium account	27	36,427	35,061
Own shares	27	(1,974)	(1,972)
Hedging and translation reserve	27	22,615	(6,282)
Retained earnings	27	83,594	111,693
Total equity attributable to equity holders of the parent		144,069	141,894

The financial statements were approved by the Board of Directors and authorised for issue on 27 February 2009.

On behalf of the Board

D. Caster, Chief Executive

D. Jeffcoat, Finance Director

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

Consolidated cash flow statement

For the year ended 31 December 2008

	Note	2008 £'000	2007 £'000
Net cash flow from operating activities	28	69,102	49,558
Investing activities			
Interest received		1,229	791
Purchase of property, plant and equipment		(14,198)	(8,569)
Proceeds from disposal of property, plant and equipment		1,231	-
Expenditure on product development and other intangibles		(1,941)	(5,489)
Acquisition of subsidiary undertakings	31	(83,845)	(31,395)
Net cash acquired with subsidiary undertakings	31	5,007	379
Net cash used in investing activities		(92,517)	(44,283)
Financing activities			
Issue of share capital		1,379	1,897
Purchase of Long-Term Incentive Plan shares		(674)	-
Dividends paid		(15,225)	(12,978)
Loan syndication costs		(527)	-
Increase in borrowings		48,568	6,551
Repayment of obligations under finance leases		(81)	(16)
New finance leases		114	-
Net cash from/(used in) financing activities		33,554	(4,546)
Net increase in cash and cash equivalents		10,139	729
Cash and cash equivalents at beginning of year		27,419	25,628
Effect of foreign exchange rate changes		5,827	1,062
Cash and cash equivalents at end of year		43,385	27,419

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

Consolidated statement of recognised income and expense

For the year ended 31 December 2008

	Note	2008 £'000	2007 £'000
Exchange differences on translation of foreign operations		28,897	(1,445)
Actuarial losses on defined benefit pension schemes (net of related deferred tax and exchange rate movements)		(12,585)	(4,250)
(Loss)/profit on cash flow hedge		(4,612)	45
Tax on items taken directly to equity (excluding pensions)		1,709	(602)
Net income/(expense) recognised directly in equity		13,409	(6,252)
Transfers			
Transfer from/(to) profit and loss on cash flow hedges		195	(154)
Profit for the year		1,757	41,235
Total recognised income and expense for the year attributable to equity holders of the parent	27	15,361	34,829

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

1 Segment information

For management purposes, the Group is organised into three operating divisions – Aircraft & Vehicle Systems, Information & Power Systems and Tactical & Sonar Systems. These divisions are the basis on which the Group reports its primary segment information.

	2008			2007		
	External revenue £'000	Internal revenue £'000	Total £'000	External revenue £'000	Internal revenue £'000	Total £'000
Revenue						
Aircraft & Vehicle Systems	130,098	3,836	133,934	99,993	5,856	105,849
Information & Power Systems	161,512	9,484	170,996	126,623	11,062	137,685
Tactical & Sonar Systems	223,661	6,891	230,552	186,274	5,939	192,213
Eliminations	-	(20,211)	(20,211)	-	(22,857)	(22,857)
Consolidated revenue	515,271	-	515,271	412,890	-	412,890

All inter-group trading is at arms' length.

	2008 £'000	2007 £'000
Profit from operations		
Aircraft & Vehicle Systems	19,727	16,070
Information & Power Systems	22,188	19,645
Tactical & Sonar Systems	35,176	27,206
Headline operating profit (see note 2)	77,091	62,921
Amortisation of intangibles arising on acquisition*	(13,017)	(3,915)
Profit from operations	64,074	59,006
Investment revenue	1,229	1,092
Finance costs	(68,191)	(3,500)
(Loss)/profit before tax	(2,888)	56,598
Tax	4,645	(15,363)
Profit after tax	1,757	41,235

*The charge relating to the amortisation of intangibles arising on acquisition is attributable as follows:

	2008 £'000	2007 £'000
Aircraft & Vehicle Systems	2,957	564
Information & Power Systems	3,012	75
Tactical & Sonar Systems	7,048	3,276
	13,017	3,915

Capital expenditure, additions to intangibles, depreciation and amortisation

	Capital expenditure and additions to intangibles (excluding goodwill)		Depreciation and amortisation	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Aircraft & Vehicle Systems	1,128	4,460	4,540	1,684
Information & Power Systems	9,925	4,963	6,548	2,936
Tactical & Sonar Systems	5,086	4,635	11,426	6,567
Total	16,139	14,058	22,514	11,187

The 2008 depreciation and amortisation expense includes £15,488,000 of amortisation charges (2007: £5,467,000) and £7,026,000 of property, plant and equipment depreciation charges (2007: £5,720,000).

1 Segment information (continued)**Total assets by segment**

	2008 £'000	2007 £'000
Aircraft & Vehicle Systems	105,089	99,879
Information & Power Systems	200,149	71,473
Tactical & Sonar Systems	228,541	153,397
	533,779	324,749
Unallocated	80,290	43,436
Consolidated total assets	614,069	368,185

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

Total liabilities by segment

	2008 £'000	2007 £'000
Aircraft & Vehicle Systems	49,946	30,362
Information & Power Systems	76,148	45,682
Tactical & Sonar Systems	86,361	53,004
	212,455	129,048
Unallocated	257,545	97,243
Consolidated total liabilities	470,000	226,291

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

Revenue by destination

	2008 £'000	2007 £'000
United Kingdom	184,845	171,729
Continental Europe	51,892	43,556
Canada	15,999	17,788
USA	225,530	154,032
Rest of World	37,005	25,785
	515,271	412,890

Other Information (by geographic location)

	Total assets		Additions to Property, Plant & Equipment and intangible assets (excluding acquisitions)	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
United Kingdom	205,048	168,529	10,560	9,340
USA	265,192	114,965	3,422	2,226
Canada	42,533	41,255	2,141	2,492
Rest of World	21,006	-	16	-
	533,779	324,749	16,139	14,058

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:

	2008 £'000	2007 £'000
Profit from operations	64,074	59,006
Amortisation of intangibles arising on acquisition	13,017	3,915
Headline operating profit	77,091	62,921
(Loss)/profit before tax	(2,888)	56,598
Loss on fair value movements on derivatives	62,069	556
Amortisation of intangibles arising on acquisition	13,017	3,915
Headline profit before tax	72,198	61,069
Cash generated by operations (see note 28)	94,579	66,249
Purchase of property, plant and equipment	(14,198)	(8,569)
Proceeds on disposal of property, plant and equipment	1,231	-
Expenditure on product development and other intangibles	(1,941)	(5,489)
Purchase of Long-Term Incentive Plan shares	(674)	-
Operating cash flow	78,997	52,191

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. Headline profit before tax and headline earnings per share (see note 12) are also presented before the amortisation of intangible assets arising on acquisition.

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. Ultra is therefore stating headline profit before tax and headline earnings per share (see note 12) before changes in the valuation of these instruments so that the headline operating performance of the Group can more clearly be seen.

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 in 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:

	2008 £'000	2007 £'000
Sales of goods	281,047	211,039
Revenue from long term contracts	234,224	201,851
	515,271	412,890

4 Other operating income

Amounts included in other operating income were as follows:

	2008 £'000	2007 £'000
Foreign exchange gains	2,762	5,050
Profit on disposal of fixed assets	682	-
	3,444	5,050

5 Other operating expenses

Amounts included in other operating expenses were as follows:

	2008 £'000	2007 £'000
Amortisation of development costs	1,217	949
Foreign exchange losses	1,929	43
	3,146	992

6 Profit from operations

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

	2008 £'000	2007 £'000
Raw materials and other bought in inventories expensed in the year	188,725	169,580
Inventories written down and recognised as an expense in the year	909	934
Reversals of write-downs of inventory	(42)	(140)
Staff costs (see note 7)	146,086	119,266
Depreciation and amounts written off property, plant and equipment	7,026	5,720
Amortisation of internally generated intangible assets	1,217	949
Amortisation of acquired intangible assets	14,271	4,518
Net foreign exchange gains	(833)	(5,007)
(Profit)/loss on disposal of property, plant and equipment	(682)	31
Operating lease rentals		
– plant and machinery	902	969
– other	5,567	4,562
Research and development costs	31,923	26,040
Auditors' remuneration for statutory audit work (including expenses)	452	404

The Company only audit fee included in the Group audit fee shown above was £15,000 (2007: £10,000).

Analysis of auditors' remuneration

	2008 £'000	2007 £'000
Fees payable for the audit of the annual accounts	150	140
Fees payable for the audit of subsidiaries	302	264
Total for statutory Group audit services	452	404
Analysis of non-audit services:		
Non-audit fees – due diligence work on potential acquisitions	144	37
Total for non-audit services	144	37

7 Staff costs

Particulars of employees (including executive Directors) are shown below.

Employee costs during the year amounted to:

	2008 £'000	2007 £'000
Wages and salaries	125,378	101,575
Social security costs	12,707	10,774
Other pension costs	8,001	6,917
	146,086	119,266

7 Staff costs (continued)

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

	2008 Number	2007 Number
Production	1,217	1,129
Engineering	1,628	1,275
Selling	231	207
Support services	506	443
	3,582	3,054

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 1985 and the Financial Services Authority form part of these accounts.

8 Investment revenue

	2008 £'000	2007 £'000
Bank interest	1,229	791
Retirement benefit scheme finance income	-	301
	1,229	1,092

9 Finance costs

	2008 £'000	2007 £'000
Amortisation of finance costs of debt	114	71
Interest payable on bank loans and overdrafts	4,972	3,025
Interest payable on finance leases	4	2
Transfers to/(from) equity on cash flow hedges	195	(154)
Total borrowing costs	5,285	2,944
Fair value movement on derivatives	62,069	556
Retirement benefit scheme finance cost	837	-
	68,191	3,500

10 Tax

	2008 £'000	2007 £'000
UK taxes		
Corporation tax	11,078	8,062
Adjustment in respect of prior years	(978)	(552)
	10,100	7,510
Overseas taxes		
Current taxation	7,736	7,970
Adjustment in respect of prior years	(567)	(31)
	7,169	7,939
Total current tax	17,269	15,449
Deferred tax		
Origination and reversal of timing differences		
UK deferred tax	(12,570)	(649)
Overseas deferred tax	(9,344)	563
Total deferred tax	(21,914)	(86)
Total tax (credit)/charge	(4,645)	15,363

Corporation tax in the UK is calculated at 28.5% (2007: 30%) of the estimated assessable profit for the year.

Taxation for the other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The amount of deferred tax charged to equity is shown in note 24.

10 Tax (continued)

The difference between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2008 £'000	2007 £'000
Group (loss)/profit before tax	(2,888)	56,598
Tax on Group (loss)/profit at standard UK corporation tax rate of 28.5% (2007: 30%)	(823)	16,979
Tax effects of:		
Income/expenses that are not taxable/allowable in determining taxable profits	(3,358)	(1,933)
Losses not previously recognised	-	(19)
Different tax rates of subsidiaries operating in other jurisdictions	1,080	919
Adjustments in respect of prior periods	(1,544)	(583)
Tax (credit)/expense for the year	(4,645)	15,363

11 Dividends

Amounts recognised as distributions to equity holders in the year:

	2008 £'000	2007 £'000
Final dividend for the year ended 31 December 2007 of 14.5p (2006: 12.6p) per share	9,806	8,463
Interim dividend for the year ended 31 December 2008 of 8.0p (2007: 6.7p) per share	5,419	4,515
	15,225	12,978
Proposed final dividend for the year ended 31 December 2008 of 18.0p (2007: 14.5p) per share	12,209	9,792

The 2008 proposed final dividend was approved by the Board after 31 December 2008 and has not been included as a liability as at 31 December 2008.

Under UK tax law, no withholding tax is required to be deducted from dividends paid by Ultra Electronics Holdings plc ("Ultra"). 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

	2008 pence	2007 pence
Basic headline (see below)	80.1	65.4
Diluted headline (see below)	79.7	65.0
Basic	2.6	60.9
Diluted	2.6	60.5

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

	2008 £'000	2007 £'000
Earnings		
Earnings for the purposes of earnings per share being profit for the year from continuing operations	1,757	41,235
Headline earnings		
Profit for the period from continuing operations	1,757	41,235
Loss on fair value movements on derivatives (net of tax)	43,927	492
Amortisation of intangibles arising on acquisition (net of tax)	8,781	2,576
Earnings for the purposes of headline earnings per share	54,465	44,303

The adjustments to profit are explained in note 2.

12 Earnings per share (continued)

	2008 Number of shares	2007 Number of shares
The weighted average number of shares is given below:		
Number of shares used for basic earnings per share	68,007,223	67,714,368
Number of shares deemed to be issued at nil consideration following exercise of share options	311,743	434,033
Number of shares used for fully diluted earnings per share	68,318,966	68,148,401
	2008 £'000	2007 £'000
Headline profit before tax	72,198	61,069
Tax rate applied for the purposes of headline earnings per share	24.6%	27.5%

13 Intangible assets

	Goodwill £'000	Intellectual property £'000	Customer relationships £'000	Development costs £'000	Other £'000	Total £'000
Cost						
At 1 January 2007	116,276	10,136	20,244	9,595	7,675	163,926
Foreign exchange differences	(195)	(53)	(215)	(62)	85	(440)
Acquisition of subsidiary undertakings	13,021	7,935	7,326	-	1,898	30,180
Additions	-	-	-	4,159	1,330	5,489
Adjustments	(292)	-	-	-	-	(292)
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 31 December 2008	209,562	30,934	85,533	15,946	25,768	367,743
Accumulated amortisation						
At 1 January 2007	-	(1,651)	(2,777)	(4,330)	(5,410)	(14,168)
Foreign exchange differences	-	27	26	26	(53)	26
Charge	-	(1,289)	(2,237)	(949)	(992)	(5,467)
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 31 December 2008	-	(7,273)	(13,531)	(7,336)	(13,920)	(42,060)
Carrying amount						
At 31 December 2008	209,562	23,661	72,002	8,610	11,848	325,683
At 31 December 2007	128,810	15,105	22,367	8,439	4,533	179,254

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

Included within other are transfers from fixed assets of £101,000.

Additional consideration relating to acquisitions made during 2007, together with a re-assessment of the provisional fair values of the net assets acquired for BCF Designs Limited and Atkins & Partners Limited, both of which were acquired in November 2007, has resulted in adjustments to goodwill of £5,835,000 (see note 31).

13 Intangible assets (continued)

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

Intellectual property	5 to 10 years
Customer relationships	3 to 10 years
Development costs	2 to 10 years
Software	3 to 5 years
Patents and trademarks	10 to 20 years

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 CGU's as set out below:

	2008 £'000	2007 £'000
Datel	14,485	13,934
Dascam	7,792	-
Electrics	9,358	5,335
Precision Air Systems	1,200	1,200
Aircraft & Vehicle Systems	32,835	20,469
Airport Systems	24,888	24,888
ATS	4,269	4,269
Command & Controls	13,849	12,874
Nuclear Sensors & Process Instrumentation	11,500	-
PMES	3,356	3,356
ProLogic	26,343	-
Information & Power Systems	84,205	45,387
Audiosoft	3,349	-
Criticom	8,994	5,584
DNE Technologies	19,131	13,869
Flightline	1,653	1,196
Maritime Systems	14,752	-
Ocean Systems	6,398	5,321
Tactical Communication Systems	19,398	19,389
UnderSea Sensor Systems Inc	18,847	17,595
Tactical & Sonar Systems	92,522	62,954
Total – Ultra Electronics	209,562	128,810

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.

13 Intangible assets (continued)

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

	Post tax discount rate	Tax rate applied to cash flows
Airport Systems	8.2%	28%
Command & Control Systems	8.2%	28%
Datel	8.2%	28%
Nuclear Sensors & Process Instrumentation	8.2%	35%
ProLogic	8.2%	35%
DNE Technologies	8.2%	35%
Maritime Systems	8.2%	34%
Tactical Communication Systems	8.2%	34%
UnderSea Sensor Systems Inc	8.2%	35%

There was significant headroom within the value-in-use calculations for all CGUs and 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		Plant and machinery £'000	Assets under construction £'000	Total £'000
	Freehold £'000	Short leasehold £'000			
Cost					
At 1 January 2007	7,098	5,202	50,372	-	62,672
Foreign exchange differences	328	30	1,003	-	1,361
Acquisitions	-	-	288	-	288
Additions	211	1,482	6,463	413	8,569
Disposals	-	-	(642)	-	(642)
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 31 December 2008	8,850	8,091	68,008	7,926	92,875
Accumulated Depreciation					
At 1 January 2007	(1,705)	(3,316)	(36,837)	-	(41,858)
Foreign exchange differences	(163)	(25)	(858)	-	(1,046)
Charge	(263)	(403)	(5,054)	-	(5,720)
Disposals	-	-	611	-	611
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 31 December 2008	(2,297)	(4,517)	(51,145)	-	(57,959)
Carrying amount					
At 31 December 2008	6,553	3,574	16,863	7,926	34,916
At 31 December 2007	5,506	2,970	15,346	413	24,235

Freehold land amounting to £1,243,000 (2007: £1,566,000) has not been depreciated. The net book value of plant and machinery held under finance leases was £115,000 (2007: £32,000). Depreciation charged in the year on assets held under finance leases was £33,000 (2007: £24,000).

15 Interests in associates

	2008 £'000	2007 £'000
Aggregated amounts relating to associates		
Total assets	6,588	-
Total liabilities	(4,468)	-

The Group acquired the following investment in associates through its acquisition of Dascam during the year.

Name of company	Proportion of ownership	Country of incorporation
Al Shaheen Adventure LLC	49%	UAE

16 Inventories

	2008 £'000	2007 £'000
Raw materials and consumables	32,989	26,523
Work in progress	15,778	12,804
Finished goods and goods for resale	4,059	3,090
	52,826	42,417

17 Long-term contract balances

	2008 £'000	2007 £'000
Contracts in progress at the balance sheet date:		
Amounts due from contract customers included in trade and other receivables	27,641	21,475
Amounts due to contract customers included in trade and other payables	(37,107)	(24,552)
	(9,466)	(3,077)
Contract costs incurred plus recognised profits less recognised losses to date	832,783	740,320

Advances received from customers for contract work amounted to £33,622,000 (2007: £24,341,000).

18 Trade and other receivables

	2008 £'000	2007 £'000
Trade receivables	79,897	52,059
Provisions against receivables	(1,908)	(527)
Net trade receivables	77,989	51,532
Amounts due from contract customers (<i>note 17</i>)	27,641	21,475
Derivatives at fair value	8,255	5,383
Other receivables	6,503	3,233
Prepayments and accrued income	5,273	2,603
	125,661	84,226

Trade receivables do not carry interest. The average credit period on sale of goods is 46 days (2007: 37 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 carrying amount of financial assets recorded in the financial statements (see *note 23*) net of any allowances for losses represents the Group's maximum exposure to credit risk.

18 Trade and other receivables (continued)

The ageing profile of unprovided overdue debtors was as follows:

	2008 £'000	2007 £'000
1 to 3 months	14,070	9,630
4 to 6 months	1,893	1,848
7 to 9 months	294	113
Over 9 months	38	148
Total overdue	16,295	11,739

The Group provides against its trade receivables where there are serious doubts as to future recoverability on a sliding scale 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:

	2008 £'000	2007 £'000
Balance at beginning of year	527	640
Foreign exchange differences	31	(11)
Increase in provision for trade receivables regarded as potentially uncollectable	1,388	312
Decrease in provision for trade receivables recovered during the year	(38)	(414)
Balance at end of year	1,908	527

19 Assets held for sale

The land and buildings that the Group owns at 4933 Neo Parkway, Garfield Heights, Ohio, USA have been presented as held for sale. The property has been revalued to expected proceeds less costs to sell, resulting in a loss of £270,000 which has been included in administrative expenses.

20 Trade and other payables

	2008 £'000	2007 £'000
Amounts included in current liabilities:		
Trade payables	61,350	42,929
Amounts due to contract customers (<i>note 17</i>)	32,562	24,552
Derivatives at fair value	38,934	1,357
Other payables	38,674	15,178
Accruals and deferred income	38,573	32,231
	210,093	116,247
Amounts included in non current liabilities:		
Amounts due to contract customers (<i>note 17</i>)	4,545	-
Derivatives at fair value	33,927	2,146
Other payables	15,970	255
Accruals and deferred income	1,349	575
	55,791	2,976

Other payables included in current liabilities include loan notes of £10,179,000 which are repayable in full on 20 July 2009. Interest payable on the loan notes is at a weighted average rate of 6.6% per annum.

Derivatives at fair value of £2,146,000, previously disclosed within current liabilities at 31 December 2007 have been reclassified as non current.

21 Finance leases

Minimum lease payments

	2008 £'000	2007 £'000
Amounts payable under finance leases:		
Within one year	109	27
Between one and five years	5	31
	114	58
Less: future finance charges	(4)	(4)
Present value of finance lease liabilities	110	54
Present value of finance lease liabilities – payments due:		
Within one year	105	25
Between one and five years	5	29
	110	54

22 Bank loans

	2008 £'000	2007 £'000
Bank loans are payable as follows:		
Between one and two years	107,832	-
Between two and five years	-	41,813
	107,832	41,813
Less: unamortised finance costs of debt	(618)	(205)
	107,214	41,608

23 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.

Financial assets

The financial assets of the Group were as follows:

	2008 £'000	2007 £'000
Cash	43,385	27,419
Currency derivatives used for hedging	8,255	5,373
Interest rate swaps used for hedging	-	10
Amounts due from contract customers	27,641	21,475
Property held for resale	828	-
Loans and receivables	77,989	51,532

Financial liabilities

The financial liabilities of the Group were as follows:

	2008 £'000	2007 £'000
Currency derivatives used for hedging	68,389	3,438
Interest rate swaps used for hedging	4,472	65
Other financial liabilities:		
Bank loans and overdrafts	107,214	41,608
Finance leases	110	54
Trade payables	61,350	42,929
Deferred consideration	35,827	2,180
Accruals	21,030	22,590

23 Financial instruments and financial risk management (continued)

Liquidity risk

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

The Group's banking facilities are provided by a small syndicate of banks, led by The Royal Bank of Scotland. There are 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 and Canadian dollars 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 is charged at 0.375% (2007: 0.375%) over base rate.

At 31 December 2008, the Group had available £92,168,206 (2007: £78,187,000) of undrawn, committed borrowing facilities. The £120 million facility expires in November 2010 and 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
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
2007					
Bank loans and overdrafts	2,400	2,346	46,229	-	50,975
Finance leases	27	27	4	-	58
Trade payables	42,929	-	-	-	42,929
Currency derivatives used for hedging	1,357	1,548	533	-	3,438
Deferred consideration	2,180	-	-	-	2,180
Interest rate swaps used for hedging	-	65	-	-	65
Accruals	22,218	18	58	296	22,590

Currency risk

The Group utilises 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 2008, the fair value of the Group's currency derivatives is estimated to be a liability of approximately £60,134,000 (2007: asset of £1,935,000), comprising £8,255,000 assets (2007: £5,373,000) included in trade and other receivables and £68,389,000 liabilities (2007: £3,438,000) included in trade and other payables. The loss on derivative financial instruments included in the Group's consolidated income statement for the period was £62,069,000 (2007: loss of £556,000).

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

	2008			2007		
	Not exceeding 1 year £'000	Between 1 year and 5 years £'000	Total £'000	Not exceeding 1 year £'000	Between 1 year and 5 years £'000	Total £'000
US dollars/Sterling	(65,387)	(129,243)	(194,630)	(44,201)	(45,206)	(89,407)
US dollars/Canadian dollars	(14,583)	(12,153)	(26,736)	(13,461)	(10,950)	(24,411)
Canadian dollars/Sterling	(41,592)	(24,797)	(66,389)	2,751	-	2,751
Other currencies	(10,685)	(26,410)	(37,095)	(3,655)	(9,929)	(13,584)
	(132,247)	(192,603)	(324,850)	(58,566)	(66,085)	(124,651)

Net investment hedges

The Group has net investments in US and Canadian companies. The associated foreign currency translation risk is hedged by external borrowings in US and Canadian dollars. The value of the borrowings does not exceed the net investments, meeting the conditions required to qualify as effective hedges.

23 Financial instruments and financial risk management (continued)**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 4.29%. 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 100 million (2007: US dollar 20 million) and Canadian dollar 20 million (2007: Canadian dollar 30 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 2008, the net fair value of interest rate swaps was a liability of £4,472,000 (2007: liability of £55,000), comprising £nil of assets (2007: £10,000) included in trade and other receivables and £4,472,000 of liabilities (2007: £65,000) included in trade and other payables. The amount recycled from the income statement during the year was £195,000 and has been charged to interest cost in the year (2007: an amount of £154,000 was recycled to the income statement and was credited against interest cost in the year). The fair value will be realised in the income statement on a quarterly basis over the next three years (2007: one year).

The effective interest rates and repricing dates of the Group's financial assets and liabilities were as follows:

	Effective interest rate	Total £'000	Within 1 year £'000	1 to 2 years £'000	2 to 5 years £'000
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	8.2%	110	105	5	-
2007					
Cash and cash equivalents	4.05%	27,419	27,419	-	-
Unsecured bank loans:					
Sterling loan	6.20%	16,295	-	-	16,295
US dollar loan	5.24%	10,046	-	-	10,046
Canadian dollar loan	4.61%	15,267	-	-	15,267
Finance lease liabilities	4.25%	54	25	29	-

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
	2008 £'000	2008 £'000	2007 £'000	2007 £'000
Cash and cash equivalents	43,385	43,385	27,419	27,419
Interest rate swaps	(4,472)	(4,472)	(55)	(55)
Foreign exchange contracts	(60,134)	(60,134)	1,935	1,935
Unsecured bank loans	(107,214)	(107,214)	(41,608)	(41,608)
Finance lease liabilities	(110)	(110)	(54)	(54)

Forward exchange contracts are marked-to-market using listed market prices. For interest rate swaps broker quotes are used.

23 Financial instruments and financial risk management (continued)**Market risk sensitivity analysis****Currency risks**

The Group has estimated the change to the income statement and equity of a 10% and 25% strengthening or weakening of average actual and transactional currency rates applicable during the year and a 10% and 25% change in the foreign exchange rates applicable for valuing foreign exchange derivative instruments.

	10% strengthening		10% weakening		25% strengthening		25% weakening	
	Profit £'000	Equity £'000	Profit £'000	Equity £'000	Profit £'000	Equity £'000	Profit £'000	Equity £'000
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
2007								
Transaction	5,734	5,734	(5,734)	(5,734)	14,334	14,334	(14,334)	(14,334)
P&L translation	2,731	642	(2,731)	(642)	6,832	1,635	(6,831)	(1,634)
Foreign exchange derivatives	(6,975)	(6,975)	9,937	9,937	(19,068)	(19,068)	14,652	14,652
Total foreign exchange	1,490	(599)	1,472	3,561	2,098	(3,099)	(6,513)	(1,316)

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 2008.

	1% change Profit before tax £'000
2008	
Interest rate sensitivity	137
2007	
Interest rate sensitivity	160

24 Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting period.

	Accelerated* tax depreciation £'000	Employee share options costs £'000	Derivatives £'000	Retirement benefit obligations £'000	Goodwill £'000	Other £'000	Tax losses £'000	Total £'000
At 1 January 2007	(42)	2,233	(700)	10,543	(3,900)	(242)	501	8,393
Credit/(charge) to income	281	352	56	171	-	(420)	(501)	(61)
Credit/(charge) to equity	-	(320)	-	1,377	(607)	-	-	450
Effect of change in tax rate								
– income statement	43	-	7	-	-	97	-	147
– equity	-	(111)	-	(808)	5	-	-	(914)
At 1 January 2008	282	2,154	(637)	11,283	(4,502)	(565)	-	8,015
Credit/(charge) 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 31 December 2008	(16,730)	1,226	18,757	16,512	(4,949)	180	-	14,996

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

24 Deferred tax (continued)

The Group has not recognised deferred tax assets of £4.85 million (2007: £0.93 million) relating to tax losses, due to uncertainty as to their recoverability.

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

25 Provisions

	Warranties £'000	Contract related provisions £'000	Total £'000
At 1 January 2008	6,779	6,495	13,274
Created	2,710	3,607	6,317
On acquisition of subsidiary	1,813	610	2,423
Utilised	(2,067)	(1,724)	(3,791)
Exchange differences	420	679	1,099
At 31 December 2008	9,655	9,667	19,322
Included in current liabilities	8,485	8,739	17,224
Included in non-current liabilities	1,170	928	2,098
	9,655	9,667	19,322

Warranty and contract related provisions will be utilised over the period as stated in the contract to which each specific provision relates. Provisions for warranty costs are based on an assessment of future claims with reference to past experience. Such costs are generally incurred within two years after delivery.

26 Share capital and share options

	2008		2007	
	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	68,132,238	3,407	67,885,730	3,394

246,508 ordinary shares having a nominal value of £12,325 were allotted during the year under the terms of the Group's various Share Option Schemes. The aggregate consideration received was £1,378,977.

Share options

During the year to 31 December 2008, 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 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.

26 Share capital and share options (continued)**1. Savings Related Share Option Schemes (continued)**

At 31 December 2008, share options outstanding under the Savings Related Share Option Schemes were as follows:

Options granted	Number of shares		Option price (£)	Exercise dates
	2008	2007		
2006 – Canadian scheme	28,440	34,481	9.21	September 2009 - March 2010
2007 – US scheme	72,675	81,883	10.34	September 2009 - December 2009
2007 – UK 3 year scheme	73,775	78,729	10.39	December 2010 - June 2011
2007 – UK 5 year scheme	128,546	132,453	10.39	December 2012 - June 2013
2008 – UK 3 year scheme	16,714	-	12.00	December 2011 - June 2012
2008 – UK 5 year scheme	17,296	-	12.00	December 2013 - June 2014

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. From 2000 vesting has been unconditional. Options vest after three years and lapse after ten years from the date of grant.

At 31 December 2008, share options outstanding under the Company Share Option Plan were as follows:

Options granted	Number of shares		Option price (£)	Exercise dates
	2008	2007		
1998	-	6,405	4.05	March 2001 - March 2008
1999	7,050	11,792	4.15	March 2002 - March 2009
2000	13,167	13,167	3.86	May 2003 - May 2010
2001	10,419	10,419	4.39	March 2004 - March 2011
2002	14,424	15,159	4.49	March 2005 - March 2012
2003	3,743	8,660	4.53	March 2006 - March 2013
2004	6,563	10,214	5.97	March 2007 - March 2014
2005	20,611	38,961	7.28	March 2008 - March 2015
2006	28,325	29,232	10.32	February 2009 - February 2016
2007	50,641	57,478	12.07	May 2010 - May 2017
2008	30,817	-	12.00	March 2011 - March 2018

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. From 2000 vesting has been unconditional. Options vest after three years and lapse after seven years from the date of grant.

At 31 December 2008, share options outstanding under the Executive Share Option Scheme were as follows:

Options granted	Number of shares		Option price (£)	Exercise dates
	2008	2007		
2001	-	33,810	4.385	March 2004 - March 2008
2002	985	74,467	4.485	March 2005 - March 2009
2003	87,243	105,778	4.525	March 2006 - March 2010
2004	88,587	107,135	5.97	March 2007 - March 2011
2005	116,643	173,806	7.28	March 2008 - March 2012
2006	130,876	145,158	10.32	February 2009 - February 2013
2007	111,258	119,756	12.07	May 2010 - May 2014
2008	162,739	-	12.00	March 2011 - March 2015

26 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 44 and 45.

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

	Weighted average exercise price (£)	Number of options	Weighted average exercise price (£)	Number of options
	2008	2008	2007	2007
Beginning of year	6.65	1,625,332	4.76	1,605,237
Granted during the year	8.31	343,478	9.05	577,120
Forfeited during the year	4.53	(87,494)	3.49	(43,388)
Expired during the year	4.65	(57,733)	0.36	(52,208)
Exercised during the year	3.94	(350,399)	4.10	(461,429)
Outstanding at the end of the year	7.89	1,473,184	6.65	1,625,332
Exercisable at the end of the year	5.88	369,435	4.89	397,006

The Group recognised total expenses of £1,295,341 (2007: £1,186,000) 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 £12.03. The fair value of options granted during the year was £1,470,425 (2007: £1,993,343).

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 and 2008 LTIP schemes is measured by use of the Black Scholes option pricing model using the following assumptions:

	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
	2007			
Weighted average share price (£)	11.79	8.79	8.46	7.06
Weighted average exercise price (£)	9.9	8.66	8.37	n/a
Expected volatility %	21.0	20.0	19.2	18.9
Expected option life (years)	3.56	6.0	5.0	3.0
Risk free interest rate %	4.9	4.8	4.7	4.4
Expected dividends %	1.6	1.8	1.8	1.9

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

For the 2007 and 2008 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:

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

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

26 Share capital and share options (continued)

	2007
Exercise price (£)	n/a
Share price at grant (£)	11.52
Expected option life (years)	3.0
Expected volatility %	22.3
Expected dividend yield %	0.0
Risk free interest rate %	5.52

The weighted average fair value of options granted during the year was £4.67 (2007: £4.45).

27 Equity

	Share capital £'000	Share premium account £'000	Reserve for own shares £'000	Hedging and translation reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2007	3,378	33,180	(2,692)	(4,837)	88,362	117,391
Total recognised income and expense	-	-	-	(1,445)	36,274	34,829
Disposal of own shares	-	-	720	-	(720)	-
Equity settled employee share scheme	16	1,881	-	-	755	2,652
Dividends to shareholders	-	-	-	-	(12,978)	(12,978)
Balance at 31 December 2007	3,394	35,061	(1,972)	(6,282)	111,693	141,894
Total recognised income and expense	-	-	-	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

The share premium account represents the premium arising on the issue of equity shares.

The own shares reserve represents the cost of shares in Ultra Electronics Holdings plc purchased in the market and held by the Ultra Electronics Employee Trust to satisfy options under the Group's Long-Term Incentive Plan ("LTIP") share schemes.

28 Notes to the cash flow statement

	2008 £'000	2007 £'000
Profit from operations	64,074	59,006
Adjustments for:		
Depreciation of property, plant and equipment	7,026	5,720
Amortisation of intangible assets	15,488	5,467
Cost of equity settled employee share schemes	1,295	1,186
(Decrease)/increase in post employment benefit obligation	(91)	797
(Profit)/loss on disposal of property, plant and equipment	(682)	31
Loss on revaluation of assets transferred to held for sale	270	-
Increase/(decrease) in provisions	2,526	(312)
Operating cash flow before movements in working capital	89,906	71,895
Increase in inventories	(226)	(12,055)
(Increase)/decrease in receivables	(13,964)	6,116
Increase in payables	18,863	293
Cash generated by operations	94,579	66,249
Income taxes paid	(20,502)	(13,723)
Interest paid	(4,975)	(2,968)
Net cash from operating activities	69,102	49,558

28 Notes to the cash flow statement (continued)

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

	2008 £'000	2007 £'000
Net increase in cash and cash equivalents	10,139	729
Cash inflow from increase in debt and finance leasing	(48,624)	(6,535)
Change in net debt arising from cash flows	(38,485)	(5,806)
Loan syndication costs	527	-
Amortisation of finance costs of debt	(114)	(71)
Translation differences	(11,624)	(1,202)
Movement in net debt in the year	(49,696)	(7,079)
Net debt at start of year	(14,243)	(7,164)
Net debt at end of year	(63,939)	(14,243)

Net debt comprised the following:

	2008 £'000	2007 £'000
Cash and cash equivalents	43,385	27,419
Bank loans	(107,214)	(41,608)
Obligations under finance leases included in current liabilities	(105)	(25)
Obligations under finance leases included in non-current liabilities	(5)	(29)
	(63,939)	(14,243)

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

29 Guarantees and other financial commitments**a) Capital commitments**

At the end of the year capital commitments were:

	2008 £'000	2007 £'000
Contracted but not provided	510	421

b) Lease commitments

At 31 December 2008, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2008 £'000	2007 £'000
Within one year	6,560	4,987
Between one and five years	16,765	14,416
After five years	8,455	8,301
	31,780	27,704

30 Retirement benefit schemes

Most UK employees of the Group are members of the Ultra Electronics Limited defined benefit scheme which was established on 1 March 1994. The scheme was closed to new members in 2003. A new defined contribution plan was introduced for other employees and new joiners in the UK. The Group also operates two defined contribution schemes for overseas employees. In addition to these schemes, the Group's Tactical Communication Systems business based in Montreal, Canada, has three defined benefit schemes.

Defined contribution schemes

The total cost charged to income in respect of the defined contribution schemes was £3,050,000 (2007: £2,563,000).

Defined benefit schemes

The UK defined benefit scheme was actuarially assessed at 31 December 2008 using the 'projected unit' method. The Canadian defined benefit schemes were actuarially assessed at 31 December 2008 using the 'projected unit' method.

30 Retirement benefit schemes (continued)

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

	UK 2008	Canada 2008	UK 2007	Canada 2007
Discount rate	6.25%	6.0%	5.8%	5.8%
Inflation rate	3.0%	3.0%	3.25%	3.25%
Expected rate of salary increases	4.25%	4.25%	4.5%	4.5%
Future pension increases (pre 6/4/08)	2.8%	2.8%	3.0%	3.0%
Future pension increases (post 6/4/08)	2.4%	n/a	n/a	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 0.25% increase in the inflation assumption to 3.25% and a 0.1% reduction in the discount rate to 6.15% would increase the schemes liabilities by 5.1% and 2.0% 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:

	2008	2007	2006
Current pensioners (at 65) – males	22 years	22 years	18 years
Current pensioners (at 65) – females	25 years	25 years	21 years
Future pensioners (at 65) – males	23 years	23 years	20 years
Future pensioners (at 65) – females	26 years	26 years	23 years

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

	UK 2008 £m	Canada 2008 £m	Total 2008 £m	UK 2007 £m	Canada 2007 £m	Total 2007 £m
Current service cost	5.9	0.2	6.1	6.3	0.2	6.5
Interest on pension scheme liabilities	9.4	0.4	9.8	7.9	0.3	8.2
Expected return on pension scheme assets	(8.5)	(0.5)	(9.0)	(8.1)	(0.4)	(8.5)
	6.8	0.1	6.9	6.1	0.1	6.2

Of the current service cost for the year, £4.3 million (2007: £4.0 million) has been included in cost of sales, and £1.8 million (2007: £2.5 million) has been included in administrative expenses.

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

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 2008 £m	Canada 2008 £m	Total 2008 £m	UK 2007 £m	Canada 2007 £m	Total 2007 £m
Fair value of scheme assets	94.3	6.6	100.9	120.3	7.3	127.6
Present value of scheme liabilities	(151.9)	(7.8)	(159.7)	(161.2)	(6.8)	(168.0)
Scheme (deficit)/surplus	(57.6)	(1.2)	(58.8)	(40.9)	0.5	(40.4)
Related deferred tax asset/(liability)	16.1	0.4	16.5	11.5	(0.2)	11.3
Net pension (liability)/asset	(41.5)	(0.8)	(42.3)	(29.4)	0.3	(29.1)

30 Retirement benefit schemes (continued)

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

	UK 2008 £m	Canada 2008 £m	Total 2008 £m	UK 2007 £m	Canada 2007 £m	Total 2007 £m
Present value of obligation at 1 January	(161.2)	(6.8)	(168.0)	(148.7)	(6.1)	(154.8)
Service cost	(5.9)	(0.2)	(6.1)	(6.3)	(0.2)	(6.5)
Interest cost	(9.4)	(0.4)	(9.8)	(7.9)	(0.3)	(8.2)
Actuarial gains and losses	20.6	0.4	21.0	(0.8)	0.7	(0.1)
Exchange difference	-	(0.8)	(0.8)	-	(0.9)	(0.9)
Benefits paid	4.0	-	4.0	2.5	-	2.5
Present value of obligation at 31 December	(151.9)	(7.8)	(159.7)	(161.2)	(6.8)	(168.0)

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

	UK 2008 £m	Canada 2008 £m	Total 2008 £m	UK 2007 £m	Canada 2007 £m	Total 2007 £m
Fair value at 1 January	120.3	7.3	127.6	113.6	6.1	119.7
Expected return on scheme assets	8.5	0.5	9.0	8.1	0.4	8.5
Actuarial gains and losses	(36.2)	(2.5)	(38.7)	(4.3)	(0.4)	(4.7)
Exchange differences	-	0.7	0.7	-	0.9	0.9
Employer contributions	5.7	0.6	6.3	5.4	0.3	5.7
Benefits paid	(4.0)	-	(4.0)	(2.5)	-	(2.5)
Fair value at 31 December	94.3	6.6	100.9	120.3	7.3	127.6

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

	2008	2007
Expected return:		
Equities	7.5%	7.5%
Bonds	6.3%	4.5%
Gilts	4.0%	4.5%
Other assets	4.0%	5.5%
Other policies	7.5%	7.5%

Scheme assets were as follows:

	UK 2008 £m	Canada 2008 £m	Total 2008 £m	UK 2007 £m	Canada 2007 £m	Total 2007 £m
Fair value:						
Equities	75.4	3.3	78.7	91.2	4.3	95.5
Bonds	17.5	3.2	20.7	16.3	2.0	18.3
Other assets	1.4	0.1	1.5	12.8	1.0	13.8
	94.3	6.6	100.9	120.3	7.3	127.6

The analysis of the actuarial (loss)/gain in the consolidated statement of recognised income and expense were as follows:

	UK 2008 £m	Canada 2008 £m	Total 2008 £m	UK 2007 £m	Canada 2007 £m	Total 2007 £m
Actual return less expected return on pension scheme assets	(36.2)	(2.5)	(38.7)	(4.2)	(0.5)	(4.7)
Experience (losses)/gains arising on scheme liabilities	(0.5)	(0.2)	(0.7)	(1.8)	0.4	(1.4)
Changes in assumptions underlying the present value of the scheme liabilities	21.1	0.6	21.7	0.9	0.4	1.3
	(15.6)	(2.1)	(17.7)	(5.1)	0.3	(4.8)

Cumulative actuarial losses, net of deferred tax, recognised in the consolidated statement of recognised income and expense at 31 December 2008 were £20.1 million (2007: £7.5 million).

30 Retirement benefit schemes (continued)

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

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Present value of defined benefit obligations	(159.7)	(168.0)	(154.8)	(146.4)	(116.3)
Fair value of scheme assets	100.9	127.6	119.7	99.8	76.1
Scheme deficit	(58.8)	(40.4)	(35.1)	(46.6)	(40.2)
Experience adjustments on scheme liabilities	(0.7)	(1.8)	(0.2)	2.5	(1.6)
Percentage of scheme liabilities	0.4%	1.0%	0.1%	1.7%	1.4%
Experience adjustment on scheme assets	(38.7)	(4.7)	9.1	13.9	2.1
Percentage of scheme assets	(38.3%)	(3.7%)	8.0%	14.0%	2.5%

The amount of contributions expected to be paid to defined benefit schemes during the 2009 financial year is £5,450,000.

31 Acquisitions

Acquisitions during the year

In aggregate, consideration of £78,838,000 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 in current year	80,895
Deferred consideration on subsidiaries acquired in prior year	2,950
Cash acquired with subsidiaries	(5,007)
Net cash outflow	78,838

Aggregate assets and liabilities acquired comprised intangible assets of £54,000, property, plant and equipment of £2,539,000, interests in associates of £1,986,000, cash of £5,007,000, inventories of £4,399,000, receivables of £13,063,000 and current liabilities of £27,495,000.

Magneto Inductive Systems Ltd

On 22 May 2008, the Group acquired the entire share capital of Magneto Inductive Systems Ltd (MISL) of Canada and the USA for a cash consideration of £18.0 million. The aggregate net assets acquired and their provisional fair values based on the Directors' 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	54	8,462	8,516
Property, plant and equipment	469	(60)	409
Net cash	393	-	393
Inventories	99	(10)	89
Receivables	1,411	-	1,411
Payables	(1,353)	(2,718)	(4,071)
Net assets acquired	1,073	5,674	6,747
Goodwill arising on acquisition			11,281
Purchase consideration, including acquisition costs			18,028
			£'000
Total consideration			18,028
Less deferred consideration			(5,472)
Net cash outflow arising on acquisition			12,556

MISL incurred a loss of approximately £2.2 million in the period from date of acquisition to 31 December 2008 after incurring a charge of £1.8 million on the amortisation of intangibles attributable to the acquisition. The goodwill arising on the acquisition is attributable to the value of the assembled workforce, future operating synergies derived from integration with the Group together with expected future profits resulting from the access to new markets for the Group's existing products.

31 Acquisitions (continued)***Harris Acoustic Products***

On 23 May 2008, the Group acquired the trade and assets of Harris Acoustic Products Corporation from Channel Technologies Inc. for an initial cash consideration of £3.7 million. The aggregate net assets acquired and their provisional fair values, based on the Directors' 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	-	2,331	2,331
Property, plant and equipment	15	-	15
Inventories	1,266	(493)	773
Receivables	155	-	155
Payables	(303)	(38)	(341)
Provisions	(52)	-	(52)
Net assets acquired	1,081	1,800	2,881
Goodwill arising on acquisition			781
Purchase consideration, including acquisition costs			3,662
			£'000
Cash outflow arising an acquisition			3,662

The profit contribution from Harris was approximately £0.2 million in the period after incurring a charge of £0.3 million on the amortisation of intangibles attributable to the acquisition. The goodwill arising on the acquisition is attributable to future operating synergies derived from integration with the Group, together with the value of the assembled workforce.

ProLogic Incorporated

On 13 June 2008, the Group acquired the entire share capital of ProLogic Incorporated for a cash consideration of £32.7 million including costs. The aggregate net assets acquired and their provisional fair values, based on the Directors' 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	-	17,624	17,624
Property, plant and equipment	393	-	393
Net cash	25	-	25
Receivables	6,601	-	6,601
Payables	(5,204)	(6,167)	(11,371)
Net assets acquired	1,815	11,457	13,272
Goodwill arising on acquisition			19,474
Purchase consideration, including acquisition costs			32,746
			£'000
Total consideration			32,746
Less deferred consideration			(3,464)
Net cash outflow arising on acquisition			29,282

ProLogic incurred a loss of approximately £0.8 million in the period from date of acquisition to 31 December 2008 after incurring a charge of £2.4 million on the amortisation of intangibles attributable to the acquisition. The goodwill arising on the acquisition is attributable to the value of the assembled workforce together with the anticipated future profits resulting from the access to new markets for the Group's existing products.

31 Acquisitions (continued)***Audiosoft Limited***

On 29 August 2008, the Group acquired the entire share capital of Audiosoft Limited for a cash consideration of £10.7 million. The aggregate net assets acquired and their provisional fair values, based on the Directors' 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	-	6,088	6,088
Property, plant and equipment	135	-	135
Net cash	3,318	-	3,318
Inventories	422	(242)	180
Receivables	916	-	916
Payables	(1,479)	(1,705)	(3,184)
Provisions	(132)	-	(132)
Net assets acquired	3,180	4,141	7,321
Goodwill arising on acquisition			3,349
Purchase consideration, including acquisition costs			10,670
			£'000
Total consideration			10,670
Less deferred consideration			(3,051)
Net cash outflow arising on acquisition			7,619

Audiosoft incurred a loss of approximately £1.0 million in the period from date of acquisition to 31 December 2008 after incurring a charge of £1.1 million on the amortisation of intangibles attributable to the acquisition. The goodwill arising on the acquisition is attributable to the value of synergies arising from the acquisition and the acquiree's assembled workforce.

Nuclear Sensors & Process Instrumentation

On 12 November 2008, the Group acquired the entire share capital of Nuclear Sensors & Process Instrumentation (acquired as Weed Instrument Co. Inc.) for a cash consideration of £22.2 million. The aggregate net assets acquired and their provisional fair values, based on the Directors' 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	-	11,544	11,544
Property, plant and equipment	1,424	-	1,424
Net cash	845	-	845
Inventories	2,108	-	2,108
Receivables	1,790	-	1,790
Payables	(1,358)	(3,974)	(5,332)
Provisions	(764)	-	(764)
Net assets acquired	4,045	7,570	11,615
Goodwill arising on acquisition			10,558
Purchase consideration, including acquisition costs			22,173
			£'000
Total consideration			22,173
Less deferred consideration			(10,054)
Cash outflow arising on acquisition			12,119

The profit contribution from NSPI was approximately £0.2 million in the period from date of acquisition to 31 December 2008, before a charge of £0.3 million 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 and the acquiree's assembled workforce.

31 Acquisitions (continued)***Dascam***

On 28 November 2008, the Group acquired the entire share capital of Blue Sky Group (International) Ltd, of which the principal trading entity is Dascam Consulting (Dascam) located in the United Arab Emirates, for a cash consideration of £19.7 million. The aggregate net assets acquired and their provisional fair values, based on the Directors' 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	-	8,584	8,584
Interest in associate	1,986	-	1,986
Property, plant and equipment	98	-	98
Net cash	174	-	174
Receivables	1,738	-	1,738
Payables	(1,041)	-	(1,041)
Net assets acquired	2,955	8,584	11,539
Goodwill arising on acquisition			8,179
Purchase consideration, including acquisition costs			19,718
			£'000
Total consideration			19,718
Less deferred consideration			(5,865)
Cash outflow arising on acquisition			13,853

The profit contribution from Dascam was approximately break-even in the period from date of acquisition to 31 December 2008.

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.

Radmon

On 12 December 2008, the Group acquired the trade and assets of Radmon for a cash consideration of £4.9 million including costs. The aggregate net assets acquired and their provisional fair values, based on the Directors' 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	-	3,836	3,836
Property, plant and equipment	58	-	58
Inventories	1,202	-	1,202
Receivables	298	-	298
Payables	(859)	-	(859)
Net assets acquired	699	3,836	4,535
Goodwill arising on acquisition			415
Purchase consideration, including acquisition costs			4,950
			£'000
Total consideration			4,950
Less deferred consideration			(4,800)
Cash outflow arising on acquisition			150

The profit contribution from Radmon was approximately break-even in the period from date of acquisition to 31 December 2008.

The goodwill arising on the acquisition is attributable to the value of synergies arising from the acquisition and the acquiree's assembled workforce.

31 Acquisitions (continued)

Graytronics Ltd

On 8 May 2008, the Group acquired the entire share capital of Graytronics Ltd for a cash consideration of £1.7 million including costs. Goodwill arising on the acquisition amounted to £560,000. The profit contribution from Graytronics was approximately £0.1 million in the period before a charge of £0.2 million relating to the amortisation of intangibles arising on acquisition.

If the above acquisitions had been completed on the first day of the financial year, the Group revenues for the year would have been £572.7 million and the Group would have reported a profit before tax of £1.6 million.

Prior year acquisitions

Goodwill and the fair value of assets acquired in respect of prior year acquisitions, have been adjusted as a result of finalising their attributable values. Accordingly goodwill has been increased by £4.5 million to reflect additional tax liabilities of £2.1 million and additional warranty provisions of £1.8 million at BCF Designs Limited and £0.6 million in respect of additional tax liabilities at Atkins and Partners Limited. Additionally, goodwill of £1.3 million has been created as a result of contingent consideration becoming payable in respect of Criticom Inc.

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:

IAS 1 (revised) Presentation of financial statements

IAS 23 (revised) Borrowing costs

IAS 27 (amended) Consolidated and Separate Financial Statements

IFRS 3 (revised) Business combinations

IFRS 8 Operating segments

IFRIC 13 Customer Loyalty Programmes

IFRIC 15 Agreements for the construction of real estate

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

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 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 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 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.

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 recognised income and expense.

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 the course of 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

A provision is 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 results in a non-financial asset, will be recognised as adjustments to its initial carrying amount.

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.

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 recognised income and expense.

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 2008 are provided in note 30.

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

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 at inception and bi-annually thereafter 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

Ultra's banking facilities amount to £200m in total, plus a £10m overdraft. These facilities provided more than £100m of borrowing headroom over the gross balance that had been drawn down at the end of the year. They were established in two tranches. The first was set up in 2005 and is provided by a small syndicate of banks, led by The Royal Bank of Scotland. This element comprises £120m of revolving credit, denominated in sterling, US dollars and Canadian dollars, which is due to expire in November 2010. A £10m bank overdraft facility is also available for short-term working capital funding. 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 and to provide headroom for further acquisitions going forward. This additional 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. Details of how Ultra manages its liquidity risk can be found in Note 23 – Financial instruments and financial risk management.

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. Ultra will open negotiations with its banking partners in due course regarding the renewal of the first tranche in 2010.

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 2009 Ultra had firm orders in place for over 60% of its consensus forecast sales in the year.

Hence, after making appropriate enquiries, the Board's view is that Ultra has adequate resources to continue in operational existence for the foreseeable future and that the business outlook remains strong. The Board therefore believes that the Group is well placed to avoid any material adverse consequences of the current economic conditions. Accordingly, the Group continues to adopt a going concern basis in preparing the accounts.

To the members of Ultra Electronics Holdings plc

We have audited the parent Company financial statements (the "Company financial statements") of Ultra Electronics Holdings plc for the year ended 31 December 2008 which comprise the Company balance sheet, the related notes 32 to 42 and the statement of accounting policies for the Company. These parent Company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration report that is described as having been audited.

We have reported separately on the Group financial statements of Ultra Electronics Holdings plc for the year ended 31 December 2008.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration report and the Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the parent Company financial statements and the part of the Directors' Remuneration report described as having been audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent Company financial statements give a true and fair view in accordance with the relevant framework and whether the parent Company financial statements and the part of the Directors' Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the Directors' report is consistent with the parent Company financial statements. The information given in the Directors' report includes that specific information presented in the Operating and Financial Review that is cross referred from the Directors' report.

In addition we also report to you, if in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' Remuneration and other transactions is not disclosed.

We also report to you if, in our opinion, the Company has not complied with any of the four Directors' Remuneration disclosure requirements specified for our review by the Listing Rules of the Financial Services Authority. These comprise the amount of each element in the remuneration package and information on share options, details of long term incentive schemes, and money purchase and defined benefit schemes. We give a statement, to the extent possible, of details of any non-compliance.

We review whether the Corporate governance statement reflects the Company's compliance with the nine provisions of the 2006 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's Corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report for the above year, as described in the contents section including the unaudited part of the Directors' Remuneration report, and consider whether it is consistent with the audited parent Company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent Company financial statements.

Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent Company financial statements and the part of the Directors' Remuneration report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the parent Company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

Basis of audit opinion (continued)

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Company financial statements and the part of the Directors' Remuneration report described as having been audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration report described as having been audited.

Opinion

In our opinion:

- the Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2008;
- the Company financial statements and the part of the Directors' Remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.



Deloitte LLP

Chartered Accountants and Registered Auditors

Reading, United Kingdom

27 February 2009

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 2008

	Note	2008 £'000	2007 £'000
Fixed assets			
Tangible assets	33	279	285
Investments	34	308,102	227,817
		308,381	228,102
Current assets			
Debtors: Amounts falling due within one year	35	461	1,296
		461	1,296
Creditors: Amounts falling due within one year	37	(62,877)	(62,910)
Net current liabilities		(62,416)	(61,614)
Total assets less current liabilities		245,965	166,488
Creditors: Amounts falling due after more than one year	38	(127,765)	(41,987)
Net assets		118,200	124,501
Capital and reserves			
Called-up share capital	39	3,407	3,394
Share premium account	40	36,427	35,061
Profit and loss account	40	80,340	88,018
Own shares	41	(1,974)	(1,972)
Shareholders' funds		118,200	124,501

The financial statements were approved by the Board of Directors and authorised for issue on 27 February 2009.

On behalf of the Board

D. Caster, *Chief Executive*

D. Jeffcoat, *Finance Director*

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

Notes to accounts – Company

31 December 2008

32 Staff costs

	2008 £'000	2007 £'000
Employee costs during the year amounted to:		
Wages and salaries	2,036	1,549
Social security costs	385	416
Other pension costs	636	255
	3,057	2,220

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

	2008 number	2007 number
Support services	13	10

33 Tangible fixed assets

	Plant and machinery £'000
Cost	
At 1 January 2007	471
Additions	148
At 1 January 2008	619
Additions	63
At 31 December 2008	682
Accumulated depreciation	
At 1 January 2007	263
Charge	71
At 1 January 2008	334
Charge	69
At 31 December 2008	403
Net book value	
At 31 December 2008	279
At 31 December 2007	285

34 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.

34 Investments (continued)**b) Investment in subsidiary undertakings**

	Total 2008 £'000
Cost	
At 1 January 2008	227,817
Foreign exchange differences	14,823
Additions	82,806
Redemption of long-term loans	(17,344)
At 31 December 2008	308,102
Net book value	
At 31 December 2008	308,102
At 31 December 2007	227,817

35 Debtors

	2008 £'000	2007 £'000
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	-	263
Deferred tax assets	334	676
Other debtors	64	331
Prepayments and accrued income	63	26
	461	1,296

36 Deferred tax

Movements in the deferred tax asset were as follows:

	2008 £'000	2007 £'000
Beginning of year	676	998
Credit to the profit and loss account	143	202
Debit to equity	(485)	(524)
End of year	334	676

The deferred tax balances are analysed as follows:

	2008 £'000	2007 £'000
Accelerated capital allowances	(1)	(1)
Timing differences relating to share schemes	319	663
Other timing differences relating to current assets and liabilities	16	14
Deferred tax asset	334	676

These balances are shown as follows:

	2008 £'000	2007 £'000
Debtors: Amounts falling due within one year	334	676

At the balance sheet date the Company had no unprovided deferred tax (2007: nil).

37 Creditors: amounts falling due within one year

	2008 £'000	2007 £'000
Bank loans and overdraft	44,672	39,733
Amounts owed to subsidiary undertakings	3,648	21,614
Other creditors:		
– VAT	-	128
– social security and PAYE	171	173
– other creditors	13,010	354
Accruals and deferred income	1,376	908
	62,877	62,910

38 Creditors: amounts falling due after more than one year

	2008 £'000	2007 £'000
Bank loans	107,214	41,987
Amounts owed to subsidiary undertakings	20,551	-
	127,765	41,987

The bank loans are unsecured and due for repayment in 2 years. Interest is charged at 0.375% over base rate.

Borrowings fall due as analysed below:

	2008 £'000	2007 £'000
Bank loans and overdraft		
In one year or less, or on demand	44,672	39,733
In more than one year but less than five years	107,832	42,192
	152,504	81,925
Less: unamortised finance costs of debt	(618)	(205)
	151,886	81,720
Less: included in creditors: amounts falling due within one year	(44,672)	(39,733)
Less: included in creditors: amounts falling due after more than one year	(107,214)	(41,987)
	-	-

39 Called-up share capital

	2008		2007	
	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	68,132,238	3,407	67,885,730	3,394

246,508 ordinary shares having a nominal value of £12,325 were allotted during the year under the terms of the Group's various Share Option Schemes. The aggregate consideration received by the Company was £1,378,977.

40 Reserves

	Share premium £'000	Profit and loss account £'000
Beginning of year	35,061	88,018
Disposal of own shares	-	(673)
Share based payments	-	665
Retained profit for the year	-	7,555
Dividends paid	-	(15,225)
Issue of new shares	1,366	-
End of year	36,427	80,340

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.

41 Own shares

	Long-Term Incentive Plan shares £'000
Cost	
Beginning of year	(1,972)
Additions	(674)
Disposals	672
End of year	(1,974)

The Company holds 304,798 own shares (2007: 356,189).

42 Guarantees and other financial commitments***Lease commitments***

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

	Plant and machinery 2008 £'000	Plant and machinery 2007 £'000
Operating lease rentals which expire		
– within one year	40	18
– between two to five years	51	14
	91	32

Statement of accounting policies for the Company accounts

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

Basis of accounting

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

No profit and loss account is presented for the Company, as permitted by section 230 of the Companies Act 1985. The Company's retained profit for the year is disclosed in note 40.

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
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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 2008 was £57.6 million (2007: £40.9 million). Further disclosures in relation to this pension scheme are given in note 30 to the financial statements.

Payments to defined contribution retirement schemes are charged as an expense as they fall due.

Investments

Fixed asset investments are shown at cost less provision for impairment.

Foreign currency

Transactions denominated in foreign currencies are recorded in the local currency at the actual exchange rates at the date of the transactions (or, where appropriate, at the rate of exchange in a related forward exchange contract). Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date (or, where appropriate, at the rate of exchange in a related forward exchange contract). Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

Share-based payments

The Company issues equity settled share-based payments to certain employees. Equity settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest. Fair value is measured by use of an option pricing model, using the assumptions disclosed within the Group accounts in note 26.

Bank loans and overdrafts

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges including premiums payable on settlement or redemption and direct issue costs are accounted for on an accruals basis in profit or loss using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Shareholder analysis

31 December 2008

By category of shareholder

	Shares held	
	Number '000	% share capital
Unit trusts	31,487	46
Pension funds	15,432	23
Insurance companies	4,832	7
Private investors	3,203	5
Investment trusts and other funds	1,654	2
Charities	1,280	2
Other	10,244	15
	68,132	100

By size of holding

	Holders		Shares held	
	Number	% of holders	Number '000	% share capital
1-100	144	10	7	-
101-500	505	34	138	-
501-1,000	235	16	177	-
1,001-5,000	269	18	584	1
5,001-10,000	53	3	391	1
10,001-50,000	133	9	3,338	5
50,001-100,000	48	3	3,348	5
100,001 and over	109	7	60,149	88
	1,496	100	68,132	100

Financial calendar

3 April 2009	Record date for 2008 final dividend
24 April 2009	Annual General Meeting
5 May 2009	2008 final dividend paid
3 August 2009	Interim results announced
September 2009	2009 interim dividend paid

Financial highlights

	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m
Revenue					
Aircraft & Vehicle Systems	76.6	84.4	93.9	100.0	130.1
Information & Power Systems	113.7	117.3	120.5	126.6	161.5
Tactical & Sonar Systems	120.4	140.7	162.6	186.3	223.7
Total revenue	310.7	342.4	377.0	412.9	515.3
Headline operating profit¹					
Aircraft & Vehicle Systems	14.9	15.9	13.2	16.1	19.7
Information & Power Systems	15.0	18.1	19.3	19.6	22.2
Tactical & Sonar Systems	13.4	17.1	25.0	27.2	35.2
Total headline operating profit¹	43.3	51.1	57.5	62.9	77.1
Margin¹	13.9%	14.9%	15.3%	15.2%	15.0%
Profit/(loss) before tax	40.1	40.7	55.0	56.6	(2.9)
Profit after tax	29.2	29.4	39.6	41.2	1.8
Operating cash flow ²	46.9	53.8	56.5	52.2	79.0
Free cash flow before dividends, acquisitions and financing ³	36.0	38.1	40.9	36.3	54.7
Net debt at year-end ⁴	24.1	34.3	7.2	14.2	63.9
Headline earnings per share (p)⁵	43.7	50.7	58.4	65.4	80.1
Dividends per share (p) ⁶	13.8	15.9	18.5	21.2	26.0
Average employee numbers	2,678	2,880	2,989	3,054	3,582

¹ Before amortisation of intangibles arising on acquisition.

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 Long-Term Incentive Plan 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 and fair value movement on derivative financial instruments.

⁶ Represents dividends per share on a dividends declared basis.

